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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 ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2009

The board of directors (the “Board”) of United Gene High-Tech Group Limited (the “Company”) is pleased to announce the audited consolidated annual financial information of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2009 (this “Financial Year”) together with the comparative figures for the previous year as follows:

#### CONSOLIDATED INCOME STATEMENT

*For the year ended 30 June 2009*

	Notes	2009 HK\$'000	2008 HK\$'000
<b>Turnover</b>	4	<b>374,442</b>	317,041
Cost of sales		<b>(362,895)</b>	(308,933)
Gross profit		<b>11,547</b>	8,108
Other income	5	<b>631,559</b>	71
Selling expenses		<b>(2,421)</b>	(6,643)
Administrative expenses		<b>(28,237)</b>	(10,135)
<b>Profit/(loss) from operations</b>		<b>612,448</b>	(8,599)
Gain on deconsolidation of the subsidiaries	7	<b>134,516</b>	—
Finance cost	8	<b>(633)</b>	(59,947)
<b>Profit/(loss) before tax</b>		<b>746,331</b>	(68,546)
Income tax expense	9	<b>(1,090)</b>	(33)
<b>Profit/(loss) for the year</b>	10	<b>745,241</b>	(68,579)
<b>Attributable to:</b>			
Equity holders of the Company		<b>745,205</b>	(68,621)
Minority interests		<b>36</b>	42
		<b>745,241</b>	(68,579)
<b>Earnings/(loss) per share</b>	12		
Basic and diluted (HK cents per share)		<b>12.83</b>	(31.54)

# CONSOLIDATED BALANCE SHEET

At 30 June 2009

	Notes	2009 HK\$'000	2008 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	1,718	24,383
Prepaid lease payments		—	10,368
Prepayments, deposits and other receivables		40,000	—
		<u>41,718</u>	<u>34,751</u>
<b>Current assets</b>			
Inventories		2,393	5,641
Prepayments, deposits and other receivables		17,839	344
Trade receivables	14	4,224	10,828
Prepaid lease payments		—	241
Bank and cash balances		74,065	1,710
		<u>98,521</u>	<u>18,764</u>
<b>Current liabilities</b>			
Bank loans		—	674,146
Trade payables	15	24,893	24,599
Accruals and other payables		6,415	141,810
Current tax liabilities		1,003	—
		<u>32,311</u>	<u>840,555</u>
<b>Net current assets/(liabilities)</b>		<u>66,210</u>	<u>(821,791)</u>
<b>Total assets less current liabilities</b>		<u>107,928</u>	<u>(787,040)</u>
<b>Non-current liabilities</b>			
Deferred taxation		—	1,430
<b>NET ASSETS/(LIABILITIES)</b>		<u>107,928</u>	<u>(788,470)</u>
<b>Capital and reserves</b>			
Share capital		60,823	2,176
Reserves		46,563	(791,152)
Equity attributable to equity holders of the Company		107,386	(788,976)
Minority interests		542	506
<b>TOTAL EQUITY</b>		<u>107,928</u>	<u>(788,470)</u>

*Notes:*

## **1. GENERAL INFORMATION**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is Rooms No. 1405-1406, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. During the year ended 30 June 2009, its subsidiaries were principally engaged in manufacturing and distribution of pharmaceutical products and the distribution of gene testing services.

## **2. BASIS OF PREPARATION**

### **Deconsolidation of subsidiaries**

Pursuant to a scheme of arrangement (the "Scheme") which became effective on 18 July 2008, three subsidiaries of the Group, namely First Sight Technology Group Limited, Boomtown Ventures Limited and Far East Global Group Limited were transferred to the nominee of the scheme administrators on 11 July 2008 (the "Date of Transfer"). The Group therefore lost control on these subsidiaries since the Date of Transfer. In additions, Hong Kin Holdings Limited, which directly holds 上海德勝科技集團(安慶)製藥有限公司, passed a special resolution on 19 December 2008 that the company be wound up voluntarily. As such, the Group also lost control of these two subsidiaries since then. As such, the financial results, assets and liabilities and cash flows of First Sight Technology Group Limited, Boomtown Ventures Limited, Far East Global Group Limited, Hong Kin Holdings Limited and 上海德勝科技集團(安慶)製藥有限公司 were therefore deconsolidated from the consolidated financial statements of the Group since the respective dates of loss of control of these subsidiaries.

