THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in United Gene High-Tech Group Limited, you should at once hand this circular and the accompanying forms of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

UNITED GENE HIGH-TECH GROUP LIMITED
聯合基因科技集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 399)

(A) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO
(I) PROPOSED ACQUISITION OF 18.83% ISSUED SHARE CAPITAL OF EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(II) PROPOSED ACQUISITION OF AN AGGREGATE OF HK$320,650,000 CONVERTIBLE BONDS ISSUED BY EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(III) PROPOSED ACQUISITION OF AN AGGREGATE UP TO HK$256,520,000 CONVERTIBLE BONDS ISSUED BY EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(B) NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser

WALLBANCK BROTHERS
Securities (Hong Kong) Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Donvex 富域資本
Donvex Capital Limited
富域資本有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular unless otherwise stated.

A letter from the Board is set out on pages 11 to 77 of this circular. A letter from the Independent Board Committee is set out on pages 78 to 79 of this circular. A letter from Donvex Capital, the Independent Financial Adviser of the Company, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 80 to 115 of this circular.

A notice convening the SGM to be held at Room Nos. 1405-1406, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong on Friday, 18 October 2013 at 4:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon, and return the same to the branch share registrar and transfer agent of the Company in Hong Kong, Tricor Tengis Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

27 September 2013

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"2004 Smart Ascent Acquisition"	the acquisition of an aggregate of 5,100 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent by Extrawell BVI from Mr. Ong and Ms. Wu Kiet Ming pursuant to 2004 Smart Ascent Acquisition Agreement
"2007 Smart Ascent Acquisition"	the acquisition of an aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent by Extrawell BVI from Mr. Ong pursuant to 2007 Smart Ascent Acquisition Agreement
"2004 Smart Ascent Acquisition Agreement"	a conditional sale and purchase agreement dated 3 March 2004 entered into between Extrawell BVI, Mr. Ong and Ms. Wu Kiet Ming in respect of the sale and purchase of an aggregate of 5,100 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent
"2007 Smart Ascent Acquisition Agreement"	a conditional sale and purchase agreement dated 27 July 2007 entered into between Extrawell BVI and Mr Ong in respect of the sale and purchase of an aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent
"2004 Target Company Circular"	the circular issued by the Target Company dated 25 March 2004 containing, among others, the information on the 2004 Smart Ascent Acquisition and the transactions contemplated thereunder
"2007 Target Company Circular"	the circular issued by the Target Company dated 22 August 2007 containing, among others, the information on the 2007 Smart Ascent Acquisition and the transactions contemplated thereunder
"2009 Target Company Circular"	the circular issued by the Target Company dated 21 May 2009 containing, among others, the information on the ratification actions for the 2004 Smart Ascent Acquisition and the transactions contemplated thereunder

"2013 Target Company Circular"	the circular issued by the Target Company dated 18 June 2013 containing, among others, the information on the Acquisition Agreement and the transactions contemplated thereunder
"Acquisition Agreement"	the 2007 Smart Ascent Acquisition Agreement dated 27 July 2007 (as supplemented and amended by a supplemental agreement dated 23 February 2013) between Mr. Ong as vendor and Extrawell (BVI) as purchaser for the acquisition of an aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent, representing approximately 49% of the total issued capital of Smart Ascent
"Announcement"	the announcement of the Company dated 15 May 2013 in respect of the Transactions
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (excluding Saturday and other general holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "**black**" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
"BVI"	British Virgin Islands
"Call Option Agreement"	a subscription agreement dated 28 February 2013 entered into between Vendor A and Mr. Ong in relation to a call option granted by Mr. Ong to Vendor A, to acquire from Mr. Ong the convertible bonds issued by the Target Company of up to the principal amount of HK$256,520,000 held by Mr. Ong

"Company"	United Gene High-Tech Group Limited (聯合基因科技集團有限公司), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
"Completion I"	completion of the Transaction I in accordance with the terms and conditions of the S&P Agreement
"Completion II"	collectively as Completion II – First Batch, Completion II – Second Batch, Completion II – Third Batch and Completion II – Fourth Batch
"Completion II – First Batch"	completion of the proposed acquisition of the Sale CB-II – First Batch in accordance with the terms and conditions of the S&P Agreement
"Completion II – Second Batch"	completion of the proposed acquisition of the Sale CB-II – Second Batch in accordance with the terms and conditions of the S&P Agreement
"Completion II – Third Batch"	completion of the proposed acquisition of the Sale CB-II – Third Batch in accordance with the terms and conditions of the S&P Agreement
"Completion II – Fourth Batch"	completion of the proposed acquisition of Sale CB-II – Fourth Batch in accordance with the terms and conditions of the S&P Agreement
"Completion Date I"	within 7 Business Days after the fulfillment of all conditions precedents under the sub-section headed "Transaction I – Conditions precedent" of this circular or such other date as the Vendors and the Company may agree in writing
"Completion Date II – First Batch"	within 7 Business Days after the fulfillment of all conditions precedents under the sub-section headed "Transaction II – Conditions precedent" of this circular or such other date as Vendor A and the Company may agree in writing

"Completion Date II – Second Batch"	within 7 Business Days following four (4) months from the fulfillment of all conditions precedents under the sub-section headed "Transaction II – Conditions precedent" of this circular or such other date as Vendor A and the Company may agree in writing
"Completion Date II – Third Batch"	within 7 Business Days following eight (8) months from the fulfillment of all conditions precedents under the sub-section headed "Transaction II – Conditions precedent" of this circular or such other date as Vendor A and the Company may agree in writing
"Completion Date II – Fourth Batch"	within 7 Business Days following twelve (12) months from the fulfillment of all conditions precedents under the sub-section headed "Transaction II – Conditions precedent" of this circular or such other date as Vendor A and the Company may agree in writing
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration I"	an aggregate of a maximum HK$608,000,000 for the Transaction I
"Consideration II"	an aggregate of up to a maximum HK$256,000,000 for the Transaction II
"Consideration II – First Batch"	an aggregate up to a maximum HK$64,000,000 for the proposed acquisition of the Sale CB-II – First Batch
"Consideration II – Second Batch"	an aggregate up to a maximum HK$64,000,000 for the proposed acquisition of the Sale CB-II – Second Batch
"Consideration II – Third Batch"	an aggregate up to a maximum HK$64,000,000 for the proposed acquisition of the Sale CB-II – Third Batch
"Consideration II – Fourth Batch"	an aggregate up to a maximum HK$64,000,000 for the proposed acquisition of the Sale CB-II – Fourth Batch

"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"Conversion Price"	HK$0.40 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds
"Conversion Shares"	collectively as Conversion Shares I and Conversion Shares II
"Conversion Shares I"	new Shares to be issued and allotted by the Company upon the exercise of the conversion rights attaching to Convertible Bonds I at the Conversion Price
"Conversion Shares II"	new Shares to be issued and allotted by the Company upon the exercise of the conversion rights attaching to Convertible Bonds II at the Conversion Price
"Convertible Bonds"	collectively as Convertible Bonds I and Convertible Bonds II
"Convertible Bonds I"	the convertible bonds in an aggregate principal amount of HK$488,000,000 to be issued by the Company in favour of the Vendors or their nominee(s) (as they may direct in writing) upon Completion I with nil interest for a conversion period of 10 years from the date of issue
"Convertible Bonds II"	the convertible bonds in an aggregate principal amount up to HK$256,000,000 to be issued by the Company in favour of Vendor A or his nominee(s) (as he may direct in writing) upon Completion II with nil interest for a conversion period of 10 years from the date of issue
"Enlarged Group"	collectively as the Group and the Target Group
"Extrawell BVI"	Extrawell (BVI) Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Target Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee (comprising all of the three independent non-executive Directors, namely, Ms. Chen Weijun, Dr. Zhang Zhihong and Mr. Wang Rongliang) to advise the Independent Shareholders on (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of conversion rights attaching to the Sale CBs
"Independent Financial Adviser" or "Donvex Capital"	Donvex Capital Limited, a licensed corporation to carry out type 6 regulated activities under the SFO
"Independent Shareholders"	Shareholders other than the Vendors and their respective associates
"Latest Practicable Date"	25 September 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date I"	30 November 2013 or such other date as the Vendors and the Company may agree in writing
"Long Stop Date II"	31 January 2014 or such other date as Vendor A and the Company may agree in writing
"Mr. Ong"	Mr. Ong Cheng Heang, the formal shareholder of Smart Ascent
"Placing Agreement"	the conditional placing agreement dated 18 February 2013 (as supplemental and amended by a supplemental agreement dated 19 April 2013) entered into between the Company and Grand Vinco Capital Limited in relation to the placing of the 10-year, 0.1% convertible bonds in an aggregate principal amount up to HK$74,000,000 to be issued by the Company

"PRC"	the People's Republic of China which, for the purpose of this circular only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
"Sale CB-I"	the convertible bonds in an aggregate principal amount of HK$320,650,000 issued by the Target Company with the conversion rights to convert into 500,000,000 Sale CBs Conversion Shares at the Sale CBs Conversion Price with nil interest for a conversion period of 20 years from the date of issue
"Sale CB-II"	collectively as Sale CB-II – First Batch, Sale CB-II – Second Batch, Sale CB-II – Third Batch and Sale CB-II – Fourth Batch
"Sale CB-II – First Batch"	the convertible bonds in an aggregate principal amount up to HK$64,130,000 issued by the Target Company with the conversion rights to convert into 100,000,000 Sale CBs Conversion Shares at the Sale CBs Conversion Price with nil interest for a conversion period of 20 years from the date of issue
"Sale CB-II – Second Batch"	the convertible bonds in an aggregate principal amount up to HK$64,130,000 issued by the Target Company with the conversion rights to convert into 100,000,000 Sale CBs Conversion Shares at the Sale CBs Conversion Price with nil interest for a conversion period of 20 years from the date of issue
"Sale CB-II – Third Batch"	the convertible bonds in an aggregate principal amount up to HK$64,130,000 issued by the Target Company with the conversion rights to convert into 100,000,000 Sale CBs Conversion Shares at the Sale CBs Conversion Price with nil interest for a conversion period of 20 years from the date of issue
"Sale CB-II – Fourth Batch"	the convertible bonds in an aggregate principal amount up to HK$64,130,000 issued by the Target Company with the conversion rights to convertible into 100,000,000 Sale CBs Conversion Shares at the Sale CBs Conversion Price with nil interest for a conversion period of 20 years from the date of issue
"Sale CBs"	collectively, Sale CB-I and Sale CB-II

"Sale CBs Conversion Price"	HK$0.6413, subject to adjustments as set out and in accordance with the terms and conditions of the Sale CBs
"Sale CBs Conversion Shares"	new Target Company Shares to be issued and allotted by the Target Company upon the exercise of the conversion rights attaching to the Sale CBs at the Sale CBs Conversion Price
"Sale Shares"	450,000,000 Target Company Shares
"SFO"	Securities and Futures Ordinance (chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company to be held and convened to consider and, if though fit, to approve by the Independent Shareholders, among other, (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares; and (ii) the exercise of the conversion rights attaching to the Sale CBs
"Share(s)"	ordinary share(s) of par value HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	The registered holder(s) of the Shares
"Smart Ascent"	Smart Ascent Limited, a company incorporated in Hong Kong with limited liability, the entire issued capital of which is owned by Extrawell BVI
"Specific Mandate"	the specific mandate for the allotment and issue of the Conversion Shares to be granted to the Directors by the Independent Shareholders at the SGM
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	Vendor A and United Gene Holdings Limited, a company incorporated in the BVI with limited liability of which the entire issued share capital is owned by Vendor A

"Subscription Agreement"	the conditional subscription agreement dated 18 February 2013 (as supplemental and amended by a supplemental agreement dated 19 April 2013) entered into between the Company and the Subscribers in relation to the subscription of the 10-year, 0.1% convertible bonds in an aggregate principal amount of HK$59,000,000 to be issued by the Company
"S&P Agreement"	the conditional sale and purchase agreement dated 27 April 2013 (as supplemented and amended by a supplemental agreement dated 7 May 2013 and a second supplemental agreement dated 30 August 2013) entered into between the Company and the Vendors in relation to the Transactions
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission of Hong Kong
"Target Company"	Extrawell Pharmaceutical Holdings Limited (stock code: 00858), a company incorporated in Bermuda with limited liability and issued shares of which are listed on the main board of the Stock Exchange
"Target Company Share(s)"	ordinary share(s) of par value HK$0.01 each in the issued share capital of the Target Company
"Target Group"	the Target Company and its subsidiaries
"Transaction I"	the proposed sale and purchase of the Sale CB-I and the Sale Shares by the Company from Vendor A and Vendor B respectively pursuant to the S&P Agreement
"Transaction II"	the proposed sale and purchase of the Sale CB-II by the Company from Vendor A pursuant to the S&P Agreement
"Transactions"	collectively as the Transaction I and the Transaction II
"Vendor A"	Dr. Mao Yumin is (i) the honourary chairman, chief scientific adviser and controlling shareholder of the Company; (ii) the executive director of the Target Company; (iii) the beneficial owner of 33.33% equity interest in Vendor B; and (iv) one of the Subscribers under the Subscription Agreement

"Vendor B"	JNJ Investments Limited, a company incorporated in the BVI with limited liability and the legal and beneficial owner of the Sale Shares
"Vendors"	collectively Vendor A and Vendor B
"%"	per cent.

UNITED GENE HIGH-TECH GROUP LIMITED
聯合基因科技集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 399)

Executive Directors:
Ms. Lee Nga Yan
Dr. Guo Yi

Non-executive Directors:
Ms. Jiang Nian *(Chairman)*
Ms. Xiao Yan
Ms. Wu Yanmin

Independent non-executive Directors:
Ms. Chen Weijun
Dr. Zhang Zhihong
Mr. Wang Rongliang

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:
Room Nos. 1405–1406
Harbour Centre
No. 25 Harbour Road
Wanchai, Hong Kong

27 September 2013

To the Shareholders

Dear Sir or Madam,

(A) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO (I) PROPOSED ACQUISITION OF 18.83% ISSUED SHARE CAPITAL OF EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (II) PROPOSED ACQUISITION OF AN AGGREGATE OF HK$320,650,000 CONVERTIBLE BONDS ISSUED BY EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (III) PROPOSED ACQUISITION OF AN AGGREGATE UP TO HK$256,520,000 CONVERTIBLE BONDS ISSUED BY EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (B) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 27 April 2013 (after trading hours), the Company and the Vendors entered into the S&P Agreement, pursuant to which the Company has conditionally agreed to acquire, and (i) Vendor A and Vendor B have conditionally agreed to sell the Sale CB-I in an aggregate principle amount of HK$320,650,000 and 450,000,000 Sale Shares respectively, at an aggregate Consideration I of HK$608,000,000; and (ii) Vendor A has conditionally agreed to sell the Sale CB-II in an aggregate principle amount up to HK$256,520,000, at an aggregate Consideration II up to a maximum HK$256,000,000, in four batches.

Vendor A is a connected person of the Company by virtue of being a controlling shareholder of the Company. Vendor B is a connected person of the Company by virtue of its beneficial owner, being Vendor A. As such, the Transactions constitute connected transactions of the Company under Rule 14A.13(1)(a) of the Listing Rules and shall be aggregated pursuant to Rule 14A.25 of the Listing Rules.

As one or more of the relevant percentage ratios for the Transactions exceeds 100%, the entering into of the S&P Agreement constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, the S&P Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and the Independent Shareholders' approval at the SGM under the Listing Rules.

The Independent Board Committee (comprising all of the three independent non-executive Directors, namely, Ms. Chen Weijun, Dr. Zhang Zhihong and Mr. Wang Rongliang) has been established to advise the Independent Shareholders on (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds and (ii) the exercise of the conversion rights attaching to the Sale CBs. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) further details of the S&P Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) financial information and other information of the Group; (v) financial information and other information of the Target Group; (vi) unaudited pro forma financial statement of the Enlarged Group; and (vii) a notice convening the SGM.

THE S&P AGREEMENT

The Board is pleased to announce that on 27 April 2013 (after trading hours), the Company and the Vendors entered into the S&P Agreement, pursuant to which the Company has conditionally agreed to acquire, and (i) Vendor A and Vendor B have conditionally agreed to sell the Sale CB-I in an aggregate principle amount of HK$320,650,000 and 450,000,000 Sale Shares respectively, at an aggregate Consideration I of HK$608,000,000; and (ii) Vendor A has conditionally agreed to sell Sale CB-II in an aggregate principle amount up to HK$256,520,000, at an aggregate Consideration II up to a maximum HK$256,000,000, in four batches.

Upon the completion of Transaction I and Transaction II, assuming no further Target Company Shares have been issued and/or purchased and no conversion of Sale CB-I and Sale CB-II, the Target Company will be accounted for as an associate in the financial statements of the Group in which the Group will have approximately 18.83% equity interest in the Target Company.

Upon the completion of Transaction I and Transaction II, assuming no further Target Company Shares have been issued and/or purchased and the full conversion of either Sale CB-I or Sale CB-II, the Group will have either approximately 32.87% or 30.47% equity interest in the Target Company respectively and the Target Company will continue to be an associate of the Group. Further, assuming no further Target Company Shares have been issued or purchased and the full conversion of both Sale CB-I and Sale CB-II, the Group will have approximately 41.03% equity interest in the Target Company and the Target Company will continue to be an associate of the Group.

The terms and conditions of the S&P Agreement are summarised as below:

Date

27 April 2013 (as supplemented and amended by a supplemental agreement dated 7 May 2013 and a second supplemental agreement dated 30 August 2013)

Parties

(i)	Purchaser:	The Company;
(ii)	Vendor A:	Dr. Mao Yumin; and
(iii)	Vendor B:	JNJ Investments Limited

As at the Latest Practicable Date, Vendor A and together with his associates are beneficially interested in 394,771,350 Shares, representing approximately 36.53% of the total issued share capital of the Company and therefore a connected person of the Company.

As at the Latest Practicable Date, Vendor B is ultimately and beneficially owned as to 33.33% by Vendor A.

Accordingly, Vendor A is a connected person of the Company by virtue of being a controlling shareholder of the Company. Vendor B is a connected person of the Company by virtue of its beneficial owner being Vendor A.

(A) Transaction I – Sale and Purchase of the Sale Shares and Sale CBs-I

(a) Transaction I – Assets to be acquired

Pursuant to the S&P Agreement, the Company has conditionally agreed to acquire, and Vendor A and Vendor B have conditionally agreed to sell Sale CB-I in an aggregate principle amount of HK$320,650,000 and 450,000,000 Sale Shares respectively.

The 450,000,000 Sale Shares represent (i) approximately 18.83% of the total issued share capital of the Target Company as at the date of the Latest Practicable Date; (ii) approximately 15.57% of the total issued share capital of the Target Company as enlarged by the allotment and issue of 500,000,000 Sale CBs Conversion Shares under Sale CB-I; and (iii) approximately 13.68% of the total issued share capital of the Target Company as enlarged by the allotment and issue of an aggregate of 900,000,000 Sale CBs Conversion Shares under the Sale CBs.

Assuming exercise in full of the conversion rights attaching to Sale CB-I at the Sale CBs Conversion Price of HK$0.6413, a maximum of 500,000,000 Sale CBs Conversion Shares will be allotted and issued, representing (i) approximately 20.92% of the total issued share capital of the Target Company as at the Latest Practicable Date; (ii) approximately 17.30% of the total issued share capital of the Target Company as enlarged by the allotment and issue of 500,000,000 Sale CBs Conversion Shares under Sale CB-I; and (iii) approximately 15.20% of the total issued share capital of the Target Company as enlarged by the allotment and issue of an aggregate of 900,000,000 Sale CBs Conversion Shares under the Sale CBs.

(b) Transaction I – Payment Mechanism of Consideration I

Consideration I as HK$608,000,000 shall be satisfied by the Company upon Completion I in the following manner:

(i) an aggregate sum of HK$120,000,000 shall be payable in cash by the Company to Vendor A upon Completion I;

(ii) an aggregate sum of HK$200,000,000 shall be payable by issue of the relevant Convertible Bonds I in the principle amount of HK$200,000,000 to Vendor A or his nominee(s) (as he may direct in writing) upon Completion I; and

(iii) an aggregate sum of HK$288,000,000 shall be payable by issue of the relevant Convertible Bonds I in the principle amount of 288,000,000 to Vendor B or its nominee(s) (as it may direct in writing) upon Completion I.

Part of Consideration I, as HK$320,000,000, is allocated to Vendor A for the sale and purchase of Sale CB-I while the remaining part of Consideration I, as HK$288,000,000, is allocated to Vendor B for the sale and purchase of the Sale Shares.

On the basis that part of Consideration I, as HK288,000,000, is allocated for the sale and purchase of Sale Shares, as 450,000,000 Target Company Shares, the consideration per Sale Share is HK$0.64.

The said consideration per Sale Share of HK$0.64 represents:

(i) a premium of approximately 23.08% over the closing price of HK$0.520 per Target Company Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 8.57% to the closing price of HK$0.700 per Target Company Share as quoted on the Stock Exchange as at the date of the Announcement;

(iii) a discount of approximately 13.51% to the closing price of HK$0.740 per Target Company Share as quoted on the Stock Exchange on the last trading date of signing of the S&P Agreement;

(iv) a discount of approximately 14.44% to the average closing price of HK$0.748 per Target Company Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the S&P Agreement; and

(v) a discount of approximately 12.69% to the average closing price of approximately HK$0.733 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the S&P Agreement.

The cash portion of Consideration I is expected to be financed by internal resources of the Group.

(c) Transactions I – Conditions precedent

Completion I shall be conditional upon, among other things, the fulfillment of all of the followings:

(i) the completion of the Placing Agreement, the Subscription Agreement and the transactions contemplated thereunder;

(ii) the completion of the Acquisition Agreement and the transactions contemplated thereunder;

(iii) no takeover implication or obligation having been triggered under the Takeovers Code;

(iv) no "reverse takeover" (as defined under the Listing Rules) having been triggered or ruled by the Listing Committee/Division of the Stock Exchange;

(v) the passing of the necessary resolution(s) by the Independent Shareholders at the SGM approving the entering into of the S&P Agreement by the Company, the issue of Convertible Bonds I by the Company, the allotment and issue of Conversion Shares I under the Specific Mandate and the transactions contemplated thereunder;

(vi) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, Conversion Shares I;

(vii) all necessary governmental and regulatory approvals or consents (or waivers), including but not limited to those from the Stock Exchange, required by the Vendors and the Company or any of them for the consummation of the transactions contemplated under the S&P Agreement having been obtained;

(viii) all necessary third party approvals or consents (or waivers) required by the Vendors and the Company or any of them for the consummation of the transactions contemplated under the S&P Agreement having been obtained;

(ix) the Company being satisfied with the results of the due diligence exercise on the Target Company and its subsidiaries, including but not limited to their respective businesses, assets, liabilities, operations or other status which the Company think necessary and appropriate to conduct; and

(x) the Company being satisfied with the valuation report on the shares and/or the convertible bonds and/or the oral insulin related investments of the Target Company by an independent valuer specified by the Company.

The Company shall use its reasonable endeavours to procure the holding of the SGM for the purpose of fulfilling the conditions precedent set out in (v) above by Long Stop Date I and to ensure that the conditions precedent set out in (i), (vi), (vii) and (viii) above (in so far as obtaining approvals or consents (or waivers) by the Company is concerned) shall be fulfilled by Long Stop Date I. Vendor A shall use its reasonable endeavours to ensure the conditions precedent set out in (ii) above shall be fulfilled by Long Stop Date I. Each of the Vendors and the Company hereby undertakes to provide such information and documents to the other to evidence full satisfaction of the conditions precedent above which it shall use its reasonable endeavours to procure or ensure fulfillment before Long Stop Date I.

If any of the above conditions precedent has not been fulfilled by Long Stop Date I, either the Vendors or the Company shall be entitled to rescind the S&P Agreement by giving written notice to the other whereupon the relevant provisions of the S&P Agreement shall from such date have no further force and effect and no party to the S&P Agreement shall have any liability under them (without prejudice to the rights of the parties to the S&P Agreement in respect of any antecedent breaches).

According to the S&P Agreement, none of the conditions precedent for Transaction I is waivable by the Vendors and/or the Company. However, pursuant to the "Entire Agreement and Amendment" clause of the S&P Agreement, parties to the S&P Agreement are able to amend and vary the terms and provisions of the S&P Agreement by signing a confirmation letter or supplemental agreement in writing.

As at the Latest Practicable Date, no parties to the S&P Agreement have any intention to amend the S&P Agreement and to waive the conditions (ix) and (x) above. However, the Company would not exclude the possibility of amending the S&P Agreement and waiving the said conditions in case whereby the occurrence of unexpected and unforeseeable factors, events and circumstances leading to such necessity.

As the Company has performed the relevant due diligence and Roma Appraisal Limited ("**Roma**"), the independent valuer adopted by the Company, has prepared the valuation report on the Sales CBs, it is fair and reasonable to infer that the conditions (ix) and (x), in substance, have not nor will be waived.

As at the Latest Practicable Date, conditions (i) and (ii) above have been fulfilled.

(d) Transaction I – Completion I

Subject to the fulfillment of all the conditions precedent to Transaction I, Completion I shall take place on or before 5:00 p.m. of Completion Date I.

(B) Transaction II – Sale and Purchase of the Sale CB-II

(a) Transaction II – Assets to be acquired

Pursuant to the S&P Agreement, the Company has conditionally agreed to acquire, and Vendor A has conditionally agreed to sell the Sale CB-II in the principle amount of up to an aggregate HK$256,520,000, in four batches.

Assuming exercise in full of the conversion rights attaching to the Sale CB-II at the Sale CBs Conversion Price of HK$0.6413, a maximum of 400,000,000 Sale CBs Conversion Shares will be allotted and issued, representing approximately 16.74% of the total issued share capital of the Target Company as at the Latest Practicable Date; (ii) approximately 14.34% of the total issued share capital of the Target Company as enlarged by the allotment and issue of 400,000,000 Sale CBs Conversion

Shares under Sale CB-II; and (iii) approximately 12.16% of the total issued share capital of the Target Company as enlarged by the allotment and issue of an aggregate of 900,000,000 Sale CBs Conversion Shares under the Sale CBs.

(b) Transaction II – Payment Mechanism of Consideration II

Consideration II as up to a maximum HK$256,000,000 shall be satisfied by the Company upon Completion II in the following manner:

(i) an aggregate sum of HK$64,000,000 shall be payable by issue of relevant Convertible Bonds II in the principle amount of HK$64,000,000 by the Company to Vendor A or his nominee(s) (as he may direct in writing) upon Completion II – First Batch (or such other date as Vendor A and the Company may agree in writing);

(ii) an aggregate sum of HK$64,000,000 shall be payable by issue of relevant Convertible Bonds II in the principle amount of HK$64,000,000 by the Company to Vendor A or his nominee(s) (as he may direct in writing) upon Completion Date II – Second Batch (or such other date as Vendor A and the Company may agree in writing);

(iii) an aggregate sum of HK$64,000,000 shall be payable by issue of relevant Convertible Bonds II in the principle amount of HK$64,000,000 by the Company to Vendor A or his nominee(s) (as he may direct in writing) upon Completion Date II – Third Batch (or such other date as Vendor A and the Company may agree in writing); and

(iv) an aggregate sum of HK$64,000,000 shall be payable by issue of relevant Convertible Bonds II in the principle amount of HK$64,000,000 by the Company to Vendor A or his nominee(s) (as he may direct in writing) upon Completion Date II – Fourth Batch (or such other date as Vendor A and the Company may agree in writing).

