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UNITED GENE HIGH-TECH GROUP LIMITED

聯合基因科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 399)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

The board of directors (the “Board”) of United Gene High-Tech Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2010 (the “Interim Period”) together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended 31 December	
		2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
Turnover	3	68,811	294,170
Cost of sales		<u>(46,444)</u>	<u>(279,071)</u>
Gross profit		22,367	15,099
Other income	4	2,731	27
Selling expenses		(2,055)	(3,475)
Administrative expenses		<u>(10,174)</u>	<u>(6,980)</u>
Profit from operations		12,869	4,671
Finance cost	6	<u>-</u>	<u>(182)</u>

		Six months ended	
		31 December	
		2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Profit before tax		12,869	4,489
Income tax expense	7	<u>(2,782)</u>	<u>(508)</u>
Profit for the period	8	<u>10,087</u>	<u>3,981</u>
Other comprehensive income:			
Exchange differences on translating foreign operations		<u>1,003</u>	<u>16</u>
Other comprehensive income for the period, net of tax		<u>1,003</u>	<u>16</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>11,090</u>	<u>3,997</u>
Profit for the period attributable to:			
Owners of the Company		<u>9,873</u>	3,957
Non-controlling interests		<u>214</u>	<u>24</u>
		<u>10,087</u>	<u>3,981</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		<u>10,681</u>	3,973
Non-controlling interests		<u>409</u>	<u>24</u>
		<u>11,090</u>	<u>3,997</u>
Earnings per share	10		
Basic and Diluted (<i>HK cents per share</i>)		<u>0.08</u>	<u>0.07</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	30 June
		2010	2010
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	<i>11</i>	17,109	2,115
Intangible assets	<i>12</i>	97,210	–
Goodwill		969	–
Prepayments, deposits and other receivables	<i>13</i>	35,200	75,200
		150,488	77,315
Current assets			
Inventories		705	569
Prepayments, deposits and other receivables		7,727	5,148
Trade receivables	<i>14</i>	8,673	99,426
Bank and cash balances		309,829	344,224
		326,934	449,367
Current liabilities			
Trade payables	<i>15</i>	1,692	87,077
Accruals and other payables		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		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

Notes:

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	–
	<u>68,811</u>	<u>294,170</u>

4. OTHER INCOME

	Six months ended	
	31 December	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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
	<u>2,731</u>	<u>27</u>

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	
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (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	<u>(92)</u>	<u>121</u>	<u>8,182</u>	<u>2,061</u>	<u>763</u>	<u>–</u>	<u>8,853</u>	<u>2,182</u>
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
At 31 December and								
30 June 2010								
Segment assets	<u>3,333</u>	<u>15,550</u>	<u>193,850</u>	<u>174,103</u>	<u>56,867</u>	<u>–</u>	<u>254,050</u>	<u>189,653</u>

Six months ended	
31 December	
2010	2009
<i>HK\$'000</i>	<i>HK\$'000</i>
(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
	<hr/>	<hr/>
Consolidated profit	10,087	3,981
	<hr/> <hr/>	<hr/> <hr/>

6. FINANCE COST

Six months ended	
31 December	
2010	2009
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Interest on bank loans	–	182
	<hr/> <hr/>	<hr/> <hr/>

7. INCOME TAX EXPENSE

Six months ended	
31 December	
2010	2009
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Current tax provision for the period		
Hong Kong Profits Tax	–	466
The PRC	2,782	42
	<hr/>	<hr/>
	2,782	508
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong Profits Tax has been made for the Interim Period as the Group does not have any assessable profits subject to Hong Kong profits tax for the Interim 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	
	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	<u>3,748</u>	<u>3,258</u>

9. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the Interim Period (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. ADDITIONS TO 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 <i>(note a)</i> <i>HK\$'000</i> (Unaudited)	Exclusive rights – distribution of bio-industrial products <i>(note b)</i> <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Cost			
Additions during the period and at 31 December 2010	<u>79,696</u>	<u>18,098</u>	<u>97,794</u>
Accumulated Amortization			
Amortization for the period and at 31 December 2010	<u>–</u>	<u>584</u>	<u>584</u>
Carrying amount			
At 31 December 2010	<u><u>79,696</u></u>	<u><u>17,514</u></u>	<u><u>97,210</u></u>

Notes:

- (a) On 13 December 2010, the Group obtained the 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 <i>HK\$'000</i> (Unaudited)	30 June 2010 <i>HK\$'000</i> (Audited)
Deposit for obtaining the distributorship rights <i>(note a)</i>	–	40,000
Loans under the Franchise Agreements <i>(note b)</i>	<u>35,200</u>	<u>35,200</u>
	<u><u>35,200</u></u>	<u><u>75,200</u></u>

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.
- (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 Interim Period, 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 accruals as at 31 December 2010.

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, is as follows:

	31 December	30 June
	2010	2010
	HK\$'000	HK\$'000
	(Unaudited)	(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
	<u>8,673</u>	<u>99,426</u>

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
	<u>8,673</u>	<u>99,426</u>

15. TRADE PAYABLES

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

	31 December	30 June
	2010	2010
	HK\$'000	HK\$'000
	(Unaudited)	(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
	<u>1,692</u>	<u>87,077</u>

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

RMB	1,692	9,072
Hong Kong dollars	—	78,005
	<u>1,692</u>	<u>87,077</u>

16. CONTINGENT LIABILITIES

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

17. 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 positions 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.

Liquidators will be appointed by the Group to voluntarily wind-up First Jumbo and 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.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

Turnover of the Group for 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 Health 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 non-exclusive arrangement.

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 previously under the original non-exclusive 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 Susceptibility 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 positions 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 around 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, Liquidity, Financial resources

Capital structure

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

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).

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.

COMPLIANCE WITH THE CODE ON 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 Interim Period, 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 Interim Period. 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 Interim Period. 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.unitedgenegroup.com and www.irasia.com/listco/hk/unitedgene) and the Stock Exchange (www.hkex.com.hk). The interim report of the Company for the Interim Period containing all the information required by the Listing Rules will be dispatched to shareholders and made available on the above websites in due course.

By Order of the Board
United Gene High-Tech Group Limited
Qin Yilong
Chairman

Hong Kong, 28 February 2011

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Qin Yilong (the Chairman) and Mr. Jiang Jian; one non-executive Director, namely, Ms. Jiang Nian; and three independent non-executive Directors, namely Dr. Zhang Huiming, Ms. Chen Weijun and Ms. Jiang Di.