## **3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 July 2008. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current and prior years.

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.

#### 4. TURNOVER

	Year ended 30 June	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Manufacturing and distribution of pharmaceutical products	327,582	310,515
Distribution of gene testing services	46,860	6,526
	<u>374,442</u>	<u>317,041</u>
	<b><u>374,442</u></b>	<b><u>317,041</u></b>

#### 5. OTHER INCOME

	Year ended 30 June	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	172	1
Release of a bank loan and other liabilities pursuant to the Scheme	631,378	—
Sundry income	9	70
	<u>631,559</u>	<u>71</u>
	<b><u>631,559</u></b>	<b><u>71</u></b>

## 6. SEGMENT INFORMATION

### Primary reporting format — business segments

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

	Manufacturing and distribution		Distribution of gene testing services		Corporate and others		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Years ended</b>								
<b>30 June 2009 and 2008</b>								
Turnover	<u>327,582</u>	<u>310,515</u>	<u>46,860</u>	<u>6,526</u>	<u>—</u>	<u>—</u>	<u>374,442</u>	<u>317,041</u>
Segment results	<u>(4,470)</u>	<u>(5,869)</u>	<u>5,193</u>	<u>949</u>	<u>(19,834)</u>	<u>(3,750)</u>	<u>(19,111)</u>	<u>(8,670)</u>
Other income							<u>631,559</u>	<u>71</u>
Profit/(loss) from operations							<u>612,448</u>	<u>(8,599)</u>
Gain on deconsolidation of the subsidiaries							<u>134,516</u>	<u>—</u>
Finance cost							<u>(633)</u>	<u>(59,947)</u>
Profit/(loss) before tax							<u>746,331</u>	<u>(68,546)</u>
<b>At 30 June 2009 and 2008</b>								
Segment assets	<u>11,530</u>	<u>46,902</u>	<u>119,348</u>	<u>6,526</u>	<u>9,361</u>	<u>87</u>	<u>140,239</u>	<u>53,515</u>
Segment liabilities	<u>10,595</u>	<u>60,954</u>	<u>19,689</u>	<u>5,577</u>	<u>—</u>	<u>—</u>	<u>30,284</u>	<u>66,531</u>
Unallocated liabilities							<u>2,027</u>	<u>775,454</u>
Total liabilities							<u>32,311</u>	<u>841,985</u>

Other segment information:

	Manufacturing and distribution		Distribution of gene testing services		Corporate and others		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	4	39	397	—	337	—	738	39
Depreciation	1,065	2,837	10	—	18	—	1,093	2,837
Amortisation	101	241	—	—	—	—	101	241
Impairment on an amount due from a subsidiary deconsolidated	—	—	—	—	3,226	—	3,226	—
Surplus/(deficit) on revaluation of buildings recognised directly in equity	176	(1,135)	—	—	—	—	176	(1,135)

#### Secondary reporting format — geographical segments

The Group's operation are principally located in Hong Kong and the People's Republic of China ("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	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	30,385	6,526	128,709	6,613	734	—
The PRC	344,057	310,515	11,530	46,902	4	39
	<u>374,442</u>	<u>317,041</u>	<u>140,239</u>	<u>53,515</u>	<u>738</u>	<u>39</u>

#### 7. GAIN ON DECONSOLIDATION OF THE SUBSIDIARIES

	Year ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Gain on deconsolidation of the subsidiaries	<u>134,516</u>	<u>—</u>

As disclosed in note 2 to this preliminary announcement, the control over certain subsidiaries including First Sight Technology Group Limited, Boomtown Ventures Limited, Far East Global Group Limited, Hong Kin Holdings Limited and 上海德勝科技集團(安慶)製藥有限公司 had been lost since 11 July 2008 and 19 December 2008. As such, the financial results, assets and liabilities and cash flows of these subsidiaries were deconsolidated from the consolidated financial statements of the Group.