(c) Transaction II – Conditions precedent

Completion II is conditional upon, among other things, the fulfillment of all of the following:

(i) the Completion I having been fulfilled;

(ii) the completion of the Acquisition Agreement and the transactions contemplated thereunder;

(iii) the exercise of the Call Option Agreement and the transactions contemplated thereunder;

(iv) no takeover implication or obligation having been triggered under The Takeovers Code;

(v) no "reverse takeover" (as defined under the Listing Rules) having been triggered or ruled by the Listing Committee/Division of the Stock Exchange;

(vi) the passing of the necessary resolution(s) by the Independent Shareholders at the SGM approving the entering into of the S&P Agreement by the Company, the issue of Convertible Bonds II by Company, the allotment and issue of Conversion Shares II by the Company and the performance of the transactions contemplated hereunder by the Company;

(vii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, Conversion Shares II;

(viii) all necessary governmental and regulatory approvals or consents (or waivers), including but not limited to those from the Stock Exchange, required by Vendor A and the Company or any of them for the consummation of the transactions contemplated under the S&P Agreement having been obtained;

(ix) all necessary third party approvals or consents (or waivers) required by Vendor A and the Company or any of them for the consummation of the transactions contemplated under the S&P Agreement having been obtained;

(x) the Company being satisfied with the results of the due diligence exercise on the Target Company and its subsidiaries, including but not limited to their respective businesses, assets, liabilities, operations or other statues which the Company thinks necessary and appropriate to conduct; and

(xi) the Company being satisfied with the valuation report on the shares and/or the convertible bonds and/or the oral insulin related investments of the Target Company by an independent valuer specified by the Company.

The Company shall use its reasonable endeavours to procure the holding of the SGM for the purpose of fulfilling the conditions precedent set out in (vi) above by Long Stop Date II and to ensure that the conditions precedent set out in (i), (vii), (viii) and (ix) above (in so far as obtaining approvals or consents (or waivers) by the Company is concerned) shall be fulfilled by Long Stop Date II. Vendor A shall use his reasonable endeavours to ensure conditions precedent set out above in (ii) and (iii) shall be fulfilled by Long Stop Date II. Each of Vendor A and the Company hereby undertake to provide such information and documents to the other to evidence full satisfaction of the above condition(s) precedent which it shall use its reasonable endeavours to procure or ensure fulfillment before Long Stop Date II.

If any of the above conditions precedent have not been fulfilled by Long Stop Date II, either Vendor A or the Company shall be entitled to rescind the S&P Agreement in respect of the Transaction II by giving written notice to the other whereupon the relevant provisions of the S&P Agreement shall from such date have no further force and effect and no party to the S&P Agreement shall have any liability under them (without prejudice to the rights of the parties to the S&P Agreement in respect of any antecedent breaches).

According to the S&P Agreement, none of the conditions precedent for Transaction II are waivable by Vendor A and/or the Company. However, pursuant to the "Entire Agreement and Amendment" clause of the S&P Agreement, parties to the S&P Agreement are able to amend and vary the terms and provisions of the S&P Agreement by signing a confirmation letter or supplemental agreement in writing.

As at the Latest Practicable Date, no parties to the S&P Agreement have any intention to amend the S&P Agreement and to waive conditions (x) and (xi) above. However, the Company would not exclude the possibility of amending the S&P Agreement and waiving the said conditions in case whereby the occurrence of unexpected and unforeseeable factors, events and circumstances leading to such necessity.

As the Company has performed the relevant due diligence and Roma has prepared the valuation report on the Sales CBs, accordingly, it is fair and reasonable to infer that the conditions (x) and (xi), in substance, have not nor will be waived.

The Company has performed the following due diligence on the Target Group, including but not limited to:-

(i) appointed an investigation agent to conduct criminal litigation search, civil litigation search and winding up search on the Target Company and its subsidiaries, namely Smart Ascent Limited, Fosse Bio-Engineering Development Limited and Welly Surplus Development Limited. The said subsidiaries are the principal parties involved on the oral insulin related project;

(ii) appointed a PRC legal adviser to issue a legal opinion on the validity and legality of the patent registration, numbers of ZL 01 1 15327.X (in respect of the PRC patent registration) concerning the invention,「一種製備口服胰島素油相製劑的方法」(method for preparation of orally administrated insulin formulation) expiring on April 2021;

(iii) arranged a site visit to the major manufacturing arm of the Target Company, namely Changchun Extrawell Pharmaceutical Co., Ltd and interviewed with the relevant management team members;

(iv) arranged a site visit to Tsinghua University, Beijing and interviewed the relevant professor who heads the oral insulin project and the relevant clinical trials;

(v) arranged a site visit to a Clinical Research Organization (the "**CRO**") in the PRC, namely XinTaigoler Medical Technology Co. Ltd. (瀋陽鑫泰格爾醫藥科技開發有限公司), which is responsible for organizing Phase III clinical trial of the Medicine, and interviewed the relevant professionals;

(vi) arranged site visits to three hospitals contracted by CRO, namely Peking University People's Hospital (北京大學人民醫院), The Second Hospital of Jilin University (吉林大學第二醫院) and The Second Affiliated Hospital of Harbin Medical University (哈爾濱醫科大學附屬第二醫院), for undertaking Part A of Phase III clinical trial and interviewed the relevant head of the endocrinology department of the said hospitals; and

(vii) reviewed the relevant announcements and circulars of the Target Company in relation to the oral insulin projects.

The Company must stress that the Vendors are unable to provide relevant important documents concerning the oral insulin project to the Company for due diligence purposes, due to the Vendors' confidentiality obligations and duty of care of prevention of insider dealings owed to the Target Company. Therefore, the Company has placed much reliance on the due diligence performed by the Target Company on the oral insulin project in the relevant circulars and announcements of the Target Company.

As at the Latest Practicable Date, the Company is preliminarily and initially satisfied with the above due diligence performed and is not aware of any unusual findings and/or significant deficiencies, but this is subject to further due diligence.

As at the Latest Practicable Date, condition (ii) above has been fulfilled.

(d) Transaction II – Completion II

(i) Completion II – First Batch

Subject to the fulfillment of all the conditions precedent to Transaction II, Completion II – First Batch shall take place on or before 5:00 p.m. of Completion Date II – First Batch.

(ii) Completion II – Second Batch

Subject to the fulfillment of all the conditions precedent to Transaction II and Completion II – First Batch having taken place, Completion II – Second Batch shall take place on or before 5:00 p.m. of Completion Date II – Second Batch.

(iii) Completion II – Third Batch

Subject to the fulfillment of all the conditions precedent to Transaction II and Completion II – Second Batch having taken place, Completion II – Third Batch shall take place on or before 5:00 p.m. of Completion Date II – Third Batch.

(iv) Completion II – Fourth Batch

Subject to the fulfillment of all the conditions precedent to Transaction II and Completion II – Third Batch having taken place, Completion II – Fourth Batch shall take place on or before 5:00 p.m. of Completion Date II – Fourth Batch.

Although Transaction II is conditional on the completion of Transaction I, Transaction I is not conditional on the completion of Transaction II. Therefore, Transaction I and Transaction II are not inter-conditional to each other.

According to the S&P Agreement, the Company does not have the right to nominate any directors/staff to the Board of the Target Company after Completion I and/or Completion II, but subject to relevant provisions of the relevant constitutional documents of the Target Company and the rules and regulations of the relevant jurisdictions, including but not limited to Clause 116 of the bye-laws of the Target Company and Sections 74 and 79 of the Companies Act 1981 of Bermuda.

As at the Latest Practicable Date, the Company has no intention to appoint any directors/staff of the Company to the board of directors of the Target Company. However, the Company would not exclude the possibility of appointing directors/staff of the Company to the board of directors of the Target Company after completion of the Transactions, as and when appropriate and in the interest of the Company.

The Company all along has interest to further acquire interest in the Target Company, subject to the favourable price, conditions and circumstances and in the interests of the Company. However, as at the Latest Practicable Date, the Company will not acquire further interest in the Target Company.

As at the Latest Practicable Date, the Company will not conduct any continuing connected transaction with the Target Company after Completion I and/or Completion II. However, the Company would not exclude the possibility of conducting continuing connected transaction with the Target Company as and when appropriate and when in the interests of the Company.

(C) Option not to complete the Sale and purchase of the Sale CB-II – Fourth Batch

Vendor A and the Company shall each have the option not complete the sale and purchase of Sale CB-II – Fourth Batch by giving not less than 10 Business Days notice in writing to the other party.

As the said Sale CB-II – Fourth Batch represents approximately 11.11% of the Sale CBs, it is fair and reasonable for the Board to hold the view that the Sale CB-II – Fourth Batch is relatively not substantial to the whole transaction.

As it is uncertain as to whether Vendor A would be able to exercise the call option rights under the Call Option Agreement in full, the option not to complete the sale and purchase of Sale CB-II – Fourth Batch under the S&P Agreement provides Vendor A and the Company a contingent measure and the flexibility to smooth and expedite the transactions contemplated under the S&P Agreement.

Therefore, it is fair and reasonable for the Board to hold the view that the said option is in the interest of the Company and the Shareholders as a whole.

(D) Force Majeure

If at any time prior to 4:00 p.m. on the 3rd Business Day after the Completion Date II – Fourth Batch, any of the following happens, which in the reasonable opinion of the Company acting in good faith, the success of the Transaction I or Transaction II would be materially and adversely affected by:

(i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Company materially and adversely affect the business or the financial or trading position or prospects of the Target Company and its subsidiaries as a whole; or

(ii) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the S&P Agreement, of a political, financial, economic, currency, market or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Company, materially and adversely affect the business or the financial or trading position or prospects of the Target Company and its subsidiaries as a whole; or

(iii) any material and adverse change in the business or in the financial or trading position or prospects of the Target Company and its subsidiaries as a whole; or

(iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the reasonable opinion of the Company materially and adversely affect the business or the financial or trading position or prospects of the Target Company and its subsidiaries as a whole,

then and in any such case, the Company may by notice in writing given to the Vendors on or before 4:00 p.m. on 3rd Business Day after the Completion Date II – Fourth Batch terminate the S&P Agreement and thereupon all obligations of the Company thereunder will cease and determine and no party will have any claim against any other parties in respect of any matter or thing arising out of or in connection with the S&P Agreement.

(E) Termination

The S&P Agreement shall be terminated automatically upon occurrence of the followings:

(i) takeover implication or obligation having been triggered under the Takeovers Code; or

(ii) "reverse takeover" (as defined under the Listing Rules) having been triggered or ruled by the Listing Committee/Division of the Stock Exchange.

In the event that the S&P Agreement is terminated in accordance with the above, all obligations of each of the parties under the S&P Agreement shall cease and determine and no party shall have any claim against any other party in respect of any matter arising out of or in connection with the S&P Agreement except for any antecedent breach of any obligation under the S&P Agreement.

BASES FOR DETERMINING THE CONSIDERATION

(A) Bases for determining Consideration I for Transaction I

Consideration I has been arrived at after arm's length negotiations between the Company and the Vendors and was determined with reference to, amongst others:

(i) the historical financial position and performance of the Target Group;

According to the annual report of the Target Group for the financial year ended 31 March 2013 (the "**2013 Target Company Annual Report**"), despite uncertain global economic environment, the Target Group was able to maintain its turnover and gross profit at about HK$151.1 million and HK$46.7 million respectively, representing a slight decrease of about 4.0% and 1.6% as compared with that of the last corresponding year.

Further, it is the Target Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. According to the 2013 Target Company Annual Report, the Target Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Target Group's fixed deposits of about HK$19.7 million (2012: HK$19.6 million) and corporate guarantees from the Target Company and certain subsidiaries of the Target Company.

(ii) the future prospects of the Target Group; and

According to the 2013 Target Company Annual Report, chronic conditions such as diabetes and hypertension are proliferating rapidly in the PRC given the aging population, accelerating urbanisation coupled with unhealthy diets and sedentary lifestyles in recent years. Promoting the success of the oral insulin project will still be given high priority in the years to come so that the Target Group could capture the enormous market opportunities arising from the growing number of diabetics in the PRC.

(iii) the recent trading price of the Target Company Shares

On the assumption that upon the exercise in full of the conversion rights attaching to Sale CB-I at the initial conversion price of HK$0.6413, a maximum of 500,000,000 Sale CBs Conversion Shares will be allotted and issued. Further, upon completion of the sale and purchase of 450,000,000 Sale Shares and subject to the exercise in full of the said conversion rights, the Company will own an aggregate of 950,000,000 new Target Company Shares at Consideration I, as HK$608,000,000. Accordingly, Consideration I per Target Company Share is HK$0.64, which represents:

a. a discount of approximately 13.51% to the closing price of HK$0.740 per Target Company Share as quoted on the Stock Exchange on the last trading date of signing of the S&P Agreement;

b. a discount of approximately 14.44% to the average closing price of HK$0.748 per Target Company Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the S&P Agreement; and

c. a discount of approximately 12.69% to the average closing price of approximately HK$0.733 per Target Company Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the S&P Agreement.

(B) Bases for determining Consideration II for Transaction II

Consideration II has been arrived at after arm's length negotiations between the Company and Vendor A and was determined with reference to, amongst others:

(i) the historical financial position and performance of the Target Group;

According to the 2013 Target Company Annual Report, despite uncertain global economic environment, the Target Group was able to maintain its turnover and gross profit at about HK$151.1 million and HK$46.7 million respectively, representing a slight decrease of about 4.0% and 1.6% as compared with that of the last corresponding year.

Further, it is the Target Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. According to the 2013 Target Company Annual Report, the Target Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Target Group's fixed deposits of about HK$19.7 million (2012: HK$19.6 million) and corporate guarantees from the Target Company and certain subsidiaries of the Target Company.

(ii) the future prospects of the Target Group; and

According to the 2013 Target Company Annual Report, chronic conditions such as diabetes and hypertension are proliferating rapidly in the PRC given the aging population, accelerating urbanisation coupled with unhealthy diets and sedentary lifestyles in recent years. Promoting the success of the oral insulin project will still be given high priority in the years to come so that the Target Group could capture the enormous market opportunities arising from the growing number of diabetics in the PRC.

(iii) the recent trading price of the Target Company Shares

On the assumption that exercise in full of the conversion rights attaching to Sale CB-II at the initial conversion price of HK$0.6413, a maximum of 400,000,000 Sale CBs Conversion Shares will be allotted and issued. Further, subject to the exercise in full of the said conversion rights, the Company will own an aggregate of 400,000,000 new Target Company Shares at Consideration II, as HK$256,000,000. Accordingly, Consideration II per Target Company Share is HK$0.64, which represents:

a. a discount of approximately 13.51% to the closing price of HK$0.740 per Target Company Share as quoted on the Stock Exchange on the last trading date of signing of the S&P Agreement;

b. a discount of approximately 14.44% to the average closing price of HK$0.748 per Target Company Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the S&P Agreement; and

c. a discount of approximately 12.69% to the average closing price of approximately HK$0.733 per Target Company Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the S&P Agreement.

The Board has considered other settlement alternatives namely, bank borrowings, placing, rights issue or open offer.

However, the Company has difficulty to obtain favorable terms on bank borrowings due to recent temporarily unsatisfactory business and financial performances and more time and higher cost to be incurred for a placing, rights issue or open offer. The Company would not exclude the possibility of conducting fund raising activities, including but not limited to a placing, rights issue or open offer, as and when appropriate and when in the interests of the Company.

Moreover, in consideration of the nil interest burden incurred from the Convertible Bonds and the relatively long maturity of 10 years of the Convertible Bonds and no immediate dilution effect from the issue of the Convertible Bonds, it is fair and reasonable for the Board to hold the view that issue of the Convertible Bonds represent a fair and reasonable settlement arrangement.

It is fair and reasonable for the Board to hold the view that the entering into the S&P Agreement and the transactions contemplated thereunder (including the basis for determining Consideration I and Consideration II) is on normal commercial terms and ordinary and usual course of business of the Company, and the terms of S&P Agreement and the transactions contemplated thereunder (including the basis for determining Consideration I and Consideration II) are determined on an arm's length basis, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of Convertible Bonds are summarised below:

Principal amount	:	An aggregate principal amount of up to HK$744,000,000
Maturity date	:	Tenth anniversary of the date of issue ("**Maturity Date**")
Interest	:	Nil
Conversion Price	:	The Conversion Price is HK$0.40 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds.

The Conversion Price of HK$0.40 represents:

(i) a discount of approximately 8.05% to the closing price of HK$0.435 per Share as quoted on the Stock Exchange on the last trading date of signing of the S&P Agreement;

(ii) a discount of approximately 8.05% to the average closing price of HK$0.435 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the S&P Agreement;

(iii) a discount of approximately 9.30% to the average closing price of approximately HK$0.441 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the S&P Agreement;

(iv) a discount of approximately 17.36% to the net asset price of approximately HK$0.484 per Share, calculated based on the unaudited consolidated net asset of approximately HK$382,643,000 as at 31 December 2012 and 790,693,024 Shares in issue as at the date of S&P Agreement; and

(v) a discount of approximately 52.94% to the closing price of HK$0.85 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

The Conversion Price for the Convertible Bonds was determined after arm's length negotiations between the Company and the Vendors, with reference to the recent performance of the Shares, the Group's existing financial position and current market conditions.

Adjustment events : The Conversion Price shall from time to time be adjusted upon occurrences of certain events, including but not limited to the followings:

(i) consolidation or sub-division of Shares;

(ii) capitalisation of profits;

(iii) capital distribution;

(iv) issue of Shares by way of rights, options and warrants;

(v) issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares;

(vi) modification of rights of conversion or exchange or subscription attaching to any such securities;

(vii) issue of Shares wholly for cash at more than 20% discount to the market price of such Shares; and

(viii) issue of Shares for acquisition of asset at more than 20% discount to the market price of such Shares.

Conversion Shares : (a) Based on the initial Conversion Price of HK$0.40, a maximum number of 1,220,000,000 Conversion Shares I will be allotted and issued upon exercise in full of the conversion rights attaching to Convertible Bonds I, which represent:

(i) approximately 154.30% of the total issued share capital of the Company as at the date of the Announcement;

(ii) approximately 53.03% of the total issued share capital of the Company as enlarged by the allotment and issue of Conversion Shares I upon exercise in full of the conversion rights attaching to Convertible Bonds I;

(iii) approximately 41.49% of the total issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to the Convertible Bonds; and

(iv) approximately 112.89% of the total issued share capital of the Company as at the Latest Practicable Date.

(b) Based on the initial Conversion Price of HK$0.40, a maximum number of 640,000,000 Conversion Shares II will be allotted and issued upon exercise in full of the conversion rights attaching to Convertible Bonds II, which represent:

(i) approximately 80.94% of the total issued share capital of the Company as at the date of the Announcement;

(ii) approximately 37.19% of the total issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares II upon exercise in full of the conversion rights attaching to Convertible Bonds II;

(iii) approximately 21.76% of the total issued share capital of the Company as enlarged by the allotment and issue of Conversion Shares upon exercise in full of the conversion rights attaching to the Convertible Bonds; and

(iv) approximately 59.22% of the total issued share capital of the Company as at the Latest Practicable Date.

The Conversion Shares shall be allotted and issued under the Specific Mandate to be granted to the Directors by the Independent Shareholders at the SGM.

Conversion rights : Each holder of the Convertible Bonds shall have the right, exercisable during the Conversion Period (as defined below) to convert the whole or any part (in multiples of HK$400,000) of the outstanding principal amount of the Convertible Bonds held by such holder of the Convertible Bonds into such number of Conversion Shares as will be determined by dividing the principal amount of the Convertible Bonds to be converted by the Conversion Price in effect on the date of conversion.

No fraction of a Share shall be issued on conversion of the Convertible Bonds and no cash adjustments will be made.

Conversion Restrictions : Upon exercise of the conversion rights attaching to the Convertible Bonds,

(i) the holders of the Convertible Bonds and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code; and

(ii) the public float of the Company will not be unable to meet the relevant requirements under the Listing Rules.

Conversion Period :	The period commencing from the date of issue of the Convertible Bonds and ending on the day which falls on the Tenth anniversary of the date of issue of the Convertible Bonds.
Early Redemption :	The Company shall not be entitled to redeem all or part of the outstanding Convertible Bonds prior to the Maturity Date. Further, according to the instrument constituting the Convertible Bonds, the holders of the Convertible Bonds do not have the right to early redemption of all or part of the outstanding Convertible Bonds prior to the Maturity Date.
Ranking :	The Conversion Shares shall rank *pari passu* in all respects among themselves and with all other existing Shares outstanding at the date of conversion and all Conversion Shares shall include rights to participate in all dividends and other distributions.
Transferability :	Any transfer of the Convertible Bonds shall be in respect of the whole or any part (in multiples of HK$400,000) of the principal amount of the Convertible Bonds. Further, according to the instrument constituting the Convertible Bonds, the Convertible Bonds must not be transferred to any person, firm or company which is a connected person (as defined in the Listing Rules) of the Company except in compliance with the applicable requirements under the Listing Rules and the Takeovers Code.
Application for listing :	No application will be made by the Company to the Stock Exchange for listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.
Notice of conversion by other bondholders :	The Company may, upon request by the holders of the Convertible Bonds in writing, notify the holders of the Convertible Bonds about the conversion of the convertible bonds of the Company by other bondholders within 7 Business Days from the date of receipt of the relevant conversion notice.

INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in the distribution of gene testing services and bio-industrial products and the provision of health care management services.

INFORMATION ON VENDOR A

Dr. Mao Yumin, as Vendor A, is the chief scientific adviser and honorary chairman of the Company and an executive director of the Target Company.

As at the Latest Practicable Date, Vendor A and together with his associates are beneficially interested in 394,771,350 Shares, representing approximately 36.53% of the total issued share capital of the Company and therefore a connected person of the Company.

As at the Latest Practicable Date, Vendor A and together with his associates are beneficially interested in approximately 20.11% of the total issued share capital of the Target Company. Further Vendor A holds the convertible bonds of the Target Company in the principal amount of approximately HK$320,650,000.

INFORMATION ON VENDOR B

JNJ Investments Limited, as Vendor B, is a company incorporated in the BVI with limited liability and principally engaged in investment holding.

As at the Last Practicable Date, Vendor B legally and beneficially holds 450,000,000 Target Company Shares, representing approximately 18.83% of the total issued capital of the Target Company.

According to the information provided by the Vendors, a conditional sale and purchase agreement dated 8 June 2001 was entered into between John Master (Hong Kong) Limited ("**JMHK**") and BioWindow Gene Development (Hong Kong) Limited ("**HK BioWindow**"), a company beneficially owned partly by Vendor A at the relevant time, pursuant to which JMHK agreed to sell the entire shares in Vendor B to HK BioWindow.

After completion of the said conditional sales and purchase agreement, HK BioWindow owned the entire issued share capital of Vendor B, which in turn beneficially owned 500,000,000 shares of the Target Company and the relevant assets.

As the said consideration was paid as a lump sum for the said shares with other assets as a whole, therefore it is not feasible nor practicable to ascertain the original acquisition cost of the Sales Shares from the total consideration.

Accordingly, Vendor B represents that it is fair and reasonable to hold the view that on the basis of HK$0.57 per share, being the indicative closing price of the said shares as on 8 June 2001, the indicative original acquisition cost of 450,000,000 Sales Shares is fair and reasonable to be deemed as HK$256,500,000.

Vendor B is ultimately and beneficially owned as to 33.33% by Vendor A. Accordingly Vendor B is a connected person of the Company by virtue of its beneficial owner being Vendor A.

INFORMATION ON THE TARGET COMPANY

Extrawell Pharmaceutical Holdings Limited, a company whose shares are listed on the main board of the Stock Exchange (stock code: 00858), is an investment holding company and its subsidiaries are principally engaged in marketing and distribution of pharmaceutical products in the PRC; development, manufacturing and Sale of pharmaceutical products in the PRC; commercial exploitation and development of genome-related technology; and development and commercialisation of oral insulin products.

Financial information of the Target Company

According to the 2013 Target Company Annual Report as published on 18 July 2013, the Target Group recorded audited net assets of approximately HK$583,292,000 as at 31 March 2013.

The table below sets out the profits before and after taxation and extraordinary items of the Target Group for the two years ended 31 March 2012 and 31 March 2013:

	For the year ended 31 March	
	2012	**2013**
	HK$'000	*HK$'000*
Net profit before taxation and extraordinary items	16,863	8,886
Net profit after taxation and extraordinary items	15,937	8,180

Note: The financial information is extracted from the audited annual reports of the Target Company for the two years ended 31 March 2012 and 2013 prepared in accordance with the Hong Kong Financial Reporting Standards.

INFORMATION ON THE SALE CBS

(a) The Acquisition Agreement

Reference is made to the announcements of the Target Company dated 1 August 2007, 23 February 2013, 27 February 2013 and 16 July 2013, and circular of the Target Company dated 22 August 2007 and 18 June 2013 in relation to the acquisition of 49% interest in the share capital of Smart Ascent.

Extrawell BVI entered into the Acquisition Agreement on 27 July 2007 (as supplemented and amended by the supplemental agreement dated 23 February 2013) with Mr. Ong for the acquisition of 49% interest in the share capital of Smart Ascent at the aggregate consideration of HK$660,000,000.

The said consideration of HK$660,000,000 is to be satisfied in the following manner:

(i) as to HK$641,300,000, by the Target Company issuing the convertible bonds of the Target Company in the following manner:

 (a) as to the principal amount of HK$320,650,000, to the Mr. Ong; and

 (b) as to the principal amount of HK$320,650,000, to Vendor A (at the direction of Mr. Ong, or in such other allottees or denominations of the convertible bonds as Mr. Ong may direct by giving a notice in writing to Extrawell BVI at least 10 business days prior to the relevant completion date); and

(ii) as to the balance of the said consideration for the amount of HK$18,700,000, to be paid in cash in the following manner:

 (a) as to HK$9,350,000 to the Mr. Ong; and

 (b) as to HK$9,350,000 to Vendor A (at the direction of the Mr. Ong or to such other payee(s) as Mr. Ong may direct by giving a notice in writing to Extrawell BVI at least 10 business days prior to the relevant completion date).

Upon completion of the Acquisition Agreement, that took place on 16 July 2013, Vendor A has become the beneficial and legal owner of the convertible bonds issued by the Target Company in an aggregate principle amount of HK$320,650,000.

Reference is also made to the 2013 Target Company Circular in relation to, among others, the supplemental agreement concerning the acquisition of minority interest in Smart Ascent.