Net liabilities of these subsidiaries as at the dates of deconsolidation were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	22,535
Prepaid lease payments	10,554
Trade receivables	1,604
Prepayments, deposits and other receivables	380
Bank and cash balances	1,127
Bank loans	(27,512)
Trade payables	(15,553)
Accruals and other payables	(127,266)
Deferred tax	(1,495)
	<hr/>
Net liabilities deconsolidated	(135,626)
Release of foreign currency translation reserve	1,110
	<hr/>
Gain on deconsolidation of the subsidiaries	(134,516)
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## 8. FINANCE COST

	<b>Year ended 30 June</b>	
	<b>2009</b>	2008
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Interest on bank loans	<b>633</b>	59,947
	<hr/> <hr/>	<hr/> <hr/>

## 9. INCOME TAX EXPENSE

	<b>Year ended 30 June</b>	
	<b>2009</b>	2008
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Current tax – Hong Kong Profits Tax		
Provision for the year	<b>812</b>	—
Under-provision in prior years	<b>156</b>	—
Current tax – the PRC		
Provision for the year	<b>122</b>	33
	<hr/>	<hr/>
	<b>1,090</b>	33
	<hr/> <hr/>	<hr/> <hr/>

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

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.

## 10. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging the following:

	Year ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Depreciation	1,093	2,837
Directors' emoluments	1,411	180
Operating lease charges of land and buildings	805	552
Auditor's remuneration	980	780
Cost of inventories sold	322,564	303,504
Loss on written-off of property, plant and equipment	108	277
Impairment on an amount due from a subsidiary deconsolidated	3,226	—
Staff costs including directors' emoluments		
Salaries, bonus and other benefits	4,382	3,002
Retirement benefits scheme contributions	662	—
	<u>5,044</u>	<u>3,002</u>

## 11. DIVIDENDS

The directors of the Company (the "Directors") do not recommend the payment of a dividend for the year ended 30 June 2009 (2008: Nil).

## 12. EARNINGS/(LOSS) PER SHARE

### Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to equity holders of the Company is based on the profit/(loss) for the year attributable to equity holders of the Company of approximately HK\$745,205,000 (2008: loss of approximately HK\$68,621,000) and the weighted average number of ordinary shares of 5,809,104,561 (2008: 217,574,240) in issue during the year.

### Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented as the Company did not have any dilutive potential ordinary shares during the two years ended 30 June 2009.

## 13. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During this Financial Year, additions to property, plant and equipment of the Group is approximately HK\$738,000.



#### 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:

	<b>At 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
30 days or less	<b>2,724</b>	5,962
31 to 60 days	<b>921</b>	3,499
61 to 180 days	<b>562</b>	1,124
Over 180 days	<b>17</b>	243
	<b>4,224</b>	<b>10,828</b>

As at 30 June 2009, no allowance was made for the trade receivables (2008: approximately HK\$9,046,000).

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

	<b>At 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Renminbi	<b>4,224</b>	4,302
Hong Kong Dollars	<b>—</b>	6,526
	<b>4,224</b>	<b>10,828</b>

#### 15. TRADE PAYABLES

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

	<b>At 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
30 days or less	<b>13,157</b>	7,496
31 to 60 days	<b>9,779</b>	2,413
61 to 180 days	<b>1,189</b>	2,707
Over 180 days	<b>768</b>	11,983
	<b>24,893</b>	<b>24,599</b>

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

	<b>At 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Renminbi	<b>5,406</b>	19,170
Hong Kong Dollars	<b>19,487</b>	5,429
	<u><b>24,893</b></u>	<u>24,599</u>

## **16. CONTINGENT LIABILITIES**

The Directors were not aware of any significant contingent liabilities of the Group as at 30 June 2009.

## **17. CAPITAL COMMITMENTS**

The Group and the Company had no significant capital commitment as at 30 June 2009 (2008: nil).