The information on the cost of the said convertible bonds, as extracted from the 2013 Target Company Circular, is as follows:

"Reference is also made to the announcement of the Company dated 7 September 2011 regarding the Principal Sub-sale Agreement dated 6 September 2011 entered into between the Vendor and Dr. Mao in relation to the acquisition of the 24.5% interest in the share capital of Smart Ascent from the Vendor if the acquisition was not proceeded with by the Group, or 150,000,000 Consideration Shares to be allotted and issued to the Vendor upon completion of the Principal Acquisition Agreement, if the Group chose to proceed with and complete the acquisition in accordance with the terms of the Principal Acquisition Agreement, at an initial consideration of HK$155,000,000. As confirmed by Dr. Mao, under the Sub-sale Agreement, such consideration was subject to downward adjustments based on the progress of the clinical trial of the Medicine. As the phase III clinical trial of the Medicine had not been completed and the report thereof had not been submitted to the SFDA for approval within seven months after the date of the Principal Sub-sale Agreement, and Fosse Bio had not obtained the certificate of new medicine issued by the SFDA within 12 months after the date of the Principal Sub-sale Agreement, the consideration had been adjusted to HK$20,000,000, which had been fully paid by Dr. Mao in accordance with the terms of the Principal Sub-sale Agreement."

(b) The Call Option Agreement

Reference is made to the voluntary announcement of the Target Company dated 1 March 2013 in relation to the Call Option Agreement entered into between Mr. Ong and Vendor A, pursuant to which Mr. Ong has granted a call option to Vendor A pursuant to which Vendor A shall have the right, within 12 months after the date of receipt by Mr. Ong of his interests in the convertible bonds issued by the Target Company, to acquire from Mr. Ong the said convertible bonds up to the principal amount of HK$256,520,000 held by Mr. Ong at an aggregate exercise price of HK$272,000,000 (or a pro rata amount thereof if the said call option is partially exercised).

Under the Call Option Agreement, Vendor A shall pay to Mr. Ong a premium as an aggregate amount of RMB14,900,000, payable as to RMB8,000,000 as deposit within three business days after the signing of the Call Option Agreement, and the balance of RMB6,900,000 within three business days upon notice by Mr. Ong of his receipt of his interests in the said convertible bonds.

Subject to and upon exercise of the Call Option Agreement, it is expected that Vendor A will become the beneficial and legal owner of the said convertible bonds in an aggregate principle amount of up to HK$256,520,000.

(c) Principal terms of the Sale CBs

The principal terms of the Sale CBs are summarized as follows:

Form and denomination	:	The Sale CBs shall be issued and in registered form and in denomination of HK$32,065,000 each
Interest	:	Nil
Maturity	:	Twentieth anniversary of the issue date (the "**Sale CBs Maturity Date**")
Conversion	:	A bondholder of the Sale CBs shall have the right at any time and from time to time during the period commencing from the date of issue of the Sale CBs up to 4:00 p.m. (Hong Kong time) on the seventh business day prior to the Sale CBs Maturity Date to convert the whole or part of the principal amount of the Sale CBs in amounts of not less than a whole multiple of HK$32,065,000 on such conversion, save that if at any time the outstanding principal amount of the Sale CBs held by a bondholder of the Sale CBs is less than HK$32,065,000 or if a bondholder of the Sale CBs intends to exercise the conversion rights attached to the entire principal amount of all the Sale CBs held by him, the bondholder of the Sale CBs may convert the whole (but not part only) of such outstanding principal amount of the Sale CBs; provided that the conversion right attached to the Sale CBs may not be exercised to the extent that following such exercise, (a) the Target Company will be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules; or (b) a bondholder of the Sale CBs and its parties acting in concert, taken together, will directly or indirectly control or be interested in 30% or more of the entire issued Target Company Shares (or such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer).

Sale CBs Conversion price	:	The Sale CBs Conversion Price per Sale CBs Conversion Shares shall initially be HK$0.6413, subject to adjustment. Events triggering adjustment of the Sale CBs Conversion Price are summarised below: (i) alteration of the nominal amount of the Target Company Shares by reason of any consolidation, sub-division or reclassification; (ii) issue (other than in lieu of a cash dividend) by the Target Company of any Target Company Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or, if any, capital redemption reserve fund); (iii) capital distribution made by the Target Company to bondholders of the Sale CBs (in their capacity as such) of Target Company Shares (whether on a reduction of capital or otherwise), or grant by the Target Company to bondholders of the Sale CBs of rights to acquire for cash assets of the Target Company or any of its subsidiaries; and (iv) offer by the Target Company to holders of the Target Company Shares new Target Company Shares for subscription by way of rights, or grant by the Company to holders of the Target Company Shares any options, warrants or other rights to subscribe for or purchase any Target Company Shares.
Ranking	:	The Sale CBs Conversion Shares will in all respects rank *pari passu* with the Target Company Shares in issue on the relevant conversion date as if the Target Company Shares issued on conversion or subscription had been issued on such date.

Status	:	The Sale CBs constitute direct, unconditional, unsubordinated and unsecured obligations of the Target Company and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Target Company under the Sale CBs shall, save for such exceptions as may be provided by mandatory provisions of applicable law, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
Transferability	:	The Sale CBs shall be transferable to any person provided that where the Sale CBs are intended to be transferable to a connected person (as defined in the Listing Rules) of the Target Company (other than the associates of the bondholder of the Sale CBs) such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any) and shall be subject to approval by the directors of the Target Company.
Application for Listing	:	No application has been or will be made for the listing of the Sale CBs on the Stock Exchange or any other stock exchange. Application will be made by the Target Company to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Sale CBs Conversion Shares on the main board of the Stock Exchange.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

According to the voluntary announcement of the Company dated 15 April 2013, the Company commenced negotiation from 12 April 2013 (after trading hours) with Vendor A on a possible acquisition of Vendor A's investments in oral insulin related business, including but not limited to the securities of the Target Company.

Reference is made to the circular of the Company dated 26 April 2013 (the "**Convertible Bonds Circular**") concerning the placing of convertible bonds in the principal amount up to HK$74,000,000 and the subscription of convertible bonds in the principal amount of HK$59,000,000. As indicated in the Convertible Bonds Circular, since 2010, the Company has been in the process of considering and assessing a number of investment opportunities concerning businesses relating to health care, pharmaceutical and biotechnology, including but not limited to oral insulin.

As both the Company and the Target Company are principally engaged in businesses relating to the health care, pharmaceutical and biotechnology industries, it is fair and reasonable for the Board to hold the view that the business of the Target Company is in line with the business of the Company.

According to 2013 Target Company Annual Report, despite uncertain global economic environment, the PRC pharmaceutical industry continued to grow by riding on the extensive healthcare reforms under the Twelfth Five-Year Plan (2011-2015) which include further strengthening the delivery of medical care and the public health infrastructure, providing accessible health insurance, and ensuring a sound system for drug supply and security. The Twelfth Five-Year Plan reflects the central government's continued commitment in healthcare reform, focusing healthcare as a social priority and providing more support for technology innovation in the pharmaceutical industry.

According to the voluntary announcement of the Target Company dated 25 February 2013, in accordance with the Phase III clinical trial protocol (the "**Protocol**") filed with the State Food and Drug Administration ("**SFDA**") of the PRC, the Target Group has recently completed part A of the Protocol relating to the multi-centered, randomized, double-blinded and placebo-controlled clinical trial of its oral insulin enteric-coated soft capsules (the "**Medicine**") on treatment of Type 2 diabetes. With reference to the benchmark indicators, in particular, on the effect of reducing blood glucose level in diabetics through absorption of the Medicine into blood circulation of human body, the statistical outcome of the per-protocol set (PPS) analysis shows that the bio-efficacy of the Medicine in the treatment group (where patients were given the Medicine) was significantly superior to that of the control group (where patients were given placebo).

The Protocol designed by recognized clinical trial bases and led by the Peking University People's Hospital in the PRC consists of two parts. As part A of the Protocol has already been completed with satisfactory results, in order to further validate the efficacy of the use of the Medicine in more diabetic testees, the Group is working with the project team and clinical experts of the Peking University People's Hospital in the PRC to conduct part B of the clinical trial on the Medicine contemplated in the Protocol, among others, in larger scale of participating cases. It is expected that such extended clinical trial will commence in due course.

Although the oral insulin business of the Target Company has not yet been launched, the Board holds the view that the acquisition of interest in the Target Company, an active market player in the pharmaceutical industry in the PRC, would enable the Company to expand the Company's portfolio and business scope in the health care, pharmaceutical and biotechnology businesses as the Target Group is also principally engaged in various businesses, including (i) the marketing and distribution of pharmaceutical products; (ii) development, manufacture and sale of pharmaceutical products; and (iii) commercial exploitation and development of genome-related technology. The said acquisition would also enable the Company to grasp the business opportunities arising from the healthcare reforms in the PRC.

The Board holds the view that the following synergy effects will be achieved through the linking of similar businesses of the Group and the Target Company, including not limited to:-

(i) the sharing of the biomedical and pharmaceutical technology knowhow for development of new products; and

(ii) further improvements in the presence and perceived image of the Group in the PRC pharmaceutical industry as the Target Group is one of the active market players in the pharmaceutical industry in the PRC with well-established distribution channels.

The Board further holds the view that the remaining business of the Target Company (such as manufacturing, distribution and trading of pharmaceutical products) would provide the Company the following benefits, including but not limited to:-

(i) strengthen the Company's marketing and distribution networks as the Target Group has a well-established distribution channel; and

(ii) provide potential cooperation opportunities between the Group and the Target Group for using the manufacturing facilities of the Target Group for new products.

The Board holds the view that there will be substantial demand for the Medicine and accordingly, the Transactions will, in due course, generate strong returns to the Company for the benefit of all the Shareholders.

The Board formed the said view based upon: (i) newly published medical studies that have changed our understanding of a) the drivers of diabetes growth; b) trends related to future diabetes treatment and detection demand; and c) alternative routes for insulin applications; (ii) new market research reports related to diabetes demand and treatments; and (iii) authoritative and reputable sources such as the International Diabetes Federation and Novo Nordisk.

Newly published studies reviewed include, but are not limited to: Economic Costs of Diabetes in the U.S. in 2012, Insulin adherence behaviours and barriers in the multinational Global Attitudes of Patients and Physicians in Insulin Therapy Study (May 2012), The Future of Insulin Therapy: A Review (April 2011).

Based on the publicly available information accessible to the Board and listed above, the Board noted that (i) growth in the number of diabetics in China, and internationally, is expected to be strong; (ii) diabetes medicine (OAD and injectable insulin) demand in the future would grow alongside with the growth in diabetics; (iii) non-injectable insulin research (including: a) technical knowledge to create oral insulin; b) potential impact upon the human body; and c) possible demand for oral insulin) continues to progress; (iv) researchers, doctors and authoritative organizations believe that oral insulin is likely to dominate existing medicinal treatments (which consist of injectable GLP-1, OAD and injectable insulin) as: a) doctors would replace OAD recommendations with oral insulin because oral insulin confers significant health benefits compared to OAD (for example, would preserve patients' pancreas better than OAD and extend the time between which a person changes from Type 2 diabetes to Type 1) while having the same delivery method; and b) patients would prefer to take oral insulin over injectable treatments (insulin and GLP-1) due to administration convenience, daily storage convenience, no pain from needles, elimination of needle phobia; and (v) a new market of patients may be created from pre-diabetics and mild type-2 diabetics that currently do not want to take OAD (due to side effects) or injectable insulin (due to needle phobia or inconvenience, as mentioned previously).

According to the 2013 Target Company Circular, should the Medicine both successfully 1) pass part B of Phase III clinical trial; and 2) obtain relevant approvals and permits for medicinal commercialization, it is expected that production and commercialisation of the Medicine may begin at the end of 2015.

On the assumption that the Medicine is successfully launched and commercialized, it is fair and reasonable for the Board to hold the view that it would bring positive impact to the Group's financial performance and ultimately increase the share price of the Target Company Share and the value of the Sale CBs.

The acquisition of the Sale CBs also provides the Company with the flexibility to increase or maintain its equity interest in the Target Company, as and when appropriate, so as to create value to its Shareholders.

Further, the Sale CBs with a long maturity of 20 years would indicate a high potential for greater fluctuation and volatility as compared to a convertible bonds with shorter maturity. According to the relevant preliminary valuation model, it is fair and reasonable to infer that a higher volatility, while keeping other factors constant, would infer and implicate a higher option value of the Sale CBs. By referring to the relevant formula and theory, it is commonly recognized that the value of the convertible bonds would be affected materially and significantly by factor as volatility, with the other factors, such as exercise price, stock price and maturity, have been fixed at the beginning.

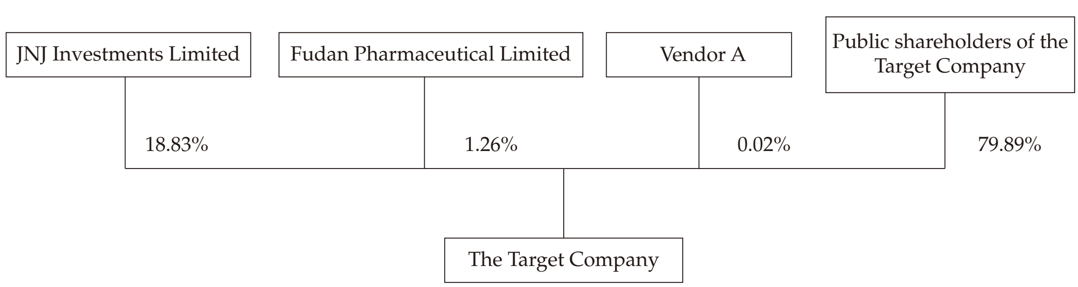
It is fair and reasonable for the Board to hold the view that it is commonly expected that the expected profit of the medicine would take a long period of time to reach its maximum value (due to economies of scale), and as the said profit would be fully reflected in the share price of the Target Company, the term of 20 years would provide the Company with the best opportunity, sufficient time and flexibility to exercise the Sales CBs at the appropriate time for maximizing the gain.

Therefore, it is fair and reasonable for the Board to hold the view that the acquisition of the Sale CBs is in the interest of the Company and the Shareholders as a whole.

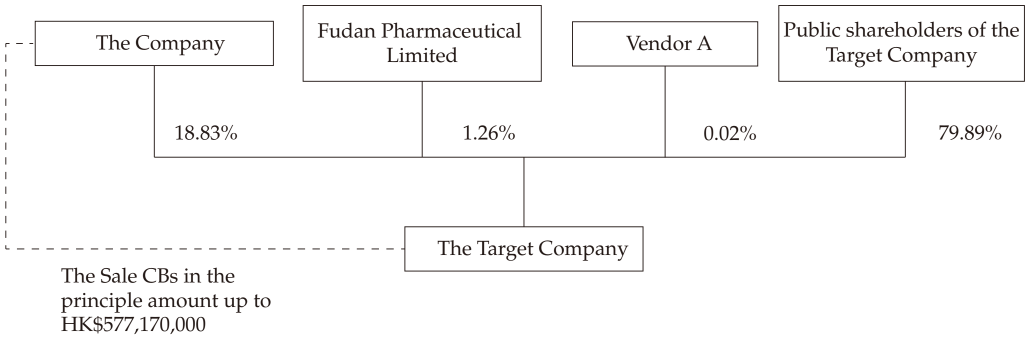
Therefore, it is fair and reasonable for the Board to hold the view that the entering into the S&P Agreement is on normal commercial terms and ordinary and usual course of business of the Company, and the terms and conditions of the S&P Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CHANGE IN SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

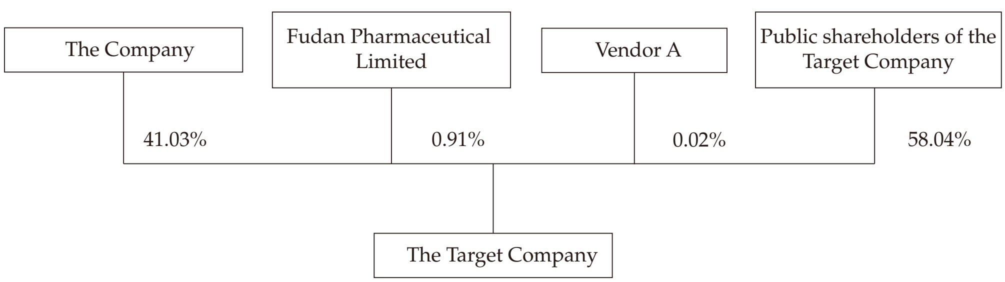
(a) Shareholding structure of the Target Company before Completion I and Completion II as at the Latest Practicable Date



(b) Shareholding structure of the Target Company after Completion I and Completion II, for illustration purpose:



(c) Shareholding structure of the Target Company after Completion I and Completion II (assuming exercise in full of the conversion rights attaching to the Sale CBs at the initial conversion price of HK$0.6413), for illustration purpose:



EFFECTS OF THE TRANSACTIONS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion I but before Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds I at the Conversion Price of HK$0.40 per Conversion Share); (iii) immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds II at the Conversion Price of HK$0.40 per Conversion Share, but no exercise of Convertible Bonds I); (iv) immediately after Completion I and Completion II (assuming the exercise of the conversion rights attaching to the Convertible Bonds at the Conversion Price at HK$0.40 per Conversion Share, but the option not to complete the sale and purchase of the Sale CB-II – Fourth Batch has been exercised); (v) immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to the Convertible Bonds at the Conversion Price of HK$0.40 per Conversion Share); and (vi) immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to all the convertible bonds of the Company), for illustration purposes only:

	As at the Latest Practicable Date		Immediately after Completion I but before Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds I at the Conversion Price of HK$0.40 per Conversion Share) (Note 5)		Immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds II at the Conversion Price of HK$0.40 per Conversion Share, but no exercise of Convertible Bonds I) (Note 5)		Immediately after Completion I and Completion II (assuming the exercise of the conversion rights attaching to the Convertible Bonds at the Conversion Price of HK$0.40 per Conversion Share, but the option not to complete the sale and purchase of the Sale CB-II Fourth Batch has been exercised) (Note 5)		Immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to the Convertible Bonds at the Conversion Price of HK$0.40 per Conversion Share) (Note 5)		Immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to all the convertible bonds of the Company) (Note 5)	
	No. of Shares	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*
Substantial shareholder												
United Gene Holdings Limited *(Note 1)*	108,500,000	10.04%	108,500,000	4.72%	108,500,000	6.30%	108,500,000	3.90%	108,500,000	3.69%	151,000,000	5.06%
Best Champion Holdings Limited *(Note 2)*	61,650,000	5.70%	61,650,000	2.68%	61,650,000	3.58%	61,650,000	2.22%	61,650,000	2.10%	61,650,000	2.07%
China United Gene Investment Holdings Limited *(Note 3)*	190,851,350	17.66%	190,851,350	8.29%	190,851,350	11.09%	190,851,350	6.86%	190,851,350	6.49%	190,851,350	6.40%
Vendor A	33,770,000	3.13%	533,770,000	23.20%	673,770,000	39.16%	1,013,770,000	36.46%	1,173,770,000	39.92%	1,173,770,000	39.35%
Vendor B	–	–	720,000,000	31.29%	–	–	720,000,000	25.89%	720,000,000	24.48%	720,000,000	24.13%
Sub -total	394,771,350	36.53%	1,614,771,350	70.18%	1,034,771,350	60.13%	2,094,771,350	75.33%	2,254,771,350	76.68%	2,297,271,350	77.01%
Director's interests												
Xiao Yan *(Note 4)*	115,000	0.0106%	115,000	0.0050%	115,000	0.0067%	115,000	0.0041%	115,000	0.0039%	115,000	0.0039%
Public Shareholders												
Other Shareholders	685,806,674	63.46%	685,806,674	29.81%	685,806,674	39.86%	685,806,674	24.66%	685,806,674	23.32%	685,806,674	22.99%
Total	1,080,693,024	100.00%	2,300,693,024	100.00%	1,720,693,024	100.00%	2,780,693,024	100.00%	2,940,693,024	100.00%	2,983,193,024	100.00%

Notes:

1. United Gene Holdings Limited is wholly and beneficially owned by Vendor A.

2. Best Champion Holdings Limited, the controlling shareholder of the Company, is owned as to 33.50% by United Gene Holdings Limited.

3. China United Gene Investment Holdings Limited is a non wholly owned subsidiary of Best Champion Holdings Limited which is owned as to 33.50% by United Gene Holdings Limited.

4. Ms. Xiao Yan is a non-executive Director.

5. **Upon exercise of the conversion rights attaching to the Convertible Bonds, the holders of Convertible Bonds and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, shall not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code; and the public float of the Company shall not be unable to meet the relevant requirements under the Listing Rules.**

As illustrated above, Vendor A and together with his associates will remain as the largest Shareholders, it is fair and reasonable to hold the view that there will not be a change in control of the Company as a result of the Transactions.

BACKGROUND INFORMATION ON ACQUISITION OF SMART ASCENT BY EXTRAWELL BVI (THE ORAL INSULIN PROJECT)

Set out below is the summary of background information on acquisition of Smart Ascent by Extrawell BVI, as abstracted from 2004 Target Company Circular, 2007 Target Company Circular, 2009 Target Company Circular and 2013 Target Company Circular for illustration purposes only:-

A. 2004 Target Company Circular

The following information is extracted from the 2004 Target Company Circular:-

(i) Background information

On 3 March 2004, Extrawell BVI, entered into the 2004 Smart Ascent Acquisition Agreement with Ms. Wu Kiet Ming ("**Ms. Wu**") and Mr. Ong, pursuant to which Extrawell BVI agreed to acquire and Ms. Wu and Mr. Ong agreed to dispose an aggregate of 5,100 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent for a total consideration of HK$73 million in cash.

Basic Terms:

The basic terms of the 2004 Smart Ascent Acquisition Agreement are as follows:

Date	:	3 March 2004
Purchaser	:	Extrawell BVI
Vendors	:	(i) Ms. Wu; and (ii) Mr. Ong
Assets to be acquired	:	An aggregate of 5,100 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent, representing 51% of the then issued share capital of Smart Ascent
Consideration	:	HK$73 million payable in cash

According to the 2009 Target Company Circular, completion of the 2004 Smart Ascent Acquisition took place on 17 August 2004.

(ii) Information of Smart Ascent

(a) Basic company information

Smart Ascent is a company incorporated in Hong Kong with limited liability and the entire issued share capital of which was held by Ms. Wu and Mr. Ong as on 22 March 2004, being the latest practicable date prior to the printing of the 2004 Target Company Circular for the purpose of ascertaining certain information for inclusion in the said circular.

(b) Financial information of Smart Ascent

Based on Smart Ascent's unaudited management accounts prepared on an unconsolidated basis, the unaudited net loss of Smart Ascent for the period from 1 December 2000, its incorporation date, to 31 January 2004 amounted to approximately HK$19,870 and it had an unaudited net liability of approximately HK$9,870 as at 31 January 2004.

(iii) Information of Fosse Bio

(a) Basic Company information

Fosse Bio-Engineering Development Ltd ("**Fosse Bio**") is a company incorporated in Hong Kong with limited liability and the entire issued share capital of which was owned as to 51% by Smart Ascent.

(b) Financial information of Fosse Bio

Based on Fosse Bio's unaudited management accounts prepared on an unconsolidated basis, the unaudited net loss of Fosse Bio for the period from 28 September 1998, its incorporation date, to 31 January 2004 amounted to approximately HK$391,248 and it had an unaudited net liability of approximately HK$291,248 as at 31 January 2004.

(iv) Valuation report

(a) Appraisal Value

According to the valuation report dated 1 March 2004 prepared by Castores Magi Asia Limited ("**Castores Magi**"), an independent professional valuer appointed by the Target Group, relating to the valuation of Fosse Bio, the appraisal value amounted to about HK$279.8 million as at 31 January 2004.

(b) Valuation methodology

According to Castores Magi, the said valuation report was prepared using discounted cash flow method.

For more details and information, please refer to the 2004 Target Company Circular.

B. 2007 Target Company Circular

The following information is extracted from the 2007 Target Company Circular:-

(i) Background information

On 27 July 2007, Extrawell BVI and Mr. Ong entered into the 2007 Smart Ascent Acquisition Agreement, pursuant to which Extrawell BVI agreed to acquire and Mr. Ong agreed to dispose an aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent for a total consideration of HK$768.9 million.

Basic Terms:

The basic terms of the 2007 Smart Ascent Acquisition Agreement are as follows:

Date	:	27 July 2007
Purchaser	:	Extrawell BVI
Vendor	:	Mr. Ong
Assets to be acquired	:	An aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent, representing 49% of the issued share capital of Smart Ascent
Consideration	:	The consideration of HK$768.9 million shall be payable by the Target Group allotting and issuing, credited as fully paid, the shares of the Target Company at the issue price of HK$2.563 per share of the Target Company in the following manner:-

(i) 273 million shares of the Target Company to be allotted and issued, credited as fully paid, to Mr. Ong on the relevant date of completion in part payment of the said consideration; and

(ii) 27 million shares of the Target Company to be allotted and issued, credited as fully paid, to Mr. Ong on the relevant final allotment date.

(ii) Information of Smart Ascent

(a) Basic company information

Smart Ascent was beneficially owned as to 51% by Extrawell BVI and 49% by the Mr. Ong as at the 20 August 2007, being the latest practicable date prior to the printing of the 2007 Target Company Circular for ascertaining certain information contained therein.

Smart Ascent is principally engaged in investment holding and is the holding company for the Target Group's oral insulin operations. The material assets of which were its interests in Fosse Bio and Welly Surplus Development Limited ("**Welly Surplus**"), a company incorporated in Hong Kong with limited liability, both being 51% non wholly-owned subsidiaries of Smart Ascent.

(b) Financial information of Smart Ascent

Based on the unaudited consolidated management accounts of Smart Ascent which had been prepared in accordance with the Hong Kong Financial Reporting Standards, the consolidated net asset value of Smart Ascent was approximately HK$77,197,000 as at 31 March 2007. For the year ended 31 March 2006, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK$258,300 and HK$258,300 respectively, while for the year ended 31 March 2007, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK$215,500 and HK$215,500 respectively.

(iii) Valuation report

(a) Appraisal Value

According to the valuation report dated 22 August 2007 prepared by Castores Magi, the appraised market value of 100% equity interest of Smart Ascent and its subsidiaries ("**Smart Ascent Group**") amounted to approximately HK$2,188,951,000 as at 30 June 2007.

(b) Valuation methodology

In choosing the income approach as the most appropriate method, Castores Magi used the discounted cash flow method, which estimates the market value of the equity of the Smart Ascent Group by discounting the future cash flows to its present value.

(c) Basis of valuation and assumptions

The factors considered in the appraisal by Castores Magi including, but were not limited to, the following factors:-

(1) the company history of the Smart Ascent Group;

(2) the economic and industry outlooks affecting the Smart Ascent Group's business;

(3) the past and projected future results of the Smart Ascent Group;

(4) the market-derived investment returns of entities in similar line of business; and

(5) the risks facing by the Smart Ascent Group.

In view of the ever-changing business environment in which the Smart Ascent Group was operating, Castores Magi had made a number of assumptions in the course of its appraisal, which were set out as follows:

(1) the Smart Ascent Group will operate its business on continuous basis;

(2) Fosse Bio will have no obstacle to obtain production approval of oral insulin from the SFDA;

(3) the financial forecasts of the Smart Ascent Group are achievable;

(4) there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which the Smart Ascent Group currently runs or intends to run its business which will materially affect its operation;

(5) there will be no substantial market fluctuation in the industry in the jurisdictions or states in which the Smart Ascent Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;

(6) there will be no substantial fluctuation in current interest rates and foreign currency exchange rates in the jurisdictions or states in which the Smart Ascent Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;

(7) the management of the Smart Ascent Group will not make any decision, which is harmful to the revenue generation ability of the Smart Ascent Group's business; and

(8) the Smart Ascent Group will allocate sufficient resources to keep abreast of its future expansion.

(iv) Opinion from the independent financial adviser

Hantec Capital Limited, as the independent financial adviser, was of the view that the 2007 Smart Ascent Acquisition, the 2007 Smart Ascent Acquisition Agreement (including the terms of the consideration) and the transactions contemplated thereby were fair and reasonable so far as the independent shareholders of the Target Company were concerned and in the interest of the Target Company and its shareholder as a whole. Hantec Capital Limited considered that the terms of the 2007 Smart Ascent Acquisition were determined on normal commercial terms, and in the ordinary and usual course of business.

For more details and information, please refer to the 2007 Target Company Circular.

C. 2009 Target Company Circular

The following information is abstracted from the 2009 Target Company Circular:-

(i) Background information

Mr. Ong was the son in-law of Mr. Ho Chin Hou ("**Mr. Ho**"), a former director of the Target Company at the time of the 2004 Smart Ascent Acquisition Agreement, and Ms. Wu is the daughter-in-law of Mr. Ho. Under the relevant Listing Rules. As the definition of ''connected person'' includes a son-in-law and a daughter-in-law of a director whose association with the director was such that, in the opinion of the Stock Exchange, the 2004 Smart Ascent Acquisition was subject to the connected transaction requirements under the Listing Rules.

Accordingly, the Target Company took ratification actions to seek approval from independent shareholder of the Target Company for the 2004 Smart Ascent Acquisition.

According to the announcement of the Target Company dated 8 June 2009 concerning the poll result of special general meeting in respect of connected and discloseable transaction, the 2004 Smart Ascent Acquisition was ratified and approved by the independent shareholder of the Target Company at the special general meeting of the Target Company held on 8 June 2009.

(ii) Information of Smart Ascent

(a) Basic company information

Smart Ascent was beneficially owned as to 51% by Extrawell BVI and 49% by the Mr. Ong as on 18 May 2009, being the latest practicable date prior to the printing of the 2009 Target Company Circular for ascertaining certain information contained therein.

Smart Ascent is an investment holding company. According to the register of members of Fosse Bio, Smart Ascent acquired from and became the holder of 51% interest in the issued share capital of Fosse Bio in November 2003. Fosse Bio is principally engaged in the research and development of the relevant technologies pursuant to the agreements dated 14 October 1998, 9 November 1998 and 15 October 1998 entered into between, among others, Fosse Bio and Tsinghua University, Beijing, the PRC regarding, among other matters, research and development of the use of oral insulin products.

Welly Surplus, owned as to 51% by Smart Ascent, had entered into relevant acquisition and cooperation agreements with an independent third party for the acquisition and construction of a new manufacturing plant in the PRC for the manufacturing of the Medicine, and will act as the manufacturing arm of the Target Group for the Medicine.

(b) Financial information of Smart Ascent

Based on the audited consolidated accounts of Smart Ascent, the consolidated net asset value of Smart Ascent was approximately HK$277,914,300 as at 31 March 2008.

Based on the audited consolidated accounts of Smart Ascent, for the year ended 31 March 2007, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK$215,500 and HK$215,500 respectively, while for the year ended 31 March 2008, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK$502,300 and HK$502,300 respectively.

(iii) Valuation report

(a) Appraisal Value

According to the valuation report prepared by Castores Magi dated 21 May 2009, the appraised market value of 100% equity interest of Smart Ascent Group amounted to approximately HK$1,547,241,000 as at 28 February 2009.

(b) Valuation methodology

In choosing the income approach as the most appropriate method, Castores Magi used the discounted cash flow method, which estimates the market value of the equity of the Smart Ascent Group by discounting the future cash flows to its present value.

(c) Basis of valuation and assumptions

The factors considered in the appraisal by Castores Magi including, but were not limited to, the following factors:-

(1) the history of Smart Ascent Group;

(2) the economic and industry outlooks affecting Smart Ascent Group's business;

(3) the size and growth prospects of the oral insulin market in the PRC;

(4) the past and projected future results of Smart Ascent Group and the bases and assumptions for such results;

(5) the net assets and financial position of Smart Ascent Group;

(6) the market-derived investment returns of entities in similar line of business;

(7) the stage of development, timing of introduction and marketing methods for the oral insulin project; and

(8) the risks facing by Smart Ascent Group in implementing the oral insulin project.

In view of the ever-changing business environment in which Smart Ascent Group was operating, Castores Magi made a number of assumptions in the course of its appraisal, which were set out as follows:

(1) Smart Ascent Group will operate its business on continuous basis to the best of its ability and will allocate sufficient resources for the planned expansion;

(2) Fosse Bio will have no obstacle to obtain production approval of oral insulin from the SFDA after completion of the further stage of clinical trial, which is expected to take approximately 2 years;

(3) the financial forecasts of Smart Ascent Group are achievable;

(4) there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which Smart Ascent Group currently runs or intends to run its business which will materially affect its operation;

(5) there will be no substantial market fluctuation in the industry in the jurisdictions or states in which Smart Ascent Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;

(6) there will be no substantial fluctuation in current tax rates, interest rates and foreign currency exchange rates in the jurisdictions or states in which Smart Ascent Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;

(7) the management of Smart Ascent Group will not make any decision, which is harmful to the revenue generation ability of Smart Ascent Group's business;

(8) Smart Ascent Group will allocate sufficient resources to keep abreast of its future expansion; and

(9) the assumptions on which the financial forecasts of Smart Ascent Group will be achievable.

The principal assumptions are:

- the estimated diabetic population of the PRC in 2011 will be 58 million and is expected to grow at 0.5 million per annum to 2015;
- operating expenses, including staff costs, administrative and marketing expenses, property related expenses, are estimated by Smart Ascent's management with reference to the scale of operations; and
- necessary capital expenditure will be funded out of internal cash flows, plus external funding if required, and has been included in the projections as a cash outflow.

(iv) Opinion from the independent financial adviser

Somerley Limited, as the independent financial adviser, was of the view that the 2004 Smart Ascent Acquisition was on normal commercial terms which were fair and reasonable so far as the independent shareholders of the Target Company were concerned. Somerley Limited also considered that the entering into of the 2004 Smart

Ascent Acquisition Agreement was in the ordinary and usual course of business of the Target Company and in the interests of the Target Company and its shareholders as a whole.

For more details and information, please refer to the 2009 Target Company Circular.

D. 2013 Target Company Circular

The following information is extracted from the 2013 Target Company Circular:-

(i) Background information

On 23 February 2013, Extrawell BVI and Mr. Ong entered into the supplemental agreement to amend terms and conditions of the 2007 Smart Ascent Acquisition Agreement.

Basic Terms:

The basic terms of the Acquisition Agreement are as follows:-

Date	:	The 2007 Smart Ascent Acquisition Agreement dated 27 July 2007 (as supplemented and amended by the supplemental agreement dated 23 February 2013)
Purchaser	:	Extrawell BVI
Vendor	:	Mr. Ong
Assets to be acquired	:	the aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent, representing 49% of the issued capital of Smart Ascent
Consideration	:	HK$660,000,000 is to be satisfied in the following manner:-

(i) as to HK$641,300,000 by the Target Company issuing the convertible bonds of the Target Company in the following manner:

(a) as to the principal amount of HK$320,650,000 to the Mr. Ong; and

(b) as to the principal amount of HK$320,650,000 to Vendor A (at the direction of Mr. Ong, or in such other allottees or denominations of the convertible bonds as Mr. Ong may direct by giving a notice in writing to Extrawell BVI at least 10 business days prior to the relevant completion date); and

(ii) as to the balance of the said consideration for the amount of HK$18,700,000 to be paid in cash in the following manner:-

(a) as to HK$9,350,000 to the Mr. Ong; and

(b) as to HK$9,350,000 to Vendor A (at the direction of the Mr. Ong or to such other payee(s) as Mr. Ong may direct by giving a notice in writing to Extrawell BVI at least 10 business days prior to the relevant completion date).

(ii) Information of Smart Ascent

(a) Background information

Smart Ascent is beneficially owned as to 51% by Extrawell BVI and 49% by the Mr. Ong as at on 13 June 2013, being the latest practicable date prior to the printing of the 2013 Target Company Circular for ascertaining certain information contained therein.

Smart Ascent is principally engaged in investment holding and is the holding company for the Target Company Group's oral insulin operations. The material assets of Smart Ascent are Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of Smart Ascent. Fosse Bio is principally engaged in development and commercialisation of oral insulin products. Welly Surplus is currently inactive but, subject to the completion of the relevant conditional sale and purchase agreement, will indirectly hold a plant to be constructed for the production of the Medicine in the PRC pursuant to the relevant cooperation agreement, and act as the manufacturing and distribution arm of the Target Group in the development of the Medicine.

According to the announcement of the Target Company dated 16 July 2013 concerning completion of supplemental agreement in relation to acquisition of minority interest in Smart Ascent, the board of directors of the Target Company announced that all the conditions precedent to the Acquisition Agreement have been fulfilled and completion took place on 16 July 2013. Following the said completion, Smart Ascent will become an indirect wholly-owned subsidiary of the Target Company.

(b) Financial information

The consolidated net asset value of Smart Ascent was approximately HK$258,518,000 as at 31 March 2012.

For each of the two financial years ended 31 March 2011 and 31 March 2012, the consolidated net loss before taxation of Smart Ascent amounted to approximately HK$11,071,000 and HK$6,634,000 respectively, and the consolidated net loss after taxation of Smart Ascent amounted to approximately HK$11,078,000 and HK$6,642,000 respectively.

(iii) Valuation report

(a) Appraisal Value

According to the valuation report dated 18 June 2013 prepared by Castores Magi, the appraised market value of 100% equity interest of Smart Ascent Group amounted to approximately HK$2,519,000,000 as at 28 February 2013.

(b) Valuation methodology

In choosing the income approach as the most appropriate method, Castores Magi used the discounted cash flow method, which estimates the market value of the equity of the Smart Ascent Group by discounting the future cash flows to its present value.

(c) Basis of valuation and assumptions

The factors considered in the appraisal by Castores Magi including, but were not limited to, the following factors:-

(1) the history of Smart Ascent Group;

(2) the economic and industry outlooks affecting Smart Ascent Group's business;

(3) the size and growth prospects of the oral insulin market in the PRC;

(4) the past and projected future results of Smart Ascent Group and the bases and assumptions for such results;

(5) the net assets and financial position of Smart Ascent Group;

(6) the market-derived investment returns of entities in similar line of business;

(7) the stage of development, timing of introduction and marketing methods for the oral insulin project; and

(8) the risks facing by Smart Ascent Group in implementing the oral insulin project.

In view of the ever-changing business environment in which Smart Ascent Group was operating, Castores Magi made a number of assumptions in the course of its appraisal, which are set out as follows:

(1) Smart Ascent Group will operate its business on continuous basis to the best of its ability and will allocate sufficient resources for the planned expansion;

(2) Fosse Bio will have no obstacle to obtain production approval of oral insulin from the SFDA after completion of the further stage of clinical trial, which is expected to take approximately 3 years;

(3) the financial forecasts of Smart Ascent Group are achievable;

(4) there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which Smart Ascent Group currently runs or intends to run its business which will materially affect its operation;

(5) there will be no substantial market fluctuation in the industry in the jurisdictions or states in which Smart Ascent Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;

(6) there will be no substantial fluctuation in current tax rates, interest rates and foreign currency exchange rates in the jurisdictions or states in which Smart Ascent Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;

(7) the management of Smart Ascent Group will not make any decision, which is harmful to the revenue generation ability of Smart Ascent Group's business; and

(8) the assumptions on which the financial forecast of Smart Ascent Group is made will be achievable.

The principal assumptions are:

- the estimated diabetic population of the PRC in 2015 will be 93 million and is expected to grow at 0.5 million per annum after 2015;

  the following factors considered in the financial forecast:-

	For the financial year ending 31 March				
	2016	2017	2018	2019	2020
Number of capsules (50 IU) ('000)	496,400	1,107,410	1,435,180	1,925,740	2,479,080
Unit Price (RMB)	2.70	2.70	2.70	2.70	2.70
Revenue (RMB'000)	1,340,280	2,990,007	3,874,986	5,199,498	6,693,516
Growth Rate of Revenue		123.09%	29.60%	34.18%	28.73%

- operating expenses, including staff costs, administrative and marketing expenses, property related expenses, are estimated by Smart Ascent's management with reference to the scale of operations; and

- necessary capital expenditure will be funded out of internal cash flows, plus external funding if required, and has been included in the projections as a cash outflow.

(iv) Opinion from the independent financial adviser

Quam Capital Limited, as the independent financial adviser, was of the opinion that the acquisition of an aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent by Extrawell BVI from Mr. Ong was in the ordinary and usual course of business of the Target Company and the entering into of the Acquisition Agreement was in the interests of the Target Company and its shareholders as a whole and the terms of the Acquisition Agreement were on normal commercial terms, fair and reasonable so far as the independent shareholders of the Target Company were concerned and in the interests of the Target Company and its shareholders as a whole.

For more details and information, please refer to the 2013 Target Company Circular.

E. Summary of the relevant information concerning the acquisition of Smart Ascent

Set out below is a summary of the relevant information in respect of the acquisition of Smart Ascent, as extracted from 2004 Target Company Circular, 2007 Target Company Circular, 2009 Target Company Circular and 2013 Target Company Circular respectively, for illustration purposes only:-

	2004 Target Company Circular	2007 Target Company Circular	2009 Target Company Circular	2013 Target Company Circular
A. Smart Ascent				
Consideration for 51% of issued capital of Smart Ascent	HK$73 million	–	–	–
Consideration for 49% of issued capital of Smart Ascent	–	HK$768.9 million	–	HK$660 million
Appraised market value of 100% equity interest of Smart Ascent Group	–	HK$2,188,951,000 *(as at 30 June 2007)*	HK$1,547,241,000 *(as at 28 February 2009)*	HK$2,519,000,000 *(as at 28 February 2013)*
Net asset/liability of Smart Ascent	Unaudited and unconsolidated net liability of HK$9,870 *(as at 31 January 2004)*	Unaudited but consolidated net asset of HK$77,197,000 *(as at 31 March 2007)*	Audited and consolidated net asset of approximately HK$277,914,300 *(as at 31 March 2008)*	Audited and consolidated net asset of approximately HK$258,518,000 *(as at 31 March 2012)*
Profit/Loss of Smart Ascent	Unaudited and unconsolidated net loss of HK$19,870 *(For the period from 1 December 2000 to 31 January 2004)*	1. Unaudited but consolidated net loss after taxation and extraordinary items of HK$215,500 *(For the year ended 31 March 2007)* 2. Unaudited but consolidated net loss after taxation and extraordinary items of HK$258,300 *(For the year ended 31 March 2006)*	1. Audited and consolidated net loss after taxation and extraordinary items of approximately HK$502,300 *(For the year ended 31 March 2008)* 2. Audited and consolidated net loss after taxation and extraordinary items of approximately HK$215,500 *(For the year ended 31 March 2007)*	1. Audited and consolidated net loss after taxation of HK$6,642,000 *(For the year ended 31 March 2012)* 2. Audited and consolidated net loss after taxation of HK$11,078,000 *(For the year ended 31 March 2011)*

	2004 Target Company Circular	2007 Target Company Circular	2009 Target Company Circular	2013 Target Company Circular
B. Fosse Bio				
Net asset/liability of Fosse Bio	Unaudited and unconsolidated net liability of HK$291,248 *(as at 31 January 2004))*	–	–	–
Profit/loss of Fosse Bio	Unaudited and unconsolidated net loss of HK$391,248 *(For the period from 28 September 1998 to 31 January 2004)*	–	–	–
Appraisal value of Fosse Bio	Approximately HK$279.8 million *(as at 31 January 2004)*	–	–	–

STAGE OF DEVELOPMENT OF THE MEDICINE

Set out below is the summary of stage of development of the Medicine, as extracted from 2004 Target Company Circular, 2007 Target Company Circular, 2009 Target Company Circular and 2013 Target Company Circular, for illustration purposes only:-

(i) Background information of the Medicine

According to the 2013 Target Company Circular, a method of production of oil-phase preparation of oral insulin (一種製備口服胰島素油相製劑的方法) is registered with patent under the joint names of Fosse Bio and Tsinghua University, Beijing under the registration numbers of ZL 01 1 15327.X (in respect of the PRC patent registration in 2004) and US 7,018,980 B2 (in respect of the United States patent registration in 2006), expiring in April 2021 and April 2022 respectively, and such technologies involve the use of a fine micro-emulsion particle by combining protein with lipids, which can protect the protein from being digested and enable the protein to pass through the wall of digestive tract to the liver (major area in the body where the function of insulin takes place) through portal vein.

Oral insulin product (as the Medicine) in soft capsule, oral dosage form, is one of the oral insulin products co-developed by Fosse Bio and Tsinghua University, Beijing and is intended for use in type 1 and type 2 diabetes patients.

(ii) Stage of development

(a) 2004 Target Company Circular

According to the 2004 Target Company Circular, the Medicine was at the pre-clinic trial stage in the PRC and no commercial production thereof could commence prior to the obtaining of the relevant new medicine certificate.

(b) 2007 Target Company Circular

According to the 2007 Target Company Circular, the Medicine entered into Phase I and II clinical trials under SFDA and the relevant technologies had been applied for the registration of patent.

(c) 2009 Target Company Circular

According to the 2009 Target Company Circular, Phase I and Phase II clinical trial of the Medicine were completed in 2004 and in 2006 respectively. The results of the said Phase I and Phase II clinical trials broadly showed that the Medicine had a positive effect. However, SFDA did not approve the Medicine but ordered a further clinical trial, and required more stringent trial requirements including a larger sample of patients and a "double-blind" technique.

(d) 2013 Target Company Circular

According to the 2013 Target Company Circular, the further clinical trial of the Medicine in Phase III protocol was comprised of Parts A and B (both are double-blinded and placebo-controlled) of which Part A involves the adoption of oral insulin placebo and Part B involves the oral insulin placebo and insulin injection placebo. Upon passing through further clinical trial successfully and obtaining the relevant production approval, the drugs production will commence by the end of 2015.

For more details and information, please refer to the said Target Company Circulars

INFORMATION ON THE MEDICINE AND THE DIABETES MARKET

The information on the medicine and the diabetes market, as extracted from the 2013 Target Company Circular, for illustration purposes only, is as follows:

"Information on the Medicine

Insulin, which is a kind of protein, is medically used as an effective diabetic treatment and the insulin drugs are currently available in injection form. The formidable task of administering insulin orally has been pursued over the last several decades with a view to ease the pain and stress caused during delivery of insulin injections to the diabetic patients worldwide. Since insulin is a protein which is digested and destroyed in the stomach and intestine by digestive enzymes, and cannot penetrate by itself through the wall of intestine into blood vessels, researchers have to overcome these obstacles to enable insulin delivery by oral route which is considered to be a more convenient, safer and painless way of administration, facilitating better patient compliance and can also help improving quality of life of patients.

An invention, "a method of production of oil-phase preparation of oral insulin" (一種製備口服胰島素油相製劑的方法), is registered with patent under the joint names of Fosse Bio and Tsinghua University, Beijing under the registration numbers of ZL 01 1 15327.X (in respect of the PRC patent registration in 2004) and US 7,018,980 B2 (in respect of the United States patent registration in 2006), expiring in April 2021 and April 2022 respectively, and such technologies involve the use of a fine micro-emulsion particle by combining protein with lipids, which can protect the protein from being digested and enable the protein to pass through the wall of digestive tract to the liver (major area in the body where the function of insulin takes place) through portal vein. Oral insulin product (as the Medicine) in soft capsule, oral dosage form, is one of the oral insulin products co-developed by Fosse Bio and Tsinghua University, Beijing and is intended for use in type 1 and type 2 diabetes patients. The Medicine will be sold as a prescription drug and targets on customers currently taking insulin injection and/or OADs and those prospective customers who may not take injectable insulin or OADs at all due to various reasons e.g. pain, inconvenience, complications, and resistance to insulin through injection or side effects from taking OADs.

Information on the diabetes market

Diabetes is a chronic disease caused by deficiency in insulin production in the pancreas, or by failure of organs to react properly to the insulin produced. A lack of insulin results in increased concentrations of glucose in the blood, which in turn damages many of the body's organs and functions, in particular the blood vessels and nerves. Lack of treatment will lead to mortality.

Two main types of diabetes

Type 1 diabetes is characterised by a lack of insulin production, and usually develops in childhood and adolescence and patients require lifelong insulin treatment for survival.

Type 2 diabetes is resulted from the body's inability to respond properly to the insulin produced by the pancreas or ineffective use of insulin. Type 2 diabetes usually develops in *adulthood and is related to obesity, lack of physical activity, and unhealthy diets. This is the more common type of diabetes accounting for about 90% of diabetic cases worldwide and treatment may involve lifestyle changes and weight loss alone, or oral medications or even insulin injections.*

Complications of diabetes

Cardiovascular disease: This affects the heart and blood vessels and may cause fatal complications such as coronary heart disease (leading to attack) and stroke.

Kidney disease: This can result in total kidney failure and the need for dialysis or kidney transplant.

Nerve disease: This can ultimately lead to ulceration and amputation of the toes, feet and lower limbs. Loss of feeling is a particular risk because it can allow foot injuries to escape notice and treatment, leading to major infections and amputation.

Eye disease: This is characterised by damage to the retina of the eye which can lead to vision loss.

Prevalence and mortality

Over past decades, a continuous increase in prevalence of type 2 diabetes, which parallels a marked lifestyle transition and a worldwide epidemic of obesity has been observed in both developed and developing countries. Unlike the gradual transition in most western countries, these changes in the PRC have occurred over a short time. With the aggravation of aging degree, improvement in living standards and increase in obese groups caused by unhealthy lifestyles, the prevention and treatment of diabetes are increasingly severe. Information from IDF shows that, in 2012, the PRC has the world's largest diabetic population of 92,300,000 (globally estimated to be 371,300,000). It has the highest rate of 9.7% of diabetes. In a national study conducted from 2007 to 2008 on adults of 20 years of age or above and reported in the New England Journal of Medicine in 2010, it was also predicted that there would be 148,000,000 pre-diabetes in the PRC. These results indicate that diabetes has become a major public health problem in the PRC and that strategies aimed at the prevention and treatment of diabetes are needed.

World Health Organisation projects that diabetes will become the seventh leading cause of death in the world by the year 2030 and total deaths from diabetes are projected to rise by more than 50% in the next ten years.

Diabetes treatment

Treatment typically includes diet control, exercise, home blood glucose testing, and in addition to a small part of patients with type 2 diabetes which can be controlled through diet therapy and exercise therapy, the rest all need drug treatment — oral medication and/or insulin injection.

Injectable insulin

As individuals may differ in their response to insulin, the onset, peak time and duration of various insulin preparations have been developed to satisfy the needs of patients, which include:

Rapid-acting analogues: These can be injected just before, with or after food and have a peak action at between zero and three hours. They tend to last between two and five hours and only last long enough for the meal at which they are taken.

Long-acting analogues: These tend to be injected once a day to provide background insulin lasting approximately twenty-four hours. They do not need to be taken with food since they do not have a peak action.

Short-acting insulins: These should be injected fifteen to thirty minutes before a meal to cover the rise in blood glucose levels that occurs after eating. They have a peak action of two to five hours and can last for up to eight hours.

Medium- and long-acting insulins: These are taken once or twice a day to provide background insulin or in combination with short-acting insulins or rapid-acting analogues. Their peak activity is between four and twelve hours and can last up to thirty hours.

Mixed insulin: This is a combination of medium- and short-acting insulin.

Oral anti-diabetic drugs

Oral medications are available from:

Sulphonylureas: These work by increasing the amount of insulin the pancreas produces and increasing the effectiveness of insulin.

Biguanides/Metformin: These prevent the liver from producing glucose and help to improve the body's sensitivity towards insulin.

Alpha-glucosidase inhibitors: These slow down the digestion of carbohydrates in the small intestine and help to reduce after meal blood sugar levels.

Prandial glucose regulators: These have a similar response as sulphonylureas but act for a shorter time.

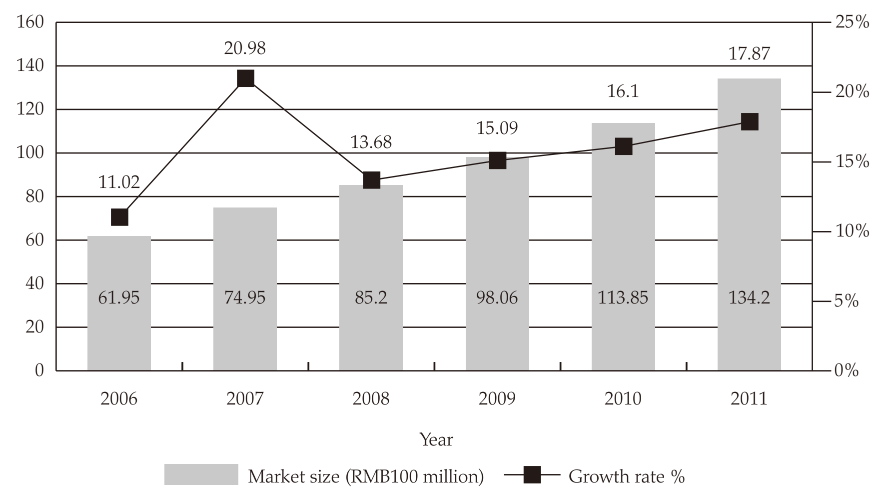
Thiazolidinediones: These help to improve insulin sensitivity.

DPP-4 inhibitors: These help to stimulate the production of insulin and reduce the production of glucagon, particularly during digestion.

Insulin is medically used as an effective diabetic treatment but the insulin drugs are available in injection form, whereas oral medication is more acceptable by patients but the available oral anti-diabetic drugs may cause common side effects which include gastro-intestinal e.g. irritation to stomach and intestines, flatulence, indigestion; secondary inefficacy (diminishing efficacy to no efficacy); impairment of liver and kidney function; hypoglycemia; adverse effects to fetus and infants; edema, retention of water and sodium (increasing harms to patients having heart failure and lung edema); functional failure of pancreatic isle cells, leucopenia, metabolic acidosis.

In this sense, an oral insulin therapy which is pain-free, needle-free and a non-invasive drug delivery would be most desirable by researchers.

The following table reflects figures of the size and growth rate of diabetes drugs purchasing of hospitals in the PRC during the period 2006 and 2011.