## **18. LEASE COMMITMENTS**

At 30 June 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Future aggregate minimum lease payments under operating leases in respect of land and buildings		
— within one year	<b>1,610</b>	312
— in the second to fifth years inclusive	<b>1,014</b>	—
	<u><b>2,624</b></u>	<u>312</u>

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

## **19. EVENTS AFTER THE BALANCE SHEET DATE**

### **Establishment of franchise agreements**

On 14 July 2009, China United Gene Health Limited (formerly known as Main Wealth Limited) (“United Gene Health”) entered into five franchise agreements (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 (the “Distributor”) for the period of five years. According to the Franchise Agreement, United Gene Health agrees to appoint each of the Distributor as its distributor for the gene testing services in the PRC and to advance a sum to each of the Distributor in the amount of HK\$6,000,000, HK\$8,000,000, HK\$8,000,000, HK\$10,000,000 and HK\$12,000,000 respectively (the “Loan”), which are non-interest bearing, for the sole purpose of soliciting business opportunities and advertising activities in connection with the Franchise Agreement and for such other marketing and promotion activities as permitted by United Gene Health.

Each of the Distributor has undertaken to United Gene Health that the sales attributable to the distribution of gene testing services in the PRC generated by Fashion Fame Limited, Grace Noble Limited, Rising Rates International Limited, Noble Hat Limited and Sky Cultures Limited for each of the five years shall not be less than the specified amounts of HK\$24,000,000, HK\$32,000,000, HK\$32,000,000, HK\$40,000,000 and HK\$48,000,000 respectively (the “Specified Amount”).

In the event that the sales generated by the relevant Distributor in any one year equals to or exceeds the relevant Specified Amount, United Gene Health agrees to waive the repayment of 20% of the relevant Loan, otherwise that relevant Distributor shall repay 20% of the relevant Loan to United Gene Health within three business days after the review made by United Gene Health on the sales generated by that relevant Distributor during that year. In the event that the sales generated by the relevant Distributor falls below the relevant Specified Amount for two consecutive years, United Gene Health has the right to terminate the relevant Franchise Agreement and to require the repayment of the Loan not yet waived within three business days after it giving the notice of termination to the relevant Distributor.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Group Results**

Turnover of the Group for the year ended 30 June 2009 amounted to approximately HK\$374.4 million, representing a 18.11% increase from the year ended 30 June 2008 (approximately HK\$317 million). The increase was mainly contributed by the distribution of gene testing services which commenced business in May 2008 and contributed about HK\$46.9 million to the Group's turnover for this Financial Year. Net profit attributable to the equity holders of the Company for this Financial Year was approximately HK\$745.2 million, compared to a loss of approximately HK\$68.6 million in the previous year. The profit was mainly due to the recognition of the gain of approximately HK\$631.4 million upon the release of a bank loan and other liabilities pursuant to a scheme of arrangement (the "Scheme") which became effective on 18 July 2008 and the gain of approximately HK\$134.5 million upon the deconsolidation of the Group's subsidiaries.

### **Restructuring and General Offer**

Following the great efforts contributed by Messrs. Lai Kar Yan Derek and Darach E. Haughey, both of Deloitte Touche Tohmatsu (appointed by the Honourable Madam Justice Kwan as joint and several provisional liquidators of the Company on 22 September 2004), Best Champion Holdings Limited ("Best Champion") and the respective advisors, the conditions imposed by the Listing Division of the Stock Exchange for the resumption of trading in the Company's shares were successfully fulfilled on 9 July 2008. The appointments of Ms. Choi Suk Ching as an executive director of the Company (the "Executive Director") and Dr. Leung Wai Cheung as an independent non-executive director of the Company (the "Independent Non-Executive Director"), became effective from the same date. The winding up petition against the Company was dismissed and the provisional liquidators of the Company were discharged on 11 July 2008 pursuant to a court order dated 8 July 2008.

After the completion of the restructuring of the Company, trading of the shares of the Company (the "Shares") on the Stock Exchange was resumed on 18 July 2008.

After resumption of trading in the Shares and the exercise of put option by ADM Galleus Fund Limited ("ADM"), Best Champion held 4,561,516,714 Shares, representing approximately 75% of the Shares in issue. Best Champion was wholly owned by Merit Faith International Limited ("Merit Faith"), which was in turn wholly owned by Start Grand Holdings Limited ("Start Grand"), and Start Grand was wholly owned by Mr. Han Xianfu.