Source: *Menet "中國醫藥信息網"*

In recent years, with the development of the PRC's economy and improvement in people's living standards, coupled with changes in diet and physical activity related to rapid development and urbanisation have led to sharp increases in the number of people developing diabetes, the incidence and morbidity rates of diabetes also present the increasing trend year by year. Diabetes has caused RMB173,400,000,000 in medical expenditure each year and has become a major public health problem in the PRC that strategies aimed at the prevention and treatment of diabetes are needed.

The PRC government issued the China National Plan for Chronic Diseases Prevention and Treatment (2012–2015) last year, with diabetes as a major concern. According to the report of the National People's congress released in early March 2013, the PRC will increase its healthcare expenditure by 27.1% year-on-year in 2013."

DISCLAIMER

The Company takes no responsibility for the contents and information of the 2004 Target Company Circular, the 2007 Target Company Circular, the 2009 Target Company Circular, the 2013 Target Company Circular and relevant announcements, makes no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the said circulars.

SPECIFIC MANDATE

The Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds shall be allotted and issued under the Specific Mandate to be granted to the Directors by the Independent Shareholders at the SGM.

BASES AND ASSUMPTIONS MADE AND ADOPTED BY THE COMPANY

The major bases and assumptions reasonably made and adopted by the Company are as follows:-

1. Legality and enforceability

The legality and enforceability in respect of the 2004 Smart Ascent Acquisition Agreement, the Acquisition Agreement and all other relevant agreements as indicated in the 2004 Target Company Circular, the 2007 Target Company Circular, the 2009 Target Company Circular and the 2013 Target Company Circular were verified and substantiated.

2. Fulfillment and satisfaction of conditions precedent and all relevant obligations

The conditions precedent and all relevant obligations under the 2004 Smart Ascent Acquisition Agreement and the Acquisition Agreement and all other relevant agreements were satisfied and fulfilled.

3. The vendor's undertakings, warranties and representations

The vendor's undertakings, warranties and representations under the 2004 Smart Ascent Acquisition Agreement and the Acquisition Agreement and all other relevant agreements were true, accurate and complete in all material respects and not misleading or deceptive.

4. The bases and assumptions under the valuation reports

The bases and assumptions under the relevant valuation reports, as prepared by Castores Magi, contained in the 2007 Target Company Circular, the 2009 Target Company Circular and the 2013 Target Company Circular were appropriate, reasonable, valid and sustainable.

5. Full due diligence on the Target Company's circulars by all professional parties

All relevant professional parties had performed full and satisfied with due diligence on all information and representations contained in the 2004 Target Company Circular, the 2007 Target Company Circular, the 2009 Target Company Circular and the 2013 Target Company Circular.

6. Accuracy and completeness of the information and representations

All information and representations contained in the 2004 Target Company Circular, the 2007 Target Company Circular, the 2009 Target Company Circular and the 2013 Target Company Circular are true, accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein misleading.

7. Risk factors disclosed by the Target Company

All the risk factors as disclosed in the 2004 Target Company Circular, the 2007 Target Company Circular, the 2009 Target Company Circular and the 2013 Target Company Circular respectively, were appropriate, reasonable, valid and sustainable and there will be no substantial changes on the said risk factors.

RISK FACTORS

Set out below are the potential risks in connection with the Transactions. Additional risks and uncertainties not presently known to the Directors, or not expressed or implied below, or that the Directors currently deem immaterial, may also adversely affect the Target Group's business, operating results and financial condition in a material aspect, which may in turn affect (i) the Target Company's ability to pay the principal of the Sale CBs when due; and (ii) the Company's ability to pay the principal of the Convertible Bonds.

(A) Risks relating to the Target Group's oral insulin business

(i) Final approval for production and distribution not yet obtained

Reference is made to the announcement of the Target Company dated 25 February 2013 in relation to the progress of clinical trial on oral insulin enteric-coated soft capsules. In accordance with the Protocol filed with the SFDA, the Target Group has recently completed part A of the Protocol relating to the multi-centered, randomised, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of Type 2 diabetes. With reference to the benchmark indicators, in particular, on the effect of reducing blood glucose level in diabetics through absorption of the Medicine into blood circulation of human body, the statistical outcome of the per-protocol set (PPS) analysis shows that the bio-efficacy of the Medicine in the treatment group (where patients were given the Medicine) was significantly superior to that of the control group (where patients were given placebo).

The Protocol designed by recognised clinical trial bases and led by the Peking University People's Hospital in the PRC consists of two parts. As part A of the Protocol has already been completed with satisfactory results, in order to further validate the efficacy of the use of the Medicine in more diabetic testees, the Group is working with the project team and clinical experts of the Peking University People's Hospital in the PRC to conduct part B of the clinical trial on the Medicine contemplated in the Protocol, among others, in larger scale of participating cases. It is expected that such extended clinical trial will commence in due course.

Despite completion of part A of the Protocol, it is still possible that the Medicine will fail to obtain SFDA approval. Alternatively, SFDA may impose additional requirements or raise queries on the clinical trial, which may create further hurdles for the final approval. Additionally, the timing of final approval is difficult to assess.

The Target Group is also required to obtain a number of licences, certificates and permits from the relevant regulatory authorities in the PRC before formal production and distribution of the Medicine can begin. These include, among others, the Certificate of New Medicine (新藥證書) and the Good Manufacturing Practice Certificate. These licences, certificates and permits may also be subject to periodic renewal requirements.

Should the Target Group fail to obtain all necessary approvals from the relevant authorities, it may not be able to commence the production and distribution of the Medicine in the PRC, which would have a material and adverse impact on the Target Group's business and financial results. The Target Group may also have to write-off or suffer impairment on the carrying values of the technological know-how in relation to the research and development of the use of the oral insulin product and the exclusive right for commercialisation of the said oral insulin product owned by the Target Group.

(ii) Additional funding requirement

It is expected that an additional amount would be incurred in relation to the research and development of the next phase of the clinical trial for the Medicine, and a further amount would be incurred for pre-marketing efforts before the commencement of commercial production and distribution of the Medicine. Should the actual development and pre-marketing expenses turn out to be higher than expected and the Target Group is unable to inject sufficient funding to support further development of the Medicine due to working capital needs from its existing operations, the oral insulin project may not be able to be completed and commercialised successfully.

(iii) Market acceptance and competition

In assessing the acceptance of the new Medicine to be launched to the market, diabetic patients may make reference to the pricing of the Medicine as compared to other existing insulin products. If the pricing assumptions made by the Target Group prove to be too optimistic, target diabetics may decide to continue using their existing insulin product without switching to the Medicine.

Complications can occur regarding the effectiveness of the drug and the emergence of side effects when it comes into wide use. There are precedent cases of seemingly promising new drugs which failed to become established. Exubera, which was inhalable insulin introduced by Pfizer Incorporated and available in the United States from 2006 to 2007, was withdrawn from the market after it failed to gain acceptance among diabetic patients.

If the Medicine is approved and introduced successfully, there appears to be a large potential market of diabetes sufferers in the PRC. Nevertheless, rival products could emerge and, as noted above, the sales price is yet to be tested in the market. Competition from existing insulin products in the PRC market may also create uncertainty as to the profitability of the Medicine. Although the Target Company considered that the Medicine is likely to be the first oral insulin to be distributed in the PRC upon successful commericalisation, potential customers might still consider different factors when choosing among diabetic drugs available in the market, which include pricing, branding and reputation, availability, convenience of use and certain other factors. Besides, the possibility of oral insulin with similar technologies or insulin with other delivery methods being developed, or existing oral anti-diabetic drugs available in the PRC market being sold more aggressively by competitors, may also impact the financial results of the Target Group.

(iv) Expiry of patent of the relevant technologies in relation to the research and development of the use of oral insulin products

According to the circular of the Target Company dated 21 May 2009 in respect of the ratification actions for the acquisition of 51% interest in Smart Ascent in 2004, the patent issued by the PRC authorities for the relevant technologies in relation to the research and development of the use of oral insulin products will expire in April 2021, after which the Medicine could become "generic", and there is no assurance that other market competitors may manufacture and sell the Medicine on their own. Intensifying competition in the market may have negative impact on the pricing and the profit margin of the Medicine and may thereby have adverse effect on the profitability of the Target Group.

(v) Product liability

The Target Group could face material claims arising from any alleged harmful effect of the Medicine. There is no assurance that any product liability claim brought against the Target Group in respect of the Medicine would not have an adverse effect on the Target Group's business operations and financial results and position.

(vi) Timetable for the launch and commercialisation of the Medicine may be delayed

The launch and commercialisation of the Medicine are subject to completion of further clinical trial and obtaining of the relevant production approval. Should there be any complications, delay, unforeseeable hardship and governmental approval in completing further clinical trial and obtaining of the relevant production approval, the timing of the launch and commercialization of the Medicine would be likely delayed.

(vii) New medical, pharmaceutical, and/or genetic solutions, technologies, treatments or products for diabetic sickness

The success of the Medicine is based on the large potential market of diabetes patients in the PRC and worldwide. Should there be any new medical, pharmaceutical, and/or genetic solutions, technologies, treatment or product to diabetic sickness be successfully developed and launched, the launch and commercialisation of the Medicine would be substantially affected and hence may also impact the financial results of the Target Group.

(B) Risks relating to the Target Group conducting business in the PRC

Adverse changes in economic policies of the PRC government could have a material adverse effect on the overall economic growth of the PRC, which could materially and adversely affect the Target Group's business

According to the annual report for the year ended 31 March 2012 of the Target Company, over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets and capital expenditures are located in the PRC. Accordingly, its business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in the PRC generally, including the overall economic growth in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasising the utilisation of market forces in the economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may have a negative effect on the Target Group. For example, the Target Group's operating results and financial condition may be adversely affected by changes in tax regulations that are applicable to it.

In addition, any future calamities, including natural disasters, outbreaks of contagious diseases and political or social unrest may adversely affect the economic growth in the PRC and therefore the business and financial performance of the Target Group.

(C) Risks relating to the Sale CBs

(i) Credit and default risk

There is a risk that the Target Company may default on its obligation to pay the principal of Sale CBs when due. In the event of any default on the Sale CBs, the Company is entitled to demand for immediate repayment of the principal amount outstanding under the Sale CBs.

(ii) The Sale CBs are not secured by any asset

The Sale CBs are not secured by any asset. Accordingly, the Company may sustain a loss up to the principal amount of the Sale CBs if the Target Company defaults on its obligations under the instruments creating the Sale CBs.

(iii) Liquidity risk

There will be no public market for the Sale CBs as no application will be made by the Target Company for the listing of, or permission to deal in, the Sale CBs on the Stock Exchange or any other stock exchange. The Company may have difficulty in disposing of the Sale CBs when a need to liquidate their assets arises.

The operation of the Target Group is subject to the regulatory requirements of the PRC government. Similar to other industry players in the PRC, the Target Group is subject to the full regulations under the relevant PRC national, provincial and local government regulations, policies and measures in relation to the operations of its subsidiaries.

Any changes in the relevant regulatory requirements may cause significant adverse impact on the liabilities, costs and/or duties of the Target Group, which in turn affect the Target Company's ability to pay the principal of the Sale CBs when due. In the event that the Target Group fails to comply with the relevant laws and regulations, the operations of the Target Group may be suspended and/or the Target Group may be subject to fines and/or punishment imposed by the relevant authorities. Any form of such punishment could materially and adversely affect the business, operations and financial position of the Target Group and its ability to pay the principal of the Sale CBs when due.

There is no guarantee that the relevant PRC authorities will not amend the existing laws and regulations. Furthermore, there is no guarantee that the relevant PRC authorities will not impose any further stringent laws and regulations. Compliance of such laws and regulations may cause substantial capital commitment on the part of the Target Group and will cause uncertainty to the business prospect of the Target Group which may adversely affect its ability to pay the principal of the Sale CBs when due.

(D) The bases and assumptions made and adopted by the Company may be invalid

The bases and assumptions under the section headed "Bases and assumptions made and adopted by the Company" of this circular may be invalid, outdated, inappropriate and inapplicable.

(E) Assumptions and bases of the valuation report on the Sale CBs may not be valid and sustainable

The valuation report on the Sale CBs was compiled by Roma based on certain assumptions and bases. The said assumptions and bases may not be valid nor sustainable and therefore may affect the said valuation significantly and substantially.

(F) Limitations on due diligence on oral insulin project

The Company must stress that the Vendors are unable to provide relevant important documents concerning the oral insulin project to the Company for due diligence purposes, due to the Vendors' confidentiality obligations and duty of care of prevention of insider dealings owed to the Target Company. Therefore, the Company has placed much reliance on the due diligence performed by the Target Company on the oral insulin project in the relevant circulars and announcements of the Target Company.

(G) There may be unidentified risks relating to the Transactions

The Group may not be able to identify all material risks associated with the Transactions due to inherent limitations of due diligence, including, among other things, unforeseen contingent risks or latent liabilities relating to the entities acquired or to be acquired that may not become apparent until in the future. Any such unidentified risk could have a material adverse impact on the Group's business, financial condition and results of operations after the completion of the Transactions. Even if the Group identifies any such risk and terminate the S&P Agreement prior to Completion I and Completion II, the Group's reputation may be harmed and the Group's prospects may be materially and adversely affected.

FINANCIAL EFFECTS OF THE TRANSACTIONS

The unaudited pro forma financial information of the Group after completion of the Transactions illustrating the possible financial effects of the Transaction are set out in Appendix IV headed "Appendix IV – Unaudited Pro Forma Financial Information of the Enlarged Group" in this circular.

(i) Assets and Liabilities

According to the interim report for the six months ended 31 December 2012 of the Company, the unaudited consolidated total assets and liabilities of the Group as at 31 December 2012 were approximately HK$419,795,000 and HK$37,152,000 respectively. Based on the unaudited pro forma financial statement of the Enlarged Group, assuming the completion of the Transactions having taken place on 31 December 2012, the unaudited pro forma consolidated total assets of the Enlarged Group would be approximately HK$1,337,915,000. On the other hand, the unaudited pro forma consolidated total liabilities of the Enlarged Group would be approximately HK$126,970,000.

(ii) Earnings

According to the annual report for the financial year ended 30 June 2012 of the Company, the Group recorded an audited consolidated loss for the year of approximately HK$129,697,000. Based on the unaudited pro forma financial statement of the Enlarged Group, assuming the completion of the Transactions having taken place on 1 July 2011, the unaudited pro forma consolidated loss for the year of the Enlarged Group would be approximately HK$617,049,000.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Vendor A and together with his associates are beneficially interested in 394,771,350 Shares, representing approximately 36.53% of the total issued share capital of the Company.

As at the Latest Practicable Date, Vendor B is ultimately and beneficially owned as to 33.33% by Vendor A.

Accordingly, Vendor A is a connected person of the Company by virtue of being a controlling shareholder of the Company. Vendor B is connected person of the Company by virtue of its beneficial owner, being Vendor A. As such, the Transactions constitute connected transactions of the Company under Rule 14A.13(1)(a) of the Listing Rules and shall be aggregated pursuant to Rule 14A.25 of the Listing Rules.

As one or more of the relevant percentage ratios for the Transactions exceeds 100%, the entering into of the S&P Agreement constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, the S&P Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and the Independent Shareholders' approval at the SGM under the Listing Rules.

In accordance with the Listing Rules, the Vendors and their respective associates shall abstain from voting on the relevant resolution(s) to approve (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs.

None of the Directors has a material interest in (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs and is required to abstain, or has abstained, from voting on the relevant Board resolutions to approve (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs.

SGM

The SGM will be held and convened for the purpose of considering and, if thought fit, approving (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs.

A notice convening the SGM to be held at Room Nos. 1405-1406, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong on Friday, 18 October 2013 at 4:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon, and return the same to the principal share registrar and transfer agent of the Company in Hong Kong, Tricor Tengis Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

The relevant resolutions to approve (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the results of the SGM in accordance with the Listing Rules.

GENERAL

The Independent Board Committee (comprising all of the three independent non-executive Directors, namely, Ms. Chen Weijun, Dr. Zhang Zhihong and Mr. Wang Rongliang) has been established to advise the Independent Shareholders on (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs.

RECOMMENDATIONS

Your attention is drawn to:

(1) the letter from the Independent Board Committee (comprising Ms. Chen Weijun, Dr. Zhang Zhihong and Mr. Wang Rongliang, all being the independent non-executive Directors) set out on pages 78 to 79 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders concerning whether (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs are on normal commercial terms, ordinary and usual causal of business of the Company, fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole;

(2) the letter from the Independent Financial Adviser set out on pages 80 to 115 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders on whether (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs are on normal commercial terms, ordinary and usual causal of business of the Company, fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

The Board holds the view that the entering into the S&P Agreement and the exercise of the conversion rights attaching to the Sale CBs are on normal commercial terms and ordinary and usual course of business of the Company, and the terms and conditions of the S&P Agreement and the exercise of the conversion rights attaching to the Sale CBs are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant resolutions as set out in the notice of the SGM to approve (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices of this circular.

Shareholders are reminded to be aware of the annual report of the Group for the year ended 30 June 2013 to be published.

On behalf of the Board
United Gene High-Tech Group Limited
Lee Nga Yan
Executive Director

UNITED GENE HIGH-TECH GROUP LIMITED
聯合基因科技集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 399)

27 September 2013

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO (I) PROPOSED ACQUISITION OF 18.83% ISSUED SHARE CAPITAL OF EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (II) PROPOSED ACQUISITION OF AN AGGREGATE OF HK$320,650,000 CONVERTIBLE BONDS TO BE ISSUED BY EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (III) PROPOSED ACQUISITION OF AN AGGREGATE UP TO HK$256,520,000 CONVERTIBLE BONDS TO BE ISSUED BY EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED (STOCK CODE: 858) INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

We refer to the circular of the Company to the Shareholders dated 27 September 2013 (the "**Circular**"), in which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter will have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to consider as to whether (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds (the "**Proposed Transaction**") entered into between the Company and the Vendors; and (ii) the exercise of conversion rights attaching to the Sale CBs are on normal commercial terms, ordinary and usual course of business of the Company, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Donvex Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Transaction and the exercise of conversion rights attaching to the Sale CBs.

We wish to draw your attention to the letter from the Board set out on pages 11 to 77 of the Circular which contains, among others, information on the Proposed Transaction and the exercise of conversion rights attaching to the Sale CBs as well as the letter from Independent Financial Adviser set out on pages 80 to 115 of the Circular which contains its advice in respect of the Proposed Transaction and the exercise of conversion rights attaching to the Sale CBs.

Having considered the principal factors and reasons and the advice of the Independent Financial Adviser, we hold the view that the Proposed Transaction and the exercise of conversion rights attaching to the Sale CBs are entered into on normal commercial terms, ordinary and usual course of business of the Company, fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) in respect of the Proposed Transaction and the exercise of conversion rights attaching to the Sale CBs at the SGM.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Ms. Chen Weijun **Dr. Zhang Zhihong** **Mr. Wang Rongliang**
Independent non-executive Directors

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex
富域資本
Donvex Capital Limited
富域資本有限公司

Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

27 September 2013

The Independent Board Committee and the Independent Shareholders of
United Gene High-Tech Group Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the S&P Agreement and the transactions contemplated, details of which are set out in the letter from the Board contained in the circular of the Company dated 27 September 2013 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as defined elsewhere in the Circular unless the context require otherwise.

On 27 April 2013, the Company and the Vendors entered into the S&P agreement, pursuant to which the Company has conditionally agreed to acquire, and (i) Vendor A and Vendor B have conditionally agreed to sell the Sale CB-I in an aggregate principle amount of HK$320,650,000 and 450,000,000 Sale Shares respectively, at an aggregate Consideration I of HK$608,000,000; and (ii) Vendor A has conditionally agreed to sell the Sale CB-II in an aggregate principle amount up to HK$256,520,000, at an aggregate Consideration II up to a maximum HK$256,000,000 in four batches.

Upon completion of Transaction I, the Target Company will be accounted for as an associate in the financial statement of the Group. Upon completion of each of the Transaction II, the conversion of Sale CB-I or the conversion of Sale CB-II or all the aforesaid, the Target Company will continue to be an associate of the Group.

As at the Latest Practicable Date, Vendor A and together with his associates are beneficially interested in 394,771,350 Shares, representing approximately 36.53% of the total issued share capital of the Company.

As at the Latest Practicable Date, Vendor B is ultimately and beneficially owned as to 33.33% by Vendor A.

Accordingly, Vendor A is a connected person of the Company by virtue of being a controlling shareholder of the Company. Vendor B is connected person of the Company by virtue of its beneficial owner being Vendor A. As such, the Transactions constitute connected transactions for the Company under Rule 14A.13(1)(a) of the Listing Rules and shall be aggregated pursuant to Rule 14A.25 of the Listing Rules.

In accordance with the Listing Rules, the Vendors and their respective associates shall abstain from voting on the relevant resolutions to approve (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion upon exercise in full of the conversion rights attaching to the Convertible Bonds; and (ii) exercise of the conversion rights attaching to the Sale CBs.

None of the Directors has a material interest in (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) exercise of the conversion rights attaching to the Sale CBs and is required to abstain, or has abstained, from voting on the relevant Board resolutions to approve (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) exercise of the conversion rights attaching to the Sale CBs.

The SGM will be held and convened for the purpose of considering and, if though fit, approving (i) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (ii) the exercise of the conversion rights attaching to the Sale CBs.

Ms. Chen Weijun, Dr. Zhang Zhihong and Mr. Wang Rongliang, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds. Being the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

BASIS OF OUR OPINION

In formulating our opinion, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information, statements, opinion and representations contained or referred to in this circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board contained in this circular were reasonable made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in this circular.

The Company confirmed that it has provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in this circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in this circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into business and affairs of the prospects of the Company, the Vendors or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

1. Background of the Group

The Group is engaged in the distribution of gene testing services, distribution of bio-industrial products and provision of health care management services. Set out below is a summary of the Group's operating results and financial position extracted from the Company's latest published interim and annual reports:

	For the year ended 30 June 2011	**For the year ended 30 June 2012**	**For the six months ended 31 December 2012**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Distribution of gene testing services	71,242	22,607	73
Distribution of bio-industrial products	18,951	1,025	–
Provision of health care management services	–	1,843	1,457
	90,193	25,475	1,530
(Loss)/profit for the period/year			
Distribution of gene testing services	6,006	(93,760)	(6,850)
Distribution of bio-industrial products	1,244	(19,308)	(1,712)
Provision of health care management services	(3,074)	(22,875)	(16,461)
	4,176	(135,943)	(25,023)
(Loss)/profit for the period/year attributable to			
Owners of the Company	5,247	(123,882)	(24,931)
Non-controlling interests	359	(5,815)	(2,999)
	5,606	(129,697)	(27,930)

As shown in the above table, revenue decreased from approximately HK$90.19 million for the year ended 30 June 2011 to approximately HK$25.48 million for the year ended 30 June 2012, representing a decrease of approximately 71.75% as result of the transitional period brought by new sales and marketing strategy and the detrimental impact on the revenue in distribution of gene testing industry and bio-industrial products from the continuing economic downturn. As such, loss attributable to the owners of the Company for the year ended 30 June 2012 was approximately HK$123.88 million, representing a significant and substantial decline of results compared to the profit of approximately HK$5.25 million for the year ended 30 June 2011.

The table below summarizes the consolidated financial position of the Group as at 30 June 2011 and 2012 and as at 31 December 2012.

	As at 30 June 2011	30 June 2012	As at 31 December 2012
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	134,305	69,879	66,711
Current assets	332,946	286,119	353,084
– Cash on hand	222,267	169,815	231,757
Total assets	467,251	355,998	419,795
Non-current liabilities	2,972	7,253	10,346
Current liabilities	10,442	18,178	26,806
Total liabilities	13,414	25,431	37,152
Total equity attributable to			
Owners of the Company	436,524	319,248	374,276
Non-controlling interests	17,313	11,319	8,367
	453,837	330,567	382,643

As set out in the table above, as at 31 December 2012, the Group's unaudited consolidated net assets were approximately HK$382.64 million. The cash on hand as at 31 December 2012 is sufficient to satisfy the cash consideration of HK$120 million for Transaction I as mentioned below.

2. The S&P Agreement

Introduction

On 27 April 2013, the Company and the Vendors entered into the S&P agreement, pursuant to which the Company has conditionally agreed to acquire, and (i) Vendor A and Vendor B have conditionally agreed to sell the Sale CB-I in an aggregate principle amount of HK$320,650,000 and 450,000,000 Sale Shares respectively, at an aggregate Consideration I of HK$608,000,000; and (ii) Vendor A has conditionally agreed to sell the Sale CB-II in an aggregate principle amount up to HK$256,520,000, at an aggregate Consideration II up to a maximum HK$256,000,000 in four batches.

Upon completion of Transaction I, the Target Company will be accounted for as an associate in the financial statement of the Group. Upon completion of each of the Transaction II, the conversion of Sale CB-I or the conversion of Sale CB-II or all the aforesaid, the Target Company will continue to be an associate of the Group.

Transaction I –Sale and Purchase of the Sale Shares and Sale CB-I

(i) Transaction I – Assets to be acquired

Pursuant to the S&P Agreement, the Company has conditionally agreed to acquire, and Vendor A and Vendor B have conditionally agreed to sell the Sale CB-I in an aggregate principle amount of HK$320,650,000 and 450,000,000 Sale Shares respectively.

The 450,000,000 Sale Shares represent (i) approximately 18.83% of the total issued share capital of the Target Company as at the Latest Practicable Date; (ii) approximately 15.57% of the total issued share capital of the Target Company as enlarged by the allotment and issue of 500,000,000 Sale CBs Conversion Shares under Sale CB-I; and (iii) approximately 13.68% of the total issued share capital of the Target Company as enlarged by the allotment and issue of an aggregate of 900,000,000 Sale CBs Conversion Shares under Sale CB-I and Sale CB-II.

Assuming exercise in full of the conversion rights attaching to the Sale CB-I at the Sale CBs Conversion Price of HK$0.6413, a maximum of 500,000,000 Sale CBs Conversion Shares will be allotted and issued, representing (i) approximately 20.92% of the total issued share capital of the Target Company as at the Latest Practicable Date; (ii) approximately 17.30% of the total issued share capital of the Target Company as enlarged by the allotment and issue of 500,000,000 Sale CBs Conversion Shares under Sale CB-I; and (iii) approximately 15.20% of the total issued share capital of the Target Company as enlarged by the allotment and issue of an aggregate of 900,000,000 Sale CBs Conversion Shares under Sale CB-I and Sale CB-II.

(ii) Transaction I – Payment Mechanism of Consideration I

Consideration I as HK$608,000,000 shall be satisfied by the Company upon Completion I in the following manner:

(i) an aggregate sum of HK$120,000,000 shall be payable in cash by the Company to Vendor A upon Completion I;

(ii) an aggregate sum of HK$200,000,000 shall be payable by issue of the relevant Convertible Bonds I in the principle amount of HK$200,000,000 to Vendor A or his nominee(s) (as he may direct in writing) upon Completion I; and

(iii) an aggregate sum of HK$288,000,000 shall be payable by issue of the relevant Convertible Bonds I in the principle amount of 288,000,000 to Vendor B or its nominee(s) (as it may direct in writing) upon Completion I.

Part of Consideration I, as HK$320,000,000, is allocated to Vendor A for the sale and purchase of the Sale CB-I while the remaining part of Consideration I, as HK$288,000,000, is allocated to Vendor B for the sale and purchase of the Sale Shares.

On the basis that part of Consideration I, as HK288,000,000, is allocated for the sale and purchase of the Sale Shares, as 450,000,000 Target Company Shares, the consideration per Sale Share is HK$0.64.

The said consideration per Sale Share of HK$0.64 represents:

(i) a premium of approximately 23.08% over the closing price of HK$0.52 per Target Company Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 8.57% to the closing price of HK$0.70 per Target Company Share as quoted on the Stock Exchange as at the date of the Announcement;

(iii) a discount of approximately 13.51% to the closing price of HK$0.740 per Target Company Share as quoted on the Stock Exchange on the last trading date of signing of the S&P Agreement;

(iv) a discount of approximately 14.44% to the average closing price of HK$0.748 per Target Company Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the S&P Agreement; and

(v) a discount of approximately 12.69% to the average closing price of approximately HK$0.733 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the S&P Agreement.

The cash portion of Consideration I is expected to be financed by internal resources of the Group.

(iii) Transactions I – Completion I

Subject to the fulfillment of all the conditions precedent to Transaction I, Completion I shall take place on or before 5:00 p.m. of Completion Date I.

Transaction II – Sale and Purchase of the Sale CB-II

(i) Transaction II – Assets to be acquired

Pursuant to the S&P Agreement, the Company has conditionally agreed to acquire, and Vendor A has conditionally agreed to sell the Sale CB-II in a principle amount of up to an aggregate HK$256,520,000, in four batches.

Assuming exercise in full of the conversion rights attaching to the Sale CB-II at the Sale CBs Conversion Price of HK$0.6413, a maximum of 400,000,000 Sale CBs Conversion Shares will be allotted and issued, representing approximately 16.74% of the total issued share capital of the Target Company as at the date of the Announcement; (ii) approximately 14.34% of the total issued share capital of the Target Company as enlarged by the allotment and issue of 400,000,000 Sale CBs Conversion Shares under Sale CB-II; and (iii) approximately 12.16% of the total issued share capital of the Target Company as enlarged by the allotment and issue of an aggregate of 900,000,000 Sale CBs Conversion Shares under the Sale CBs.

(ii) Transaction II – Payment Mechanism of Consideration II

Consideration II as up to a maximum HK$256,000,000 shall be satisfied by the Company upon Completion II in the following manner:

(i) an aggregate sum of HK$64,000,000 shall be payable by issue of relevant Convertible Bonds II in the principle amount of HK$64,000,000 by the Company to Vendor A or his nominee(s) (as he may direct in writing) upon Completion II – First Batch (or such other date as Vendor A and the Company may agree in writing);

(ii) an aggregate sum of HK$64,000,000 shall be payable by issue of relevant Convertible Bonds II in the principle amount of HK$64,000,000 by the Company to Vendor A or his nominee(s) (as he may direct in writing) upon Completion Date II – Second Batch (or such other date as Vendor A and the Company may agree in writing);

(iii) an aggregate sum of HK$64,000,000 shall be payable by issue of relevant Convertible Bonds II in the principle amount of HK$64,000,000 by the Company to Vendor A or his nominee(s) (as he may direct in writing) upon Completion Date II – Third Batch (or such other date as Vendor A and the Company may agree in writing); and

(iv) an aggregate sum of HK$64,000,000 shall be payable by issue of relevant Convertible Bonds II in the principle amount of HK$64,000,000 by the Company to Vendor A or his nominee(s) (as he may direct in writing) upon Completion Date II – Fourth Batch (or such other date as Vendor A and the Company may agree in writing).

(iii) Transaction II – Completion II

(i) Completion II – First Batch

Subject to the fulfillment of all the conditions precedent to Transaction II, Completion II – First Batch shall take place on or before 5:00 p.m. of Completion Date II – First Batch.

(ii) Completion II – Second Batch

Subject to the fulfillment of all the conditions precedent to Transaction II and Completion II – First Batch having taken place, Completion II – Second Batch shall take place on or before 5:00 p.m. of Completion Date II – Second Batch.

(iii) Completion II – Third Batch

Subject to the fulfillment of all the conditions precedent to Transaction II and Completion II – Second Batch having taken place, Completion II – Third Batch shall take place on or before 5:00 p.m. of Completion Date II – Third Batch.

(iv) Completion II – Fourth Batch

Subject to the fulfillment of all the conditions precedent to Transaction II and Completion II – Third Batch having taken place, Completion II – Fourth Batch shall take place on or before 5:00 p.m. of Completion Date II – Fourth Batch.

Despite Transaction II is conditional on the completion of Transaction I, Transaction I is not conditional on the completion of Transaction II. Therefore, Transaction I and Transaction II are not inter-conditional to each other.

Option not to complete the sale and purchase of the Sale CB-II – Fourth Batch

Vendor A and the Company shall each have the option not complete the sale and purchase of Sale CB-II – Fourth Batch by giving not less than 10 Business Days notice in writing to the other party.

3. Information on the Target Group

Principal business

Extrawell Pharmaceutical Holdings Limited, a company whose shares are listed on the main board of the Stock Exchange (stock code: 00858), is an investment holding company and its subsidiaries are principally engaged in marketing and distribution of pharmaceutical products in the PRC; development, manufacturing and sales of pharmaceutical products in the PRC; commercial exploitation and development of genome-related technology; and development and commercialisation of oral insulin products.

Set out below are certain consolidated financial information of the Target Group for each of the two financial years ended 31 March 2012 and 2013:

	For the year ended	
	31 March 2012	**31 March 2013**
	HK$'000	*HK$'000*
Net profits before tax	16,863	8,886
Net profits after tax	15,937	8,180

Despite the net profit after tax of the Target Group decreased by 48.67% as compared to the previous corresponding year and China's economic growth is subject to external destabilising forces and uncertainties, the development of the pharmaceutical and healthcare sectors in the Mainland looks promising with the supportive policies under the Twelfth Five-Year Plan. The change in population structure and spectrum of diseases coupled with the rising standard of living further support optimism towards continued growth in demand for quality drugs and healthcare services.

4. Reasons for and benefits of entering into the S&P Agreement

Investment opportunity

Reference is made to the circular of the Company dated 26 April 2013 (the "**Convertible Bonds Circular**") concerning the placing of convertible bonds in the principal amount up to HK$74,000,000 and the subscription of convertible bonds in the principal amount of HK$59,000,000. As indicated in the Convertible Bonds Circular, since 2010, the Company has been in the process of considering and assessing a number of investment opportunities concerning business relating to health care, pharmaceutical and biotechnology, including but not limited to oral insulin.

As both the Company and the Target Company are principally engaged in businesses relating to the health care, pharmaceutical and biotechnology industries, it is fair and reasonable for the Board to hold the view that the business of the Target Company is in line with the business of the Company.

Twelfth Five-Year Plan

According to the annual report of the Target Company for the year ended 31 March 2013 ("**2013 Target Company Annual Report**"), the PRC pharmaceutical industry continued to grow by riding on the extensive healthcare reforms under the Twelfth Five-Year Plan (2011–2015) which include further strengthening the delivery of medical care and the public health infrastructure, providing accessible health insurance, and ensuring a sound system for drug supply and security. The Twelfth Five-Year Plan reflects the central government's continued commitment in healthcare reform, focusing healthcare as a social priority and providing more support for technology innovation in the pharmaceutical industry.

Expand in portfolio and business scope

The Target Group is principally engaged in various businesses, including (i) the marketing and distribution of pharmaceutical products; (ii) development, manufacture and sale of pharmaceutical products; and (iii) commercial exploitation and development of genome-related technology. As such, the Board holds the view that the acquisition of interest in the Target Company, an active market player in the PRC, would enable the Company to expand its portfolio of and business scope in the health care, pharmaceutical and biotechnology businesses as well as to grasp the opportunities arising from the said healthcare reforms in the PRC.

The Medicine

According to the voluntary announcement of the Target Company dated 25 February 2013, in accordance with the Phase III clinical trial protocol (the "**Protocol**") filed with the State Food and Drug Administration ("**SFDA**") of the PRC, the Target Group has recently completed part A of the Protocol relating to the multi-centered, randomized, double-blinded and placebo-controlled clinical trial of its oral insulin enteric-coated soft capsules (the "**Medicine**") on treatment of Type 2 diabetes. With reference to the benchmark indicators, in particular, on the effect of reducing blood glucose level in diabetics through absorption of the Medicine into blood circulation of human body, the statistical outcome of the per-protocol set (PPS) analysis shows that the bio-efficacy of the Medicine in the treatment group (where patients were given the Medicine) was significantly superior to that of the control group (where patients were given placebo).

The Protocol designed by recognized clinical trial bases and led by the Peking University People's Hospital in the PRC consists of two parts. As part A of the Protocol has already been completed with satisfactory results, in order to further validate the efficacy of the use of the Medicine in more diabetic testees, the Group is working with the project team and clinical experts of the Peking University People's Hospital in the PRC to conduct part B of the clinical trial on the Medicine contemplated in the Protocol, among others, in larger scale of participating cases.

The extended clinical trial is currently at the planning stage, upon passing through the extended clinical trial successfully and obtaining the relevant production approval, the drugs production of the Medicine is expected to be commenced by the end of 2015.

According to the International Diabetes Federation ("**IDF**"), in 2012, the PRC has the world's largest diabetic population of approximately 92.28 million representing approximately 24.85% of the world's diabetic population. The PRC diabetic population in 2012 of 92.28 million represent approximately 9.42% of the PRC total population and had grew by approximately 2.49% from 2011. The IDF had estimated that the PRC diabetic population will grow to approximately 129.70 million by 2030, a compound annual growth rate of approximately 1.91%, and would represent approximately 12.10% of the PRC total population. These results indicate that diabetes has become a major public health problem in the PRC and that strategies aimed at the prevention and treatment of diabetes are needed.

The PRC government issued the China National Plan for Chronic Diseases Prevention and Treatment, with diabetes as a major concern. According to the report of the National People's Congress released in early March 2013, the PRC will increase its healthcare expenditure by approximately 27.10% year-on-year in 2013.

The Board holds the view that there is substantial demand for the Medicine and accordingly, the Transactions will, in due course, generate strong returns to the Company for the benefit of all the Shareholders due to the above policy from PRC government.

On the assumption that the Medicine is successfully launched and commercialized, it is fair and reasonable for the Board to hold the view that it would bring positive impact to the Group's financial performance and ultimately increase the share price of the Target Company Share and the value of the Sale CBs.

Synergy effects

The Board holds the view that synergy effects could be achieved through the linking of similar businesses of the Group and the Target Company, including but not limited to (i) the sharing of the biomedical and pharmaceutical technology knowhow for development of new products; and (ii) further improve the presence and perceived image of the Group in the PRC pharmaceutical industry as the Target Group is one of the active market player in the PRC with well-established distribution channels.

Sale CBs

The acquisition of the Sale CBs provides the Company with the flexibility to increase or maintain its equity interest in the Target Company, as and when appropriate, so as to create value to its Shareholders.

Further, the Sale CBs with a long maturity of 20 years would indicate a high potential for greater fluctuation as compared to a convertible bonds with shorter maturity. According to the relevant preliminary valuation model, it is fair and reasonable to infer that a higher volatility, while keeping other factors constant, would infer and implicate a higher option value of the Sale CBs.

Although the Sale CBs carry no interest and early redemption right, have a long maturity of 20 years and conversion restrictions on takeover codes and public float requirements, considering that (i) the Sale CBs offer the Company the opportunity to increase its equity interest in the Target Company and as such, the possibility to increase the amount of profit that could be shared from the Target Company in future and when appropriate; (ii) the long maturity of 20 years offer greater fluctuation as compared to a convertible bonds with shorter maturity; and (iii) it is expected that the profit of the Medicine would take a long period of time to reach its maximum value (due to economies of scale), as the said profit would be fully reflected in the share price of the Target Company, the term of 20 years would provide the Company with the best opportunity, sufficient time and flexibility to exercise the Sales CBs at the appropriate time for maximizing the gain. Therefore, it is fair and reasonable for the Board to hold the view that the acquisition of the Sale CBs is in the interest of the Company and the Shareholders as a whole.

Option not to complete the sale and purchase of the Sale CB-II – Fourth Batch

As the Sale CB-II – Fourth Batch represents approximately 11.11% of the Sale CBs, it is fair and reasonable for the Board to hold the view that the Sale CB-II – Fourth Batch is relatively not substantial to the whole transaction.

As it is uncertain as to whether Vendor A would be able to exercise the call option rights under the Call Option Agreement in full, the option not to complete the sale and purchase of Sale CB-II – Fourth Batch under the S&P Agreement provides Vendor A and the Company a contingent measure and the flexibility so as to smooth and expedite the transactions contemplated under the S&P Agreement. Therefore, it is fair and reasonable that the said option is in the interest of the Company and the Shareholders as a whole.

Other alternatives available for settlement

The Board had considered other settlement methods namely, bank borrowings, placing, rights issue or open offer. However, the Company has difficulty in obtaining favorable terms on bank borrowings due to recent temporarily unsatisfactory business and financial performances. The Board had also considered the time and cost to be involved for a placing, rights issue or open offer is likely to be higher than the current method of issuing convertible bonds.

The Board had also considered the feasibility of cash settlement. However, due to the limited cash available for the Group after the settlement of the Sale Shares and the poor result of the Group for the six months ended 31 December 2012, the Board consider that it is in the best interest of the Group to settle the remaining consideration by the issue of Convertible Bonds I and Convertible Bonds II. Furthermore, additional capital injection into the Target Group may be required for the research and development of the Medicine for the next phase of the clinical trial, and a further amount may be incurred for pre-marketing efforts before the commencement of commercial production and distribution of the Medicine. As such, the Board considers it is in the interest of the Group to not settle fully in cash.

Moreover, considering that (i) there is nil interest burden incurred from the Convertible Bonds; (ii) that there is no immediate dilution effect from the issue of the Convertible Bonds; and (iii) the relatively long maturity of 10 years of the Convertible Bonds which allows the Company to enjoy the benefit as a result of (a) the commercialization of the Medicine which is expected to help the Target Company generate substantial profit and the Company will be able to share its profit; and (b) the benefit from the synergy effect as mentioned above which will help generate future profit for the Company. With the improvement of the financial position of the Company, (i) the Company may be able to redeem the Convertible Bonds and have better opportunity to raise additional capital from investors when necessary; and (ii) the Vendors will be more incline to convert the Convertible Bonds into shares upon maturity. As such, the issue of the Convertible Bonds represents a fair and reasonable settlement arrangement.

Therefore, in our opinion it is fair and reasonable for the Board to hold the view that (i) the acquisition of the Sale CBs is in the interest of the Company and the Shareholders as a whole; and (ii) the entering into the S&P Agreement are on normal commercial terms and ordinary and usual course of business of the Company, and the terms and conditions of the S&P Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Valuation Report of the Sale CBs

The Company has engaged the Valuer, a specialist valuation firm providing valuation and advisory services, as the independent valuer for the valuation on the fair value of the Sale CBs. We have reviewed and enquired with the Valuer in relation to their experiences, understand they have participated in valuing convertible bonds for listed companies in Hong Kong. We have also reviewed the terms of the Valuer's engagement, in particular, their scope of work, and noted that it is appropriate to the opinion required to be given. No limitation on the scope of work which might adversely impact on the degree of assurance given by them in the valuation report has been noted.

We have reviewed the valuation report issued by the Valuer dated 27 September 2013 and discussed with the Valuer regarding, among other things, the basis and assumptions made and the methodology adopted in conducting the valuation of the Sale CBs.

The Valuer has adopted the binomial option pricing model to determine the fair values of the Sale CB. The binomial option pricing model was adopted as it is a valuation technique commonly used by market participants and had demonstrated to provide reliable estimates of prices obtained in actual market transactions.

We have, as part of our review process, checked the underlying resources of the parameters and re-performing the calculations of the components of the valuation of the Sales CBs, including (i) discount rate; (ii) risk free rate; (iii) other risk premium and (iv) expected volatility.

The discount rate is estimated using the build-up method by adding (a) the risk free rate; (b) average credit spread; and (c) other risk premium. The risk free rate is estimated with reference to the yields of Hong Kong government bonds and treasury bills. Other risk premium is estimated with reference to the country risk premium of Hong Kong over the United States market.

The average credit spread is made up of (i) the average yield spread; and (ii) a risk premium. The average yield spread is calculated using the yield-to-maturity of comparable bonds and subtracting the yield of the United States government bond.

The Valuer assessed the credit rating of the Target Company and selected eight comparable bonds of similar credit ratings to obtain the average yield to maturity. The Valuer had considered the financial ratio of the Target Company and assumed a range of credit rating from "AA" to "A". The financial ratio calculation and the benchmark financial ratio applied are commonly used by international credit agency. The selection criteria for the comparables were as follow:

1. The remaining bond lives of the comparable bonds should be over 15 years;

2. The credit ratings of the comparable bonds should be between "AA" and "A";

3. The issuers of the comparable bonds should be principally engaged in pharmaceuticals, chemicals or related industries; and

4. Historical trading data of the comparable bonds is available in Bloomberg.

No comparable bonds listed in Hong Kong matched the above criteria and given the bond market in the United States is one of the largest and more mature markets, as such, the eight comparable bonds used are traded in the clearing houses in the United States. Despite the fact that not all of the eight comparable bonds are issued by listed companies in the United States, the Valuer considers that it is appropriate to use those eight comparable bonds for comparison purpose due to the consideration that they are traded in the United States, and their information, including (i) their maturity date; (ii) credit ratings; and (iii) principal business of the issuers of those eight comparable bonds, which are similar to the Company. The comparable bonds were selected on a best effort basis and are an exhaustive list of fair and representative comparables based on the above criteria. As such, we concur with the view of the Valuer that it is fair and reasonable to use the eight comparable bonds for comparison purpose.

To account for illiquidity, lack of marketability and the differences in size and profitability, a risk premium of 6% was estimated base on the Valuer's professional judgment and past experience in valuations of similar convertible bonds. As advised by the Valuer, we are aware that the element of the risk premium includes but not limited to the consideration of (i) approximately 1% for the illiquidity as a result of the lower ability of the bondholder to convert the Sale CBs into cash; (ii) approximately 1% for the lack of marketability of the Sale CBs since it is not a listed convertible bond; (iii) approximately 2% for the difference in the size of the respective issuers; and (iv) approximately 2% for the lower profitability of the Company. As such, we are of the opinion that the risk premium is based on commonly accepted sources, method and common practice as in other valuation of similar nature.

Expected volatility was estimated based on the historical price volatilities of the shares of the Target Company.

Based on our discussion with the Valuer in relation to the bases used for determining the key parameters, we considered such parameters are justifiable after checking the underlying resources of the parameters and re-performing the calculations of the components of the valuation of the Sales CBs.

In light of the above, we are of the view that the basis of the valuation report is fair and reasonable as the valuation report has been reasonably prepared without any unusual assumptions adopted by the independent Valuer.

6. Bases for determining Consideration I and Consideration II

Consideration I and Consideration II have been arrived at after arm's length negotiations between the Company and the Vendors and was determined with reference to, amongst others:

(i) the historical financial position and performance of the Target Group;

(ii) the future prospects of the Target Group;

(iii) the recent trading price of the Target Company Shares;

(iv) Consideration I: on the assumption that upon the exercise in full of the conversion rights attaching to Sale CB-I at the initial conversion price of HK$0.6413, a maximum of 500,000,000 Sale CBs Conversion Shares will be allotted and issued. Further, upon completion of the sale and purchase of 450,000,000 Sale Shares and subject to the exercise in full of the said conversion rights, the Company will own an aggregate of 950,000,000 new Target Company Shares at Consideration I, as HK$608,000,000. Accordingly, Consideration I per Target Company Share is HK$0.64;

(v) Consideration II: on the assumption that exercise in full of the conversion rights attaching to Sale CB-II at the initial conversion price of HK$0.6413, a maximum of 400,000,000 Sale CBs Conversion Shares will be allotted and issued. Further, subject to the exercise in full of the said conversion rights, the Company will own an aggregate of 400,000,000 new Target Company Shares at Consideration II, as HK$256,000,000. Accordingly, Consideration II per Target Company Share is HK$0.64; and

(vi) the Target Company Share of HK$0.64 represents:

(a) a discount of approximately 13.51% to the closing price of HK$0.740 per Target Company Share as quoted on the Stock Exchange on the last trading date of signing of the S&P Agreement;

(b) a discount of approximately 14.44% to the average closing price of HK$0.748 per Target Company Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the S&P Agreement;

(c) a discount of approximately 12.69% to the average closing price of approximately HK$0.733 per Target Company Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the S&P Agreement.

Having considered:

(i) that the Target Group was able to maintain its turnover and gross profit at approximately HK$151.07 million and HK$46.69 million respectively, representing a slight decrease of about 4.03% and 1.62% as compared with that of the last corresponding year, despite uncertainty in the global economic environment.

(ii) the above "Reasons for and benefits of entering into the S&P Agreement" and in particular, in accordance to the 2013 Target Company Annual Report, chronic conditions such as diabetes and hypertension are proliferating rapidly in the PRC given the aging population, accelerating urbanisation coupled with unhealthy diets and sedentary lifestyles in recent years. Promoting the success of the oral insulin project will still be given high priority in the years to come so that the Target Group could capture the enormous market opportunities arising from the growing number of diabetics in the PRC.

(iii) the Target Company Share for both Consideration I and Consideration II, is HK$0.64 which is:

(a) at a discount of approximately 13.51% to the closing price of HK$0.740 per Target Company Share as quoted on the Stock Exchange on the last trading date of signing of the S&P Agreement;

(b) at a discount of approximately 14.44% to the closing price of HK$0.748 per Target Company Share as quoted on the Stock Exchange on the last five consecutive trading date of signing of the S&P Agreement; and

(c) a discount of approximately 12.69% to the average closing price of approximately HK$0.733 per Target Company Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the S&P Agreement,

It is fair and reasonable that entering into the S&P Agreement and the transactions contemplated thereunder (including the basis for determining Consideration I and Consideration II) are on normal commercial terms and ordinary and usual course of business of the Company, and the terms of S&P Agreement and the transactions contemplated thereunder (including the basis for determining Consideration I and Consideration II) are determined on an arm's length basis, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. Terms of Convertible Bonds

The principal terms of Convertible Bonds are summarized below:

Principal amount:	An aggregate principal amount of up to HK$744,000,000
Maturity date:	Tenth anniversary of the date of issue ("**Maturity Date**")
Interest:	Nil
Conversion Price:	The Conversion Price is HK$0.40 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds.
Adjustment events:	The Conversion Price shall from time to time be adjusted upon occurrences of certain events, including but not limited to the followings:

(i) consolidation or sub-division of Shares;

(ii) capitalisation of profits;

(iii) capital distribution;

(iv) issue of Shares by way of rights, options and warrants;

(v) issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares;

(vi) modification of rights of conversion or exchange or subscription attaching to any such securities;

(vii) issue of Shares wholly for cash at more than 20% discount to the market price of such Shares; and

(viii) issue of Shares for acquisition of asset at more than 20% discount to the market price of such Shares.

Conversion Shares: (a) Based on the initial Conversion Price of HK$0.40, a maximum number of 1,220,000,000 Conversion Shares I will be allotted and issued upon exercise in full of the conversion rights attaching to Convertible Bonds I, which represent:

(i) approximately 154.30% of the total issued share capital of the Company as at the date of the Announcement;

(ii) approximately 53.03% of the total issued share capital of the Company as enlarged by the allotment and issue of Conversion Shares I upon exercise in full of the conversion rights attaching to Convertible Bonds I;

(iii) approximately 41.49% of the total issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon exercise in full of conversion rights attaching to the Convertible Bonds; and

(iv) approximately 112.89% of the total issued share capital of the Company as at the Latest Practicable Date.

(b) Based on the initial Conversion Price of HK$0.40, a maximum number of 640,000,000 Conversion Shares II will be allotted and issued upon exercise in full of the conversion rights attaching to Convertible Bonds II, which represent:

(i) approximately 80.94% of the total issued share capital of the Company as at the date of the Announcement;

(ii) approximately 37.19% of the total issued share capital of the Company as enlarged by the allotment and issue of Conversion Shares II upon exercise in full of the conversion rights attaching to Convertible Bonds II;

(iii) approximately 21.76% of the total issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to the Convertible Bonds; and

(iv) approximately 59.22% of the total issued share capital of the Company as at the Latest Practicable Date.

The Conversion Shares shall be allotted and issued under the Specific Mandate to be granted to the Directors by the Independent Shareholders at the SGM.

Conversion rights:	Each holder of the Convertible Bonds shall have the right, exercisable during the Conversion Period (as defined below) to convert the whole or any part (in multiples of HK$400,000) of the outstanding principal amount of the Convertible Bonds held by such holder of the Convertible Bonds into such number of Conversion Shares as will be determined by dividing the principal amount of the Convertible Bonds to be converted by the Conversion Price in effect on the date of conversion. No fraction of a Share shall be issued on conversion of the Convertible Bonds and no cash adjustments will be made.
Conversion Restrictions:	Upon exercise of the conversion rights attaching to the Convertible Bonds, (i) the holders of Convertible Bonds and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code; and (ii) the public float of the Company will not be unable to meet the relevant requirements under the Listing Rules.
Conversion Period:	The period commencing from the date of issue of the Convertible Bonds and ending on the day which falls on the Tenth anniversary of the date of issue of the Convertible Bonds.
Early Redemption:	The Company shall not be entitled to redeem all or part of the outstanding Convertible Bonds prior to the Maturity Date. Further, according to the instrument constituting the Convertible Bonds, the holders of the Convertible Bonds do not have the right to early redemption of all or part of the outstanding Convertible Bonds prior to the Maturity Date.

Ranking:	The Conversion Shares shall rank pari passu in all respects among themselves and with all other existing Shares outstanding at the date of conversion and all Conversion Shares shall include rights to participate in all dividends and other distributions.
Transferability:	Any transfer of the Convertible Bonds shall be in respect of the whole or any part (in multiples of HK$400,000) of the principal amount of the Convertible Bonds. Further, according to the instrument constituting the Convertible Bonds, the Convertible Bonds must not be transferred to any person, firm or company which is a connected person (as defined in the Listing Rules) of the Company except in compliance with the applicable requirements under the Listing Rules and the Takeovers Code.
Application for listing:	No application will be made by the Company to the Stock Exchange for listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.
Notice of conversion by other bondholders:	The Company may, upon request by the holders of the Convertible Bonds in writing, notify the holders of the Convertible Bonds about the conversion of the convertible bonds of the Company by other bondholders within 7 Business Days from the date of receipt of the relevant conversion notice.