On 16 September 2008, pursuant to a deed of settlement entered into by Richlong Group Limited (“Richlong”), Merit Faith and Start Grand (the “Deed of Settlement”), Merit Faith transferred the entire shares of Best Champion to Richlong for the final settlement in full of an indebtedness in the amount of HK\$133,550,684.93. Richlong was owned as to approximately 33.33% by Access Lead Limited (“Access Lead”) and as to approximately 66.67% by Glorious King Limited (“Glorious King”). Access Lead was beneficially owned as to 55% by Mr. Tai Kai Hing, the then Executive Director, as to 25% by Mr. Tai Kai Sun, and 20% by Ms. Tai Shun Hing, both siblings of Mr. Tai Kai Hing. Glorious King was wholly and beneficially owned by Dr. Mao Yumin.

In accordance with Rule 26.1 of the Hong Kong Code on Takeovers and Mergers, Richlong, which then held 4,561,516,714 Shares, representing approximately 75% of the Shares in issue through Best Champion, was required to make an unconditional cash offer to acquire all the issued Shares (other than those already owned by Richlong, its ultimate beneficial owners and parties acting in concert with any of them) (the “Offer”). The price for each Share under the Offer was HK\$0.03. A circular in relation to the terms of the Offer was issued by the Company and Richlong on 17 October 2008. The Offer commenced on the same date and closed on 7 November 2008. Richlong received valid acceptances of 425,563 Shares, representing approximately 0.007% of the issued Shares, which in aggregate became interested in 75.004% of the Shares. A placing agreement was entered on 14 October 2008 (the “Placing Agreement”) between Richlong and Goldride Securities Limited to procure purchasers to maintain the necessary 25% public float for the Company. After the completion of the Placing Agreement, Richlong and its parties acting in concert with any of them were interested in 4,561,682,277 Shares, representing approximately 75% of the Shares in compliance with Rule 8.08 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

On 22 December 2008, Access Lead sold its entire shares in Richlong to Glorious King which then indirectly held 75% of the Shares.

Upon the completion of the restructuring of the Company, the financial position of the Group has been substantially improved as approximately HK\$150 million (of which HK\$25 million was transferred to the scheme administrators of the scheme of arrangement) has been raised through the share subscription by Best Champion and ADM, the placing of the new shares with Partners Capital Securities Limited and all the liabilities of the Company incurred on or before 27 June 2008, have been discharged through the scheme of arrangement. The Group have used this funding mainly for the working capital of distribution of gene testing services and establishment of a subsidiary in the PRC for the provision of health care management services.

It is the intention of Best Champion, a substantial shareholder of the Company, that the Group will continue with its existing principal activities, which include the distribution of pharmaceutical products, health supplements in the PRC, as well as the distribution of gene testing services.

## **Business Review**

### ***Distribution of Gene Testing Services***

The Group has sought to diversify its business to high-end health related services. Our subsidiary, United Gene Health entered into an exclusive distribution agreement with China United Gene Health Industry Limited (“China United”) on 2 May 2008, pursuant to which United Gene Health has been granted the exclusive right to distribute the gene testing services in Hong Kong. The sole provider of the gene testing services to China United and the grantor of the exclusive worldwide distributorship right to China United is 上海博仲生物技術有限公司, a company incorporated in the PRC, which is indirectly wholly-owned by Dr. Mao Yumin, the substantial shareholder of the Company. On 12 August 2008, United Gene Health paid a non-interest bearing deposit of HK\$40 million 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. On 22 January 2009, a letter was issued by China United which depicted that the Sales Target of HK\$120,000,000 for the first term was adjusted to HK\$60,000,000. 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 3 September 2009, United Gene Health and China United mutually agreed that the adjusted Sales Target of HK\$60,000,000 for the first term had been met. China United further agreed to set the Sales Target as HK\$60,000,000 for the forthcoming year.