Pursuant to the terms of the Convertible Bonds, the exercise of the conversion rights attached to the Convertible Bonds and the issue of the Conversions Shares are subject to the memorandum and articles of association of the Company and the Takeovers Code. Any issue of the Conversion Shares or adjustment to the Conversion Price shall not be below the par value of the Shares.

The Conversion Shares will be issued under the Specific Mandate to be approved by the Independent Shareholders at the SGM.

(i) Comparison of the Conversion Price with the prevailing Share price

The Conversion Price of HK$0.40 per Conversion Share represents:

(i) a discount of approximately 8.05% to the closing price of HK$0.435 per Share as quoted on the Stock Exchange on the last trading date of signing of the S&P Agreement;

(ii) a discount of approximately 8.05% to the average closing price of HK$0.435 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the S&P Agreement;

(iii) a discount of approximately 9.30% to the average closing price of approximately HK$0.441 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the S&P Agreement;

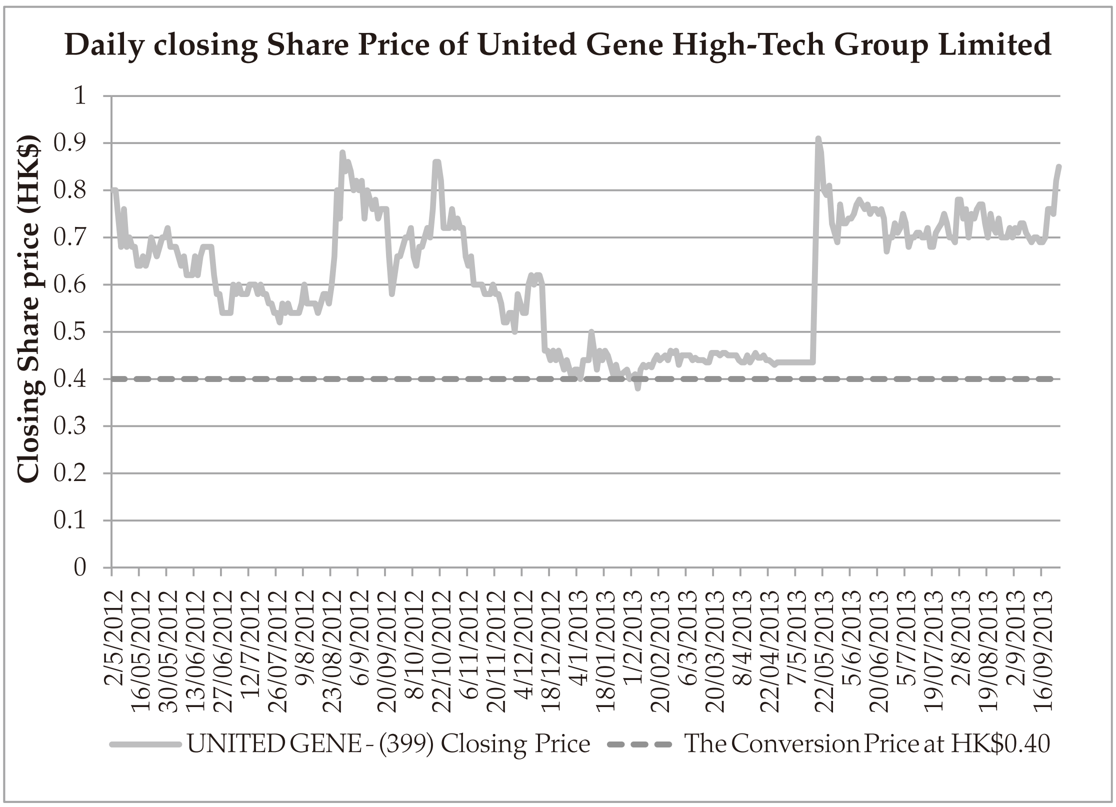
(iv) a discount of approximately 17.36% to the net asset price of approximately HK$0.484 per Share, calculated based on the unaudited consolidated net asset of approximately HK$382,643,000 as at 31 December 2012 and 790,693,024 Shares in issue as at the date of S&P Agreement; and

(v) a discount of approximately 52.94% to the closing price of HK$0.85 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As set out in the Letter from the Board, the Conversion Price for the Convertible Bonds was determined after arm's length negotiations between the Company and the Vendors, with reference to the recent performance of the Shares, the Group's existing financial position and current market conditions.

(ii) Review of historical Share price

For the purpose of assessing the fairness and reasonableness of the Conversion Price, we reviewed the daily closing price of the Shares as quoted on the Stock Exchange since 2 May 2012, approximately one year period prior to the date of the S&P Agreement and the period commencing from the date of the S&P Agreement and up to and including the Latest Practicable Date (the "**Share Price Review Period**").



Source: website of the Stock Exchange (www.hkex.com.hk)

As set out in the chart above, during the Share Price Review Period, the daily closing prices of the Shares ranged from HK$0.38 to HK$0.91 per Share. The Share price closed at HK$0.85 on the Latest Practicable Date. The average closing price of the Shares during the Share Price Review Period was approximately HK$0.61 per Share.

We noted that the Conversion Price of HK$0.40 per Conversion Share is lower than the average closing price of the Shares during the Share Price Review Period, being approximately HK$0.61 per Share, and lies within the range of the daily closing prices of the Shares during the Share Price Review Period from HK$0.38 to HK$0.91 per Share.

(iii) Comparison with other issues of convertible securities

In order to assess the fairness and reasonableness of the Convertible Bonds, to the best of our knowledge and on the best effort basis, we have conducted a search on all issues of convertible bonds/notes to connected persons by companies listed on the Main Board and Growth Enterprise Market of the Stock Exchange which have made announcements for acquisition of assets by issuing convertible notes/bonds with principal amount of not less than HK$500 million (the "**CB Comparables**") from 27 April 2012, being the date of one year prior to the date of the S&P Agreement, to and before the Latest Practicable Date (the "**CB Comparable Period**"). The reason for selecting such CB Comparable Period is after the due consideration of the criteria, including (i) the terms of the CB Comparables are determined under similar market conditions and sentiments as the Convertible Bonds; (ii) the value of the convertible bonds/note of the Convertible Bonds amounted to not less than HK$500 million; and (iii) the convertible bonds will be issued to connected persons of the Company, we consider that the list of CB Comparables is an exhaustive list of those fair and representative comparables for comparison purpose. The key terms of the CB Comparables are summarized as follows:

						Premium/(discount) of conversion price over/(to) the average closing share price of		
Date of announcement	**Stock Code**	**Company Name**	**Principal amount** *(HK$'million)*	**Terms** *(Years)*	**Interest rate per annum** %	**Last trading day** %	**5 trading days prior to the last trading day** %	**10 trading days prior to the last trading day** %
28th June 2013	1165	Shunfeng Photovoltaic International Limited	931	10	8.00	(20.52)	(19.26)	(15.10)
28th June 2013	508	Dingyi Group Investment Limited	620	2	–	(42.11)	(43.49)	(42.11)
22nd April 2013	978	Tonic Industries Holdings Limited	6,177	Perpetual	–	(44.50)	(42.30)	(39.50)
11th April 2013	908	Zhuhai Holdings Investment Group Limited	500	5	–	21.95	25.00	25.00
18th January 2013	686	Goldpoly New Energy Holdings Limited	1,160	5	–	(21.26)	(22.12)	(21.88)
16th November 2012	803	Prosperity International Holdings (H.K.) Limited	780	2	–	26.60	34.80	35.90
17th October 2012	8032	Viva China Holdings Limited	780	Perpetual	–	–	1.56	1.88
8th October 2012	61	North Asia Resources Holdings Limited	Maximum 3,662	5	–	(39.30)	(37.00)	(35.10)
26th June 2012	1093	China Pharmaceutical Group Limited	6,708	5	–	4.88	12.57	30.30
25th May 2012	419	Media China Corporation Limited	700	3	–	8.70	11.86	12.36
		Maximum			**8.00**	**26.60**	**34.80**	**35.90**
		Minimum			**–**	**(44.50)**	**(43.49)**	**(42.11)**
		Average			**0.80**	**(10.56)**	**(7.84)**	**(4.83)**
		Company	744	10	–	(8.05)	(8.05)	(9.30)

Source: website of the Stock Exchange (www.hkex.com.hk)

Based on the above illustration, the premium/discount represented by the conversion price of the respective CB Comparables to their respective closing prices on the last trading day before release of the relevant announcements ranged from a premium of approximately 26.60% to a discount of approximately 44.50% (the "**CB Comparable LTD Range**"). Upon comparison, we note that (i) the discount of the Conversion Price to the closing price on the Last Trading Day falls within the CB Comparable LTD Range; and (ii) the average premium/discount of the CB Comparables to their respective closing price on the last trading day before release of the relevant announcements was approximately 10.56%, a difference of approximately 2.51% as compared to the Company's discount of 8.05%.

The premium/discount represented by the conversion price of the respective CB Comparables to their respective 5-day-average closing prices for the five consecutive trading days up to and including the last trading day before the release of the relevant announcements ranged from a premium of approximately 34.80% to a discount of approximately 43.49% (the "**CB Comparable 5-Day Range**"). Upon comparison, we note that (i) the discount of the Conversion Price to the 5-day-average closing price for the five consecutive trading days up to and including the Last Trading Day falls within the CB Comparable 5-Day Range; and (ii) the average premium/discount of the CB Comparables to their respective 5-day-average closing price for the five consecutive trading days up to and including the last trading day before release of the relevant announcements was approximately 7.84%, a difference of approximately 0.21% as compared to the Company's discount of 8.05%.

The premium/discount represented by the conversion price of the respective CB Comparables to their respective 10-day-average closing prices for the ten consecutive trading days up to and including the last trading day before the release of the relevant announcements ranged from a premium of approximately 35.90% to a discount of approximately 42.11% (the "**CB Comparable 10-Day Range**"). Upon comparison, we note that (i) the discount of the Conversion Price to the 10-day-average closing price for the five consecutive trading days up to and including the Last Trading Day falls within the CB Comparable 10-Day Range; and (ii) the average premium/discount of the CB Comparables to their respective 10-day-average closing price for the ten consecutive trading days up to and including the last trading day before release of the relevant announcements was approximately 4.83%, a difference of approximately 4.47% as compared to the Company's discount of 9.30%.

Save for the Company's higher discount rate as compare to the average discount of the CB Comparables to their respective (i) 5-day average closing price for the five consecutive trading days up to and including the last trading day before the release of the relevant announcements; and (ii) 10-day average closing price for the ten consecutive trading days up to and including the last trading day. We are of the view that the terms of the Convertible Bonds are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole after taking into account that (i) the Convertible Bonds is non-interest bearing; (ii) the Conversion Price is equivalent to the cost of each Sale

Share, of which we consider it is fair and reasonable; (iii) the discount of the Conversion Price to the closing price on Last Trading Day falls within the CB Comparable LTD Range; (iv) the discount of the Conversion Price to the 5-day-average closing price for the five consecutive trading days up to and including the Last Trading Day falls within the CB Comparable 5-Day Range; (v) the discount of the Conversion Price to the 10-day-average closing price for the ten consecutive trading days up to and including the Last Trading Day falls within the CB Comparable 10-Day Range; and (vi) the Conversion Restriction and the uncertainty risk to be borne by the holders of the Convertible Bonds after issue of the Convertible Bonds but before the commencement of the Conversion Period.

(iv) The Potential Dilution Effect on the Shareholding of the Existing Shareholders

The table below illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion I but before Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds I at the Conversion Price of HK$0.40 per Conversion Share); (iii) immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds II at the Conversion Price of HK$0.40 per Conversion Share, but no exercise of Convertible Bonds I); (iv) immediately after Completion I and Completion II (assuming the exercise of the conversion rights attaching to the Convertible Bonds at the Conversion Price of HK$0.40 per Conversion Share, but the option not to complete the sale and purchase of the Sale CB-II Fourth Batch; (v) immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds at the Conversion Price of HK$0.40 per Conversion Share); and (vi) immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to all the convertible bonds of the Company:

	As at the Latest Practicable Date		immediately after Completion I but before Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds I at the Conversion Price of HK$0.40 per Conversion Share) *(Note 5)*		immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to Convertible Bonds II at the Conversion Price of HK$0.40 per Conversion Share, but no exercise of Convertible Bonds I) *(Note 5)*		immediately after Completion I and Completion II (assuming the exercise of the conversion rights attaching to the Convertible Bonds at the Conversion Price of HK$0.40 per Conversion Share, but the option not to complete the sale and purchase of the Sale CB-II Fourth Batch has been exercised) *(Note 5)*		immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to the Convertible Bonds at the Conversion Price of HK$0.40 per Conversion Share) *(Note 5)*		immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to all the convertible bonds of the Company) *(Note 5)*	
	No. of Shares	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*
Substantial shareholder												
United Gene Holdings Limited *(Note 1)*	108,500,000	10.04%	108,500,000	4.72%	108,500,000	6.30%	108,500,000	3.90%	108,500,000	3.69%	151,000,000	5.06%
Best Champion Holdings Limited *(Note 2)*	61,650,000	5.70%	61,650,000	2.68%	61,650,000	3.58%	61,650,000	2.22%	61,650,000	2.10%	61,650,000	2.07%
China United Gene Investment Holdings Limited *(Note 3)*	190,851,350	17.66%	190,851,350	8.29%	190,851,350	11.09%	190,851,350	6.86%	190,851,350	6.49%	190,851,350	6.40%
Vendor A	33,770,000	3.13%	533,770,000	23.20%	673,770,000	39.16%	1,013,770,000	36.46%	1,173,770,000	39.92%	1,173,770,000	39.35%
Vendor B	–	–	720,000,000	31.29%	–	–	720,000,000	25.89%	720,000,000	24.48%	720,000,000	24.13%
Sub-total	394,771,350	36.53%	1,614,771,350	70.18%	1,034,771,350	60.13%	2,094,771,350	75.33%	2,254,771,350	76.68%	2,297,271,350	77.01%
Director's interests												
Xiao Yan *(Note 4)*	115,000	0.0106%	115,000	0.0050%	115,000	0.0067%	115,000	0.0041%	115,000	0.0039%	115,000	0.0039%
Public Shareholders												
Other Shareholders	685,806,674	63.46%	685,806,674	29.81%	685,806,674	39.86%	685,806,674	24.66%	685,806,674	23.32%	685,806,674	22.99%
Total	1,080,693,024	100.00%	2,300,693,024	100.00%	1,720,693,024	100.00%	2,780,693,024	100.00%	2,940,693,024	100.00%	2,983,193,024	100.00%

Notes:

1. United Gene Holdings Limited is wholly and beneficially owned by Vendor A.

2. Best Champion Holdings Limited, the controlling shareholder of the Company, is owned as to 33.50% by United Gene Holdings Limited.

3. China United Gene Investment Holdings Limited is a non-wholly owned subsidiary of Best Champion Holdings Limited which is owned as to 33.50% by United Gene Holdings Limited.

4. Ms. Xiao Yan is a non-executive Director.

5. Upon exercise of the conversion right attaching to the Convertible Bonds, the holders of Convertible Bonds and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, shall not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code; and the public float of the Company shall not be unable to meet the relevant requirements under the Listing Rules.

As shown in the above table, the shareholding of the existing Public Shareholders will be decreased from approximately 63.46% to approximately 22.99% immediately after Completion I and Completion II (assuming the exercise in full of the conversion rights attaching to all the convertible bonds of the Company).

As mentioned in Note 5 above and the Letter from the Board, shareholding of approximately 22.99% of the existing Independent Shareholders shall not occur upon following the allotment and issue of the Conversion Shares in full because under the terms and conditions of the Convertible Bonds, the Conversion Rights cannot be exercised by any bondholder to the extent that if immediately after such conversion, (i) the holders of Convertible Bonds and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code; and (ii) the public float of the Company will be unable to meet the relevant requirements under the Listing Rules.

Although the public shareholders will be diluted from 63.46% as at the Latest Practicable Date to 22.99% immediately after Completion I and Completion II, we are of the view that the above dilution is acceptable due to the fact that (i) the acquisition would enable the Company to expand its portfolio of and business scope in the health care, pharmaceutical and biotechnology businesses; (ii) the commercialisation of the Medicine would bring positive impact and generate strong returns to the Company; and (iii) the potential synergy effects to be bought by the Transactions.

8. Risk Factors

Set out below are the potential risks in connection with the Transactions. Additional risks and uncertainties not presently known to the Directors, or not expressed or implied below, or that the Directors currently deem immaterial, may also adversely affect the Target Group's business, operating results and financial condition in a material aspect, which may in turn affect (i) the Target Company's ability to pay the principal of the Sale CBs when due; and (ii) the Company's ability to pay the principal of the Convertible Bonds.

Risks relating to the Target Group's oral insulin business

Final approval for production and distribution not yet obtained

The Protocol designed by recognised clinical trial bases and led by the Peking University People's Hospital in the PRC consists of two parts. As part A of the Protocol has already been completed with satisfactory results, in order to further validate the efficacy of the use of the Medicine in more diabetic testees, the Group is working with the project team and clinical experts of the Peking University People's Hospital in the PRC to conduct part B of the clinical trial on the Medicine contemplated in the Protocol, among others, in larger scale of participating cases. It is expected that such extended clinical trial will commence in due course.

Despite completion of part A of the Protocol, it is still possible that the Medicine will fail to obtain SFDA approval. Alternatively, SFDA may impose additional requirements or raise queries on the clinical trial, which may create further hurdles for the final approval. Additionally, the timing of final approval is difficult to assess.

The Target Group is also required to obtain a number of licences, certificates and permits from the relevant regulatory authorities in the PRC before formal production and distribution of the Medicine can begin. These include, among others, the Certificate of New Medicine and the Good Manufacturing Practice certificate. These licences, certificates and permits may also be subject to periodic renewal requirements.

Should the Target Group fail to obtain all necessary approvals from the relevant authorities, it may not be able to commence the production and distribution of the Medicine in the PRC, which would have a material and adverse impact on the Target Group's business and financial results. The Target Group may also have to write-off or suffer impairment on the carrying values of the technological know-how in relation to the research and development of the use of the oral insulin product and the exclusive right for commercialisation of the said oral insulin product owned by the Target Group.

Additional funding requirement

It is expected that an additional amount would be incurred in relation to the research and development of the next phase of the clinical trial for the Medicine, and a further amount would be incurred for pre-marketing efforts before the commencement of commercial production and distribution of the Medicine. Should the actual development and pre-marketing expenses turn out to be higher than expected and the Target Group is unable to inject sufficient funding to support further development of the Medicine due to working capital needs from its existing operations, the oral insulin project may not be able to be completed and commercialised successfully.

Market acceptance and competition

In assessing the acceptance of the new Medicine to be launched to the market, diabetic patients may make reference to the pricing of the Medicine as compared to other existing insulin products. If the pricing assumption made by the Target Group proves too optimistic, target diabetics may decide to continue using their existing insulin product without switching to the Medicine.

Complications can occur regarding the effectiveness of the drug and the emergence of side effects when it comes into wide use. There are precedent cases of seemingly promising new drugs which failed to become established. Exubera, which was inhalable insulin introduced by Pfizer Incorporated and available in the United States from 2006 to 2007, was withdrawn from the market after it failed to gain acceptance among diabetic patients.

If the Medicine is approved and introduced successfully, there appears to be a large potential market of diabetes sufferers in the PRC. Nevertheless, rival products could emerge and, as noted above, the sales price is yet to be tested in the market. Competition from existing insulin products in the PRC market may also create uncertainty as to the profitability of the Medicine.

Although the Target Company considered that the Medicine is likely to be the first oral insulin to be distributed in the PRC upon successful commericalisation, potential customers might still consider different factors when choosing among diabetic drugs available in the market, which include pricing, branding and reputation, availability, convenience of use and certain other factors. Besides, the possibility of oral insulin with similar technologies or insulin with other delivery methods being developed, or existing oral anti-diabetic drugs available in the PRC market being sold more aggressively by competitors, may also impact the financial results of the Target Group.

Expiry of patent of the relevant technologies in relation to the research and development of the use of oral insulin products

According to the circular of the Target Company dated 21 May 2009 in respect of the ratification actions for the acquisition of 51% interest in Smart Ascent in 2004, the patent issued by the PRC authorities for the relevant technologies in relation to the research and development of the use of oral insulin products will expire in April 2021, after which the Medicine could become "generic", and there is no assurance that other market competitors may manufacture and sell the Medicine on their own. Intensifying competition in the market may have negative impact on the pricing and the profit margin of the Medicine and may thereby have adverse effect on the profitability of the Target Group.

Product liability

The Target Group could face material claims arising from any alleged harmful effect of the Medicine. There is no assurance that any product liability claim brought against the Target Group in respect of the Medicine would not have an adverse effect on the Target Group's business operations and financial results and position.

Timetable for the launch and commercialisation of the Medicine may be delayed

The launch and commercialisation of the Medicine are subject to completion of further clinical trial and obtaining of the relevant production approval. Should there be any complications, delay, unforeseeable hardship and governmental approval in completing further clinical trial and obtaining of the relevant production approval, the timing of the launch and commercialization of the Medicine would be likely delayed.

New medical, pharmaceutical, and/or genetic solutions, technologies, treatments or products for diabetic sickness

The success of the Medicine is based on the large potential market of diabetes patients in the PRC and worldwide. Should there be any new medical, pharmaceutical, and/or genetic solutions, technologies, treatment or product to diabetic sickness be successfully developed and launched, the launch and commercialisation of the Medicine would be substantially affected and hence may also impact the financial results of the Target Group.

Risks relating to the Target Group conducting business in the PRC

Adverse changes in economic policies of the PRC government could have a material adverse effect on the overall economic growth of the PRC, which could materially and adversely affect the Target Group's business.

According to the annual report for the year ended 31 March 2012 of the Target Company, over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets and capital expenditures are located in the PRC. Accordingly, its business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in the PRC generally, including the overall economic growth in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasising the utilisation of market forces in the economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may have a negative effect on the Target Group. For example, the Target Group's operating results and financial condition may be adversely affected by changes in tax regulations that are applicable to it.

In addition, any future calamities, including natural disasters, outbreaks of contagious diseases and political or social unrest may adversely affect the economic growth in the PRC and therefore the business and financial performance of the Target Group.

Risks relating to the Sale CBs

Credit and default risk

There is a risk that the Target Company may default on its obligation to pay the principal of Sale CBs when due. In the event of any default on the Sale CBs, the Company is entitled to demand for immediate repayment of the principal amount outstanding under the Sale CBs.

The Sale CBs are not secured by any asset

The Sale CBs are not secured by any asset. Accordingly, the Company may sustain a loss up to the principal amount of the Sale CBs if the Target Company defaults on its obligations under the instruments creating the Sale CBs.

Liquidity risk

There will be no public market for the Sale CBs as no application will be made by the Target Company for the listing of, or permission to deal in, the Sale CBs on the Stock Exchange or any other stock exchange. The Company may have difficulty in disposing of the Sale CBs when a need to liquidate their assets arises.

The operation of the Target Group is subject to the regulatory requirements of the PRC government. Similar to other industry players in the PRC, the Target Group is subject to the full regulations under the relevant PRC national, provincial and local government regulations, policies and measures in relation to the operations of its subsidiaries.

Any changes in the relevant regulatory requirements may cause significant adverse impact on the liabilities, costs and/or duties of the Target Group, which in turn affect the Target Company's ability to pay the principal of the Sale CBs when due. In the event that the Target Group fails to comply with the relevant laws and regulations, the operations of the Target Group may be suspended and/or the Target Group may be subject to fines and/or punishment imposed by the relevant authorities. Any form of such punishment could materially and adversely affect the business, operations and financial position of the Target Group and its ability to pay the principal of the Sale CBs when due.

There is no guarantee that the relevant PRC authorities will not amend the existing laws and regulations. Furthermore, there is no guarantee that the relevant PRC authorities will not impose any further stringent laws and regulations. Compliance of such laws and regulations may cause substantial capital commitment on the part of the Target Group and will cause uncertainty to the business prospect of the Target Group which may adversely affect its ability to pay the principal of the Sale CBs when due.

The bases and assumptions made and adopted by the Company may be invalid

The bases and assumptions made and adopted by the Company may be invalid, outdated, inappropriate and inapplicable.

9. Financial Effect of the Transactions

Assets

As at 31 December 2012, the consolidated total assets of the Group was approximately HK$419.80 million. As set out in the section headed "Unaudited pro forma financial information on the Enlarged Group" in Appendix IV to this circular, assuming Transaction I and Transaction II were completed on 31 December 2012, the pro forma consolidated total assets of the Enlarged Group would have been increased by approximately HK$918.12 million to approximately HK$1,337.92 million.

Liabilities

As at 31 December 2012, the consolidated total liabilities of the Group were approximately HK$37.15 million. As set out in the section titled "Unaudited pro forma financial information of the Enlarged Group" in Appendix IV to this circular, assuming Transaction I and Transaction II were completed on 31 December 2012, the pro forma consolidated total liabilities of the Enlarged Group would have been increased by approximately HK$89.82 million to approximately HK$126.97 million.

Gearing

The Group's gearing ratio on the basis of the Group's total liabilities as a percentage of total shareholders' equity was approximately 0.10 as at 31st December 2012. According to the pro forma financial information in Appendix IV to the Circular, assuming Transaction I and Transaction II were completed on 31 December 2012 the Group's liabilities and total shareholders' equity would have been HK$126.97 million and HK$1,210.95 million respectively as at 31st December 2012. Consequently, the unaudited pro forma gearing ratio of the Enlarged Group would have remained stable at approximately 0.10.

Earnings

After taking into account the potential business synergies and other benefits that are expected to result from the Acquisition as mentioned in the paragraph headed "Reasons for and benefits of entering into the S&P Agreement" above, and taking into consideration that the Target Group continues to be profit making, the Directors consider it is a fair expectation that the Acquisition will have a positive impact on the earnings of the Group after Completion.

Our view

Shareholders should note that the aforementioned analyses are for illustrative purposes only and does not purport to represent how the financial position of the Company will be upon Completion.

Notwithstanding the cash consideration of HK$120 million for Transaction I, having considered that (i) most of the consideration are settled by way of the issue of the Convertible Bonds results in no material immediate cash outlay and no immediate adverse effect on the current working capital position of the Group; (ii) there are potential positive effects on the future revenue and earnings of the Group having regard to the historical financial performance, future development potential and the existing establishments of the Target Group; and (iii) no material change in the Group's gearing ratio, we consider that the potential financial effects of the Acquisition on the Group is in general acceptable and that the Acquisition is in the interest of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons and in particular,

– the Target Company is principally engaged in businesses relating to health care, pharmaceutical and biotechnology industries which is in line with the business of the Group;

– synergy effects could be achieved through the linking of similar businesses of the Group and the Target Company which in due course can generate strong returns for the Group;

– the Medicine, if successfully launched and commercialized, would bring positive impact to the Group's financial performance; and

– that the basis of determination of the consideration under the S&P Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

We consider that the terms and conditions of the S&P Agreement and the transactions has been entered into (i) within the ordinary and usual course of the business of the Group; (ii) based on the normal commercial terms; (iii) fair and reasonable so far as the Independent Shareholders are concerned; and (iv) in the interests of the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM to approve (a) the S&P Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds; and (b) the exercise of the conversion rights attaching to the Sale CBs.