On 20 August 2008, our subsidiary, Bestdone Limited (“Bestdone”) entered into an exclusive distribution agreement with China United, pursuant to which Bestdone was granted the exclusive right to distribute the gene testing services in Asia Pacific region. On 14 January 2009, as China United changed its sales strategy, Bestdone and China United mutually agreed that the exclusive distribution agreement be terminated with immediate effect and the HK\$30 million non-interest bearing deposit, which was paid by Bestdone to China United as a guarantee of annual sales targets on 3 September 2008, was repaid to Bestdone on the same date.

On 14 July 2009, United Gene Health entered into five franchise agreements (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 (the “Distributor”) for the period of five years. According to the Franchise Agreement, United Gene Health agrees to appoint each of the Distributor as its distributor for the gene testing services in the PRC and to advance a sum to each of the Distributor in the amount of HK\$6,000,000, HK\$8,000,000, HK\$8,000,000, HK\$10,000,000 and HK\$12,000,000 respectively (the “Loan”), which are non-interest bearing, for the sole purpose of soliciting business opportunities and advertising activities in connection with the Franchise Agreement and for such other marketing and promotion activities as permitted by United Gene Health. Each of the Distributor has undertaken to United Gene Health

that the sales attributable to the distribution of gene testing services in the PRC generated by Fashion Fame Limited, Grace Noble Limited, Rising Rates International Limited, Noble Hat Limited and Sky Cultures Limited for each of the five years shall not be less than the specified amounts of HK\$24,000,000, HK\$32,000,000, HK\$32,000,000, HK\$40,000,000 and HK\$48,000,000 respectively (the “Specified Amount”). In the event that the sales generated by the relevant Distributor in any one year equals to or exceeds the relevant Specified Amount, United Gene Health agrees to waive the repayment of 20% of the relevant Loan, otherwise that relevant Distributor shall repay 20% of the relevant Loan to United Gene Health within three business days after the review made by United Gene Health on the sales generated by that relevant Distributor during that year. In the event that the sales generated by the relevant Distributor falls below the relevant Specified Amount for two consecutive years, United Gene Health has the right to terminate the relevant Franchise Agreement and to require the repayment of the Loan not yet waived within three business days after it giving the notice of termination to the relevant Distributor.

During this Financial Year, turnover of distribution of gene testing services was approximately HK\$46.9 million compared to approximately HK\$6.5 million in the corresponding year, an increase of 621.54% was mainly due to enlarged distribution region. On the other hand, the gross profit margin decreased from approximately 16.80% in 2008 to approximately 13.93% in this Financial Year due to providing more competitive and favourable terms to the distributors in the PRC.

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

During this Financial Year, sales of pharmaceutical products via the CJV was approximately HK\$323.9 million compared to approximately HK\$282.6 million in the corresponding year, representing an increase of 14.61%. On the other hand, the gross profit margin improved from approximately 1.46% in 2008 to approximately 1.71% in this Financial Year due to the increasing awareness of health care and increasing income level of people in the PRC.

***Desheng Anqing***

In order to focus on the Group’s efforts in the restructuring of the operation of 上海德勝科技集團 (安慶) 製藥有限公司 Shanghai Desheng Technology Group (Anqing) Pharmaceutical Company Limited (“Desheng Anqing”), the Group suspended the business operation of Desheng Anqing since 1 August 2008 and passed a special resolution to wind up voluntarily the immediate holding company of Desheng Anqing, Hong Kin Holdings Limited (“Hong Kin”), on 19 December 2008. In this Financial Year, the turnover of Desheng Anqing was approximately HK\$3.7 million and it incurred a gross loss of approximately of HK\$0.5 million. The Group recorded a gain of approximately HK\$20.7 million upon deconsolidation of Hong Kin.



## **Prospects**

### ***Distribution of Gene Testing Services***

The management believes that the distribution of gene testing services is a strong and developing market due to the increasing awareness of health care for individuals and their family members, along with the increasing national income in the PRC. With the exclusive and non-exclusive distribution rights for distribution of gene testing services in Hong Kong and the PRC respectively, and Franchise Agreement which set substantial sales target for each of the forthcoming five years, the Group will continue to capture more market shares and business partners by soliciting the existing distributors of gene testing services, and 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, the PRC, being a limited liability company with a registered capital of HK\$20 million. The scope of business of United Gene HealthCare includes health care management service, health care consultancy, investment advisory, health care apparatus wholesale, commission agency, and provision of ancillary services.

United Gene HealthCare intends to establish the investments in the PRC through the health care centers in Shanghai, Beijing and Guangzhou etc. The health care centers will provide health care management services including 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 medicine and other ancillary services.

### ***The CJV***

On 18 September 2009, the CJV and Laolaishou Biotech Company Limited (濟南老來壽生物科技有限公司) (“Laolaishou”) mutually agreed, by commercial reason, 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 exclusive distribution agreement will not have any material financial impact on the Group’s operations or financial position.



## FINANCIAL REVIEW

### Capital Structure, Liquidity, Financial Resources

#### *Capital Structure*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

	<b>At 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Authorized ( <i>Note b</i> ):		
10,000,000,000 ordinary shares of HK\$0.01 each	<b>100,000</b>	100,000
Issued and fully paid:		
6,082,254,031 ordinary shares of HK\$0.01 each (2008: 217,574,240 ordinary shares of HK\$0.01 each)	<b>60,823</b>	2,176

The following is a summary of the above movements in the issued share capital:

	<b>Number of shares issued</b>	<b>Share capital HK\$'000</b>
As at 1 July 2007	2,175,742,400	54,394
Reduction of par value from HK\$0.025 to HK\$0.001 ( <i>Note a</i> )	—	(52,218)
	2,175,742,400	2,176
Share consolidation of every 10 shares into 1 new share ( <i>Note a</i> )	(1,958,168,160)	—
As at 30 June 2008	217,574,240	2,176
Shares issued pursuant to subscription/placing agreements ( <i>Note c</i> )	5,864,679,791	58,647
As at 30 June 2009	<b>6,082,254,031</b>	<b>60,823</b>

*Notes:*

- (a) By virtue of a special resolution and with the sanction of an Order of the Grand Court of the Cayman Islands dated 20 June 2008, the share capital was reduced from an authorised share capital of HK\$100,000,000 and issued share capital of HK\$54,393,560 divided into 4,000,000,000 and 2,175,742,400 shares respectively of HK\$0.025 each to an authorised and issued share capital of HK\$2,175,742 divided into 217,574,240 shares of HK\$0.01 each by ways of the following:
- (i) by reducing the par value of all issued and un-issued shares in the Company from HK\$0.025 to HK\$0.001 each;
  - (ii) by cancelling the entire existing un-issued share capital of the Company of 1,824,257,600 ordinary shares; and
  - (iii) by consolidating every 10 shares of the Company into 1 new share.

The above capital restructuring became effective on 27 June 2008 upon the filing of the court order with the Registrar of Companies of the Cayman Islands.

- (b) By way of a special resolution in the extraordinary general meeting held on 20 June 2008, the Company's authorised share capital was increased from HK\$2,175,742 to HK\$100,000,000 by creation of 9,782,425,760 new shares of HK\$0.01 each, immediately upon the capital reduction, the capital cancellation and share consolidation becoming effective.
- (c) Pursuant to the following subscription/placing agreements which form a part of the group restructuring and were approved by the shareholders of the Company at the extraordinary general meeting held on 20 June 2008, the Company issued a total of 5,864,679,791 shares on 18 July 2008.

Agreements	Subscriber/Placee	Shares issued	Price per share HK\$	Total amount raised HK\$'000	Share capital HK\$'000	Share premium HK\$'000
Subscription agreement dated 28 December 2007	Best Champion Holdings Limited	4,133,910,560	0.0145	59,942	41,339	18,603
Placing agreement dated 24 January 2008	Partners Capital Securities Limited	576,923,077	0.0520	30,000	5,769	24,231
Subscription agreement dated 9 April 2008	ADM Galleus Fund Limited	1,153,846,154	0.0520	60,000	11,539	48,461
		<u>5,864,679,791</u>		<u>149,942</u>	<u>58,647</u>	<u>91,295</u>

### ***Liquidity and financial resources***

As at 30 June 2009, the Group had bank and cash balances of approximately HK\$74.1 million (30 June 2008: approximately HK\$1.7 million). The Loan of Franchise Agreement totaling of HK\$44 million had been paid from the internal resources of the Group on 22 July 2009.

The ratio of current assets to current liabilities of the Group was 3.05 as at 30 June 2009 compared to 0.02 as at 30 June 2008. The Group's gearing ratio as at 30 June 2009 was 4.34 (30 June 2008: 0.06) which is calculated based on the Group's total assets of approximately HK\$140.2 million (30 June 2008: approximately HK\$53.5 million) and the Group's total liabilities of approximately HK\$32.3 million (30 June 2008: approximately 842.0 million). The Group's liquidity position has been substantially improved as all the liabilities of the Company incurred on or before 27 June 2008 were compromised and discharged through the Scheme which became effective from 18 July 2008, and the Company raised new capital through the share subscription by Best Champion and ADM, and the placing of the new shares with Partners Capital Securities Limited.

### ***Significant investment***

As at 30 June 2009, the Company did not have any significant investments.

### ***Charges on the Group's assets***

As at 30 June 2009, the Group did not have any charges on its assets.

As at 30 June 2008, bank loans of approximately HK\$27.6 million were secured by charges over the Group's certain fixed assets and prepaid lease payments totaling approximately HK\$26.1 million.

### ***Foreign Exchange Exposure***

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

## **Number and Remuneration of Employees**

As at 30 June 2009, the Group had approximately 184 (30 June 2008: approximately 171) full-time employees, most of which were working in the subsidiaries in the PRC. It is the Group's policy that remuneration of the employees is in line with market and commensurable with the level of pay in 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 this Financial Year amounted to approximately HK\$5.04 million (2008: approximately HK\$3 million).

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES OR ITS SUBSIDIARIES' SECURITIES**

During the year ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares or the securities of the Company's subsidiaries.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to complying with all the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules, except for the deviations discussed below.

### **Code provision A.2.1**

The positions of the Chairman and Chief Executive Officer are held by the same individual. The Company is aware of the deviation from the Code provision A.2.1 of the Code which requires that the roles of the Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Company currently cannot comply with this Code provision and is looking for a suitable person to act as the Chief Executive Officer with a hope to comply with the requirement in the near future.

### **Code provision A.4.1**

Code provision A.4.1 of the Code requires that non-executive directors should be appointed for a specific term and should be subject to re-election. 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.

## **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 year ended 30 June 2009.

## **AUDIT COMMITTEE**

The Company formulated written terms of reference for the audit committee of the Company (the “Audit Committee”) in accordance with the requirements of the Listing Rules. The Audit Committee currently consists of three Independent Non-Executive Directors, namely Dr. Leung Wai Cheung, Dr. Zhang Huiming and Dr. Zhu Lijun. Dr. Leung Wai Cheung is the chairman of the Audit Committee. The Audit Committee held three meetings during the year ended 30 June 2009.

The primary functions of the Audit Committee are as follows:

- (a) to serve as a focal point for communication between the Directors and external auditors;
- (b) to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, and monitoring and reviewing the effectiveness of the Group's internal control and the adequacy of the external audit;
- (c) to review the appointment of external auditors on an annual basis as well as to ensure continuing auditors independence; and
- (d) to develop and monitor the applications of the policies on the engagement of the external auditors to perform non-audit services (other than tax-related services).

The Group's audited financial statements for the year ended 30 June 2009 have been reviewed by the Audit Committee.

## **SCOPE OF WORK OF ANDA CERTIFIED PUBLIC ACCOUNTANTS**

The figures in respect of this preliminary announcement of the Group's results for the year ended 30 June 2009 have been agreed by the Group's auditor, ANDA Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2009. The work performed by ANDA Certified Public Accountants in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ANDA Certified Public Accountants on this preliminary announcement.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Company (<http://www.unitedgenegroup.com/>) and the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)). The annual report of the Company for the year ended 30 June 2009 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 September 2009

*As at the date of this announcement, the Board comprises three executive directors, namely Mr. Qin Yilong (Chairman), Mr. Shen Xiaodong and Mr. Jiang Jian, and three independent non-executive directors, namely Dr. Leung Wai Cheung, Dr. Zhang Huiming and Dr. Zhu Lijun.*