Yours faithfully,
For and on behalf of
Doris Sy
Director

A. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited and unaudited consolidated results and financial position of the Group for each of the three years ended 30 June 2010, 2011 and 2012 and for the six months ended 31 December 2012 as extracted from the respective annual and interim reports of the Company:

Financial results of the Group

	For the six months ended 31 December	For the year ended 30 June		
	2012	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Revenue	1,530	25,475	90,193	483,947
(Loss)/profit before tax	(27,960)	(131,757)	8,856	13,308
Income tax credit/(expense)	30	2,060	(3,250)	(2,132)
(Loss)/profit attributable to:				
Owners of the Company	(24,931)	(123,882)	5,247	11,262
Non-controlling interests	(2,999)	(5,815)	359	(86)
	(27,930)	(129,697)	5,606	11,176

Assets and liabilities

	As at 31 December	As at 30 June		
	2012	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Non-current assets	66,711	69,879	134,305	77,315
Current assets	353,084	286,119	332,946	449,367
Current liabilities	(26,806)	(18,178)	(10,442)	(97,075)
Non-current liabilities	(10,346)	(7,253)	(2,972)	–
Net assets	382,643	330,567	453,837	429,607
Equity attributable to				
Owners of the Company	374,276	319,248	436,524	429,142
Non-controlling interests	8,367	11,319	17,313	465
	382,643	330,567	453,837	429,607

B. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The unaudited interim condensed financial statements of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") for the six months ended 31 December 2012, together with the accompanying notes (the "**2012/2013 Interim Financial Statements**") are included on pages 28 to 60 in the interim report for the six months ended 31 December 2012 of the Group (the "**2012/2013 Interim Report**") published on 20 March 2013.

The audited consolidated financial statements of the Group prepared in accordance with HKFRSs for the year ended 30 June 2012, together with the accompanying notes (the "**2012 Financial Statements**"), are included on pages 42 to 106 in the annual report for the year ended 30 June 2012 of the Group (the "**2012 Annual Report**") published on 29 October 2012.

The audited consolidated financial statements of the Group prepared in accordance with HKFRSs for the year ended 30 June 2011, together with the accompanying notes (the "**2011 Financial Statements**"), are included on pages 31 to 85 in the annual report for the year ended 30 June 2011 of the Group (the "**2011 Annual Report**") published on 29 September 2011.

The audited consolidated financial statements of the Group prepared in accordance with HKFRSs for the year ended 30 June 2010, together with the accompanying notes (the "**2010 Financial Statements**"), are included on pages 26 to 69 in the annual report for the year ended 30 June 2010 of the Group (the "**2010 Annual Report**") published on 29 September 2010.

Each of the 2012/2013 Interim Financial Statements, the 2012 Financial Statements, the 2011 Financial Statements and the 2010 Financial Statements (but not any other part of the 2012/2013 Interim Report, the 2012 Annual Report, the 2011 Annual Report and the 2010 Annual Report respectively) are incorporated by reference into this circular and forms part of this circular. The 2012/2013 Interim Report, the 2012 Annual Report, the 2011 Annual Report and the 2010 Annual Report have been released on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.unitedgenegroup.com) under "Financial Reports".

C. STATEMENT OF INDEBTEDNESS

At the close of business on 31 July 2013, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding (i) convertible bonds at carrying amount of approximately HK$4,250,000 (with outstanding principal amount of HK$39,800,000), (ii) amount due to a shareholder of approximately HK$15,079,000, (iii) loan from a non-controlling shareholder of a subsidiary of approximately HK$10,100,000, and (iv) provision in respect of a contract dispute with Chong Qing United Gene Technology Limited of approximately HK$5,070,000.

The Group's indebtedness as at 31 July 2013 as set out above are unsecured and unguaranteed.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 July 2013 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Save as disclosed in this circular, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 July 2013.

D. WORKING CAPITAL SUFFICIENCY

The Directors are of the opinion that, after due and careful enquiry, taking into account the Group's financial resources (including internally generated funds and available external facilities) and the effect of the Transactions, the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseen circumstances.

E. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2012, the date to which the latest published audited financial statements of the Group were made up, save and except for the information contained in the profit warning announcement of the Company dated 6 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis extracted from the interim report of the Group for the six months ended 31 December 2012 and the annual reports of the Group for each of the financial years ended 30 June 2012, 2011 and 2010, respectively:

(i) For the six months ended 31 December 2012

GROUP RESULTS

Revenue of the Group for the Interim Period amounted to approximately HK$1.5 million, representing approximately 93.80% decrease from the Previous Corresponding Period (approximately HK$24.2 million). Loss attributable to the owners of the Company for the Interim Period was approximately HK$24.9 million, compared to the said loss of approximately HK$17.9 million in the Previous Corresponding Period.

BUSINESS REVIEW

Distribution of gene testing services

Since 13 December 2010, the Group has obtained 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 for gene testing services in other regions as well as the right of use of certain logos on gene testing services distributed by the Group. The Group has enjoyed a higher profit margin since then for the distribution of gene testing services

On 3 May 2011, in view of the significant decrease in revenue generated by the distributors under the franchise agreements, and in order to manage the distribution channels more effectively and to achieve a higher profit margin through lower expenses, the Group entered into the termination agreements with relevant distributors to terminate the said franchise agreements with effect from the same date.

The Group adjusted its operating strategy and increased its marketing channels at the beginning of 2012 through dedicating its sales efforts on professional channels, mainly hospitals and health centres. This led to a significant decrease in the sales of the corresponding market division in the general public segment, particularly in the latter half of 2012.

For the Interim Period, the revenue from the distribution of gene testing services decreased from approximately HK$22.7 million in the Previous Corresponding Period to approximately HK$0.07 million. This was mainly due to the transitional period brought by the new sales and marketing strategy and the detrimental impact on revenue from the continuing economic downturn. The substantial decrease in revenue led to the segment loss after tax for the distribution of gene testing services amounting to approximately HK$6.9 million in the Interim Period compared with the segment profit after tax for the distribution of gene testing services amounting to approximately HK$7.3 million in the Previous Corresponding Period.

Distribution of bio-industrial products

The Group has obtained the exclusive distribution rights for the distribution of bone chips and bone fat in the PRC for a period of 5 years from 1 January 2010, which would be automatically renewed for another ten years subject to no objection raised by either party on or before 31 December 2014.

During the Interim Period, revenue for the distribution of bio-industrial products decreased significantly from approximately HK$0.4 million in the Previous Corresponding Period to nil revenue. The segment loss after tax for the distribution of bio-industrial products for the Interim Period was approximately HK$1.7 million while the segment loss after tax for the distribution of bio-industrial products for the Previous Corresponding Period was approximately HK$17.9 million, which included the impairment losses of intangible assets of HK$16.6 million. This was mainly due to the global economic downturn and keen competition in the industry. The delayed production schedules due to the plants being unlawfully occupied by the constructor has impacted the business development. Due to the unsatisfactory business performance and in view of the business and economic uncertainties, the Board held a conservative view regarding the future performance of this business.

Provision of health care management services

The Group's health care management centre, the "United Gene (Shanghai) Health Care Centre" (the "**Health Care Centre**") which commenced business in September 2011, serves as a high-end health care management and service centre with genome technology as its competitive edge. The operation of the Health Care Centre adopts the "4P medical services model" which refers to the predictive, preventive, personalised and participatory medical services model. The Group also extended its services to set up an individualized comprehensive and lifelong health service model. The Group researches, develops and provides further health care management services, such as (i) provision of health care management services, including meridian conditioning, acupuncture, cupping and Chinese medicine treatment consultancy; (ii) provision of exercise physiology treatment consultancy; (iii) provision of physiotherapy and oxygen therapy treatment consultancy; (iv) provision of psychology treatment consultancy; (v) testing of nutrition and metabolism and provision of treatment consultancy; (vi) provision of diet treatment; and (vii) testing for gene mutation. Also, the Health Care Centre has cooperated with a number of hospitals in Shanghai in respect of health care management services.

For the Interim Period, revenue for the provision of health care management services was approximately HK$1.5 million compared to the revenue of approximately HK$1.1 million in the Previous Corresponding Period. Due to additional time required to obtain medical licenses in September 2012 and persistent weak consumer sentiment, the segment loss for the provision of health care management services for the Interim Period was approximately HK$16.5 million (2011: approximately HK$11.1 million).

PROSPECTS

Distribution of gene testing services

In view of market changes and to accommodate long-term development plans, the Group increased its sales channels and adjusted its operating strategy at the beginning of 2012 by gradually shifting its focus on sales effort from the general public to the professional channels, mainly hospitals and health centres. The adjustment in business strategy was mainly due to (1) public consumers having insufficient understanding towards the actual purpose of gene testing, which led to the slowdown in the sales of the corresponding market division, and (2) the accommodation of state policies and strategic development of the Group as a whole. After thorough market research, analysis of national policies as well as of the market, the management of the Group expects that the Ministry of Health of the PRC will gradually be more open to gene testing projects in hospitals, and has therefore adjusted its operation strategy. Since 2012, departments including the National Development and Reform Commission and the Ministry of Health have listed gene testing in the catalogue of charged hospital examination items. The Group has also adjusted its operation strategy by shifting its focus of sales efforts from the general public to the professional channels, mainly hospitals and health centres; and sold more diversified and targeted gene testing products, such as gene testing products regarding medication guides, gene testing aided diagnosis and screening products for hereditary diseases, in order to strengthen its sales in professional channels.

The Group has obtained a national medical license at the end of 2012 with relevant qualifications for providing medical checkup and the management expects that this will raise the company's awareness and recognition. Moreover, the Group has conducted an in-group personnel restructure and has recruited new members who have many years of relevant sales experience and good connections with mainland medical institutions to join our senior management. Currently, the sales operation of our gene testing service is still undergoing adjustment. The management of the Group believes that the sales in professional channels are characterized as stable and sustainable, and that both the necessity and professional credibility of the gene testing products sold in these channels will increase significantly. The management of the Group is confident that the sales of gene testing products could survive the trough in the previous year and will show gradual improvement soon after.

Distribution of bio-industrial products

In December 2010, CNL (Pinghu) Biotech Co. Ltd. ("**CNL (Pinghu)**") commenced the construction of a production plant, a research and development workshop and an office in Pinghu, the PRC. It developed hydrolyzed gelatin under a team of experts including Mr. A. H. Grobben, who is from the Netherlands, an expertise in hydrolyzed gelatin and bone fat refining technology.

CNL (Pinghu) is in the process of a litigation concerning an appeal lodged by a constructor and it is expected that a final verdict will be reached in 2013. As its plants are unlawfully occupied by the constructor, the production and launching schedules of products are delayed. The Group is currently endeavours to resolve the litigation and the above problems via legal means, with a view to commence production as soon as possible. In the long run, the Group will continue to explore other opportunities for further growth in the bio-industrial products business through strategic cooperation with the world's leading biotechnology enterprises, whether in the aspects of business, product or technology. The Group will also strive to build a sound product portfolio which offers high profitability potential.

Provision of health care management services

After the Group established the Health Care Centre, the Group has strengthened the marketing and promotional plans for the membership services and benefits of the Health Care Centre.

As the first professional comprehensive health care management services provider which focuses on gene testing in the PRC, the health care management services provided by the Health Care Centre satisfied the current supply gap in high-end and personalised health care management services in the PRC. The professional medical team and outpatient department under the Health Care Centre are committed to providing high-end, quality and customized services such as physical examination services, professional gene testing analysis, recuperation with Chinese medicine and guidance in sports rehabilitation. As at September 2012, the Health Care Centre has successfully obtained a medical license, enabling it to expand and strengthen its marketing and promotion channels. It is expected that the revenue of the Health Care Centre will gradually stabilize and improve.

The management of the Health Care Centre has been actively developing cooperation channels in various aspects while the 龍冠門診部 (unofficial English translation being Longguan outpatient department) established by a non-wholly owned subsidiary of the Group, is ready to commence full operations in early 2013 and is expected to commence operations officially in the upcoming Chinese New Year. The Health Care Centre and its outpatient department are situated in a favorable geographical location which is expected to solve the problem of insufficient medical resources faced by the surrounding area after they have commenced operations. It is expected that sales volume will also reach a considerable level for the whole of 2013.

Meanwhile, key replenishment has been made by the management in terms of human resources, in particular for the major positions of sales and market management, and the operational system of the Company has been adjusted simultaneously to improve operating efficiency, capability of execution and scale of operation.

On top of developing the aforementioned businesses, the Group will continue to proactively explore attractive investments in the PRC and globally with the aim of (i) developing the businesses of the Group and other new businesses, and (ii) generating positive cash flow and earnings for the Group in the long-term. In the meantime, the Group may, if necessary, conduct various fund-raising activities to strengthen the capital base of the Company.

According to the interim report of the Group for the six months ended 31 December 2012, the restricted bank balances and bank and cash balances were approximately HK$223,000 and HK$231,757,000 respectively.

The Company will consider and assess different potential investment opportunities, including but not limited to businesses relating to health care, pharmaceutical and biotechnology (the "**Potential Businesses**").

In determining the Potential Businesses, the Board will consider, including but not limited to, the following factors:-

(i) the Potential Business related products ready to be sold or whether at a relatively mature stage of the research and development process or with a high potential customer base that can bring substantial and sustainable positive cash flow, revenue and earnings to the Company; and

(ii) companies with an existing or a future investment plan(s) in the Potential Businesses and a management team with significant expertise in the said businesses.

As at the Latest Practicable Date, save and except for the Transactions, the Group has not identified any other investments. However, the Company would not exclude the possibility of investing in any other investments in the future, as and when appropriate, which are profitable and in the interests of the Company.

As at the Latest Practicable Date, the Group has no intention to conduct any fund raising activities. However, the Company will not exclude the possibility of conducting fund raising activities in the future, as and when appropriate and in the interests of the Company.

FINANCIAL REVIEW

Capital Structure

	31 December 2012 *HK$'000* **(Unaudited)**	**30 June 2012** *HK'000* **(Audited)**
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	500,000	500,000
Issued and fully paid:		
15,813,860,480 ordinary shares of HK$0.01 each (As at 30 June 2012: 12,164,508,062 ordinary shares of HK$0.01 each)	158,139	121,645

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

	Number of shares issued	Share capital
		HK'000
As at 30 June 2012	12,164,508,062	121,645
Shares issued pursuant to rights issue	3,649,352,418	36,494
As at 31 December 2012	15,813,860,480	158,139

Shares issued pursuant to rights issue

On 20 June 2012 and 25 June 2012, the Company entered into the irrevocable undertaking and underwriting agreement respectively with Best Champion Holdings Limited, the controlling shareholder of the Company, and Grand Investment (Securities) Limited, with the latter acting as underwriter, to fully underwrite the rights shares issued to the shareholders of the Company on the basis of three rights shares for every ten existing shares in issue, which would result in the issue of 3,649,352,418 new ordinary shares of HK$0.01 each on 8 August 2012, at the subscription price of HK$0.022 per rights share. Net funds of approximately HK$76.78 million was raised upon completion of the rights issue after deducting the total rights issue expenses of approximately HK$3.51 million.

Liquidity and financial resources

As at 31 December 2012, the Group had bank and cash balances of approximately HK$231.8 million (30 June 2012: approximately HK$169.8 million).

As at 31 December 2012, the total borrowings of the Group were approximately HK$14.2 million (30 June 2012: approximately HK$11.0 million) which consisted of a short term loan from an independent third party amounting to approximately HK$4.9 million (30 June 2012: approximately HK$4.9 million) and loans from a non-controlling shareholder of a subsidiary of the Group, Longmark (Shanghai) HealthCare Limited, amounting to approximately HK$9.3 million (30 June 2012: approximately HK$6.1 million).

The said short term loan from an independent third party, as approximately HK$4.9 million, is repayable on 9 August 2012 and with a fixed interest rate of 6.10% per annum.

Further, the said loans from a non-controlling shareholder of a subsidiary of the Group, as approximately HK$9.3 million, of which (i) an amount of approximately HK$3.1 million is repayable on 29 May 2014; (ii) an amount of approximately HK$3.1 million is repayable on 30 May 2014; (iii) an amount of approximately HK$1.2 million is repayable on 30 July 2014; and (iv) an amount of approximately HK$1.9 million is repayable on 30 August 2014 and all with a fixed interest rate of 6.65% per annum.

The ratio of current assets to current liabilities of the Group was 13.17 as at 31 December 2012 compared to 15.74 as at 30 June 2012. The Group's gearing ratio as at 31 December 2012 was 0.09 (30 June 2012: 0.07) which is calculated based on the Group's total liabilities of approximately HK$37.2 million (30 June 2012: approximately HK$25.4 million) and the Group's total assets of approximately HK$419.8 million (30 June 2012: approximately HK$356.0 million).

During the Interim Period, the Group invested in financial assets with an aim to increase and balance returns on surplus cash, namely time deposits at banks and listed bonds which can be readily converted into liquid funding at any time on the securities market. The Group places importance on the security, short-term commitment and availability of the surplus cash and cash equivalents.

Significant investments, acquisition and disposals

The Group had no other significant investments, nor had it made any material acquisition or disposal on the Group's companies or associated companies during the Interim Period.

Charges on the group's assets

As at 31 December 2012, the Group and the Company did not have any charges on their assets (30 June 2012: Nil).

Contingent liabilities

The Directors were not aware of any significant contingent liabilities of the Group and the Company as at 31 December 2012 (30 June 2012: Nil).

Litigation

Litigation of the Group and the Company as at 31 December 2012 are set out in note 17 to the unaudited condensed consolidated financial statements.

Commitments

Commitments of the Group and the Company as at 31 December 2012 are set out in note 15 to the unaudited condensed consolidated 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, Renminbi and United States Dollars. The Group maintains a prudent strategy in its foreign exchange risk management, with the foreign exchange risks being minimised through balancing the foreign currency monetary assets against foreign currency monetary liabilities, and foreign currency revenue against foreign currency expenditure. The Group did not use any financial instrument to hedge against foreign currency risk. The Group will monitor its foreign currency exposure closely and consider hedging foreign currency exposure should the need arises.

Number and remuneration of employees

As at 31 December 2012, the Group had 180 (30 June 2012: 218) full-time employees, most of whom were working in the Company's subsidiaries in the PRC. It is the Group's policy that remuneration of the employees including the Directors is in line with the market and commensurate with the responsibilities. Discretionary year-end bonuses are payable to the employees based on individual performance. Other employee benefits 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$9.9 million (2011: approximately HK$10.1 million inclusive of HK$1.1 million staff costs capitalised in the research and development costs).

Segment information

Details of the segment information are set out in note 3 to the unaudited condensed consolidated financial statements.

(ii) For the financial year ended 30 June 2012

GROUP RESULTS

Turnover of the Group for the Financial Year amounted to approximately HK$25.5 million, representing approximately 71.73% decrease from the Previous Financial Year (approximately HK$90.2 million). Loss attributable to the owners of the Company for the Financial Year was approximately HK$123.9 million, representing a significant and substantial decline of results compared to the profit of approximately HK$5.2 million in the Previous Financial Year.

BUSINESS REVIEW

Distribution of gene testing services

Since 13 December 2010, the Group has obtained 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 for gene testing services in other regions as well as the right of use of certain logos on gene testing services distributed by the Group. The Group has enjoyed a higher profit margin since then for the distribution of gene testing services.

On 3 May 2011, in view of the significant decrease in turnover generated by the distributors under the franchise agreements, and in order to manage the distribution channels more effectively and to achieve higher profit margin through less selling expenses, the Group entered into the termination agreements with relevant distributors to terminate the said franchise agreements with effect from the same date.

The Group adjusted its operating direction (transformation) at the beginning of this year (2012) through dedicating its sales efforts on professional channels, mainly hospitals and health centres, in lieu of the general public. This led to the slowdown in the sales of the corresponding market division.

For the Financial Year, the turnover arising from the distribution of gene testing services decreased from approximately HK$71.2 million in the Previous Financial Year to approximately HK$22.6 million. This was mainly due to the transitional period brought by the new sales and marketing strategy and the detrimental impact on turnover from the continuing economic downturn. Yet the result of the Group's newly adopted sales and marketing strategy was clearly reflected in the improvement of the gross profit margin, which increased substantially from approximately 41.77% in the Previous Financial Year to approximately 67.17%.

The Board held a conservative view regarding the future performance of this business in view of the high uncertainties and risks of the new sales and marketing strategy adopted in future years. After independent assessment of the value in use of the intangible asset relating to the permanent exclusive & non-exclusive rights for the distribution of gene testing services, the Group made a material impairment loss on the intangible asset at a total amount of approximately HK$77.7 million.

Distribution of bio-industrial products

The Group has obtained the exclusive distribution rights for the distribution of bone chips and bone fat in the PRC for a period of 5 years from 1 January 2010, which would be automatically renewed for another ten years subject to no objection raised by either party on or before 31 December 2014.

During the Financial Year, turnover of the distribution of bio-industrial products significantly decreased from approximately HK$19.0 million in the Previous Financial Year to approximately HK$1.0 million. This was mainly due to the global economic downturn and the keen competition in the industry. Nevertheless, the gross profit margin has slightly increased from approximately 19.78% in the Previous Financial Year to approximately 21.96% in the Financial Year. Due to such unsatisfactory business performance, the Board of Directors held a conservative view regarding the future performance of this business in view of the uncertainties and risks of developed countries' sluggish economies and turbulent global financial markets affecting the economic development of the PRC in next few years. After an independent assessment of the value in use of the intangible asset and goodwill relating to the exclusive distribution rights for the bio-industrial products business, the Group made a material impairment losses on the intangible asset and goodwill after netting off the reversal of a deferred tax liability at a total amount of approximately HK$16.3 million.

Provision of health care management services

The Group's health care management centre, the "United Gene (Shanghai) Health Care Centre" (the "**Health Care Centre**") which commenced business in September 2011, serves as a high-end health care management and service centre with genome technology as its competitive edge. The operation of the Health Care Centre adopts the "4P medical services model" which refers to the predictive, preventive, personalised and participatory medical services model. The Group also extends its services to set up an individualized comprehensive and lifelong health service model. The Group researches, develops and provides further health care management services, such as (i) provision of health care management services, including meridian conditioning, acupuncture, cupping, Chinese medicine treatment consultancy; (ii) provision of exercise physiology treatment consultancy; (iii) provision of physiotherapy and oxygen therapy treatment consultancy;

(iv) provision of psychology treatment consultancy; (v) testing of nutrition and metabolism and provision of treatment consultancy; (vi) provision of diet treatment; and (vii) testing for gene mutation.

For the Financial Year, turnover for the provision of health care management services was approximately HK$1.8 million. Due to the time needed for applying for medical licenses and persistent weak consumer sentiment, a gross loss was incurred and the operating loss including start-up costs for the Health Care Centre was approximately HK$22.9 million.

PROSPECTS

Distribution of gene testing services

In the view of market changes and to accommodate the long-term development plans, the Group adjusted its operating direction (transformation) at the beginning of this year (2012) through dedicating its sales efforts on professional channels, mainly hospitals and health centres, in lieu of the general public. The adjustment in business strategy was due to the public consumers having insufficient understanding towards the actual purpose of gene testing and limited knowledge regarding the concept of comprehensive health care management, which led to the slowdown in the sales of the corresponding market division. Meanwhile, in order to accommodate the development of the health care management business of the Group, which is based on gene-testing, after thorough market research, analysis of national policies as well as market analysis, the management of the Group expects that the Ministry of Health of the PRC will gradually be more open to gene testing projects in hospitals, and has therefore adjusted its operation strategy. Since 2012, departments including the National Development and Reform Commission and the Ministry of Health have listed gene testing into the catalogue of charged hospital examination items. The Group has also adjusted its operation strategy through dedicating its sales efforts on professional channels, mainly hospitals and health centres, in lieu of the general public and sold more diversified and targeted gene testing products, such as gene testing products regarding medication guides, gene testing aided diagnosis and screening products for hereditary diseases, in order to strengthen its sales in professional channels.

The management of the Group believes that the sales in professional channels are characterised as stable and sustainable, and that both the necessity and professional credibility of the gene testing products sold in these channels will increase significantly. The management of the Group is confident that the sales of gene testing products will survive the trough and show gradual improvement soon after.

Distribution of bio-industrial products

In December 2010, CNL (Pinghu) Biotech Co. Ltd. ("**CNL (Pinghu)**") commenced the construction of the production plant, research and development workshop and office in Pinghu, the PRC. It developed hydrolyzed gelatin under a team of experts including Mr. A. H. Grobben, who is from the Netherlands, with expertise in hydrolyzed gelatin and bone fat refining technology.

Since CNL (Pinghu) is in the process of litigation and its plant was unlawfully occupied by the constructor, the production and launching schedules of products are delayed. The Group is currently endeavoring to resolve the litigation and the above problems via legal means, with a view to commence production as soon as possible. In the long run, the Group will continue to explore other opportunities for further growth in the bio-industrial products business through strategic cooperation with the world's leading biotechnology enterprises, whether in the aspects of business, product or technology. The Group will also strive to build a sound product portfolio which offers high profitability potential.

Provision of health care management services

After the Group established the Health Care Centre, the Group has strengthened the marketing and promotion plans for the membership services and benefits of the Health Care Centre.

As the first professional comprehensive health care management services provider which focuses on gene testing in the PRC, the health care management services provided by the Health Care Centre satisfied the current supply gap in high-quality and personalised health care management services in the PRC. The professional medical team and outpatient department under the Health Care Centre are committed to providing high-end and quality services such as physical examination services, professional gene testing analysis, recuperation with Chinese medicine and guidance in sports rehabilitation. As at September 2012, the Health Care Centre has successfully obtained a medical license, enabling it to expand and strengthen its marketing and promotion channels. It is expected that the turnover of the Health Care Centre will gradually stabilize and improve.

On top of developing the aforementioned businesses, the Group will continue to proactively explore for attractive investments in the PRC and globally with the aim of (i) developing the businesses of the Group and other new businesses, and (ii) generating positive cash flow and earnings for the Group in the long-term. In the meantime, the Group may, if necessary, conduct various fund-raising activities to strengthen the capital base of the Company.

FINANCIAL REVIEW

Capital structure

Details of the capital structure of the Company are set out in note 28 to the financial statements.

As at 30 June 2012, the total borrowings of the Group were approximately HK$11.0 million (30 June 2011: HK$ nil) which consisted of a short term loan from an independent third party amounting to approximately HK$4.9 million and a loan from a non-controlling shareholder of a subsidiary of the Group, Longmark (Shanghai) HealthCare Limited ("**Longmark (Shanghai)**"), amounting to approximately HK$6.1 million.

The said short term loan from an independent third party, as approximately HK$4.9 million, is repayable on 9 August 2012 and with a fixed interest rate of 6.10% per annum.

Further, the said loans from a non-controlling shareholder of a subsidiary of the Group, as approximately HK$6.1 million, of which (i) an amount of approximately HK$3.1 million is repayable on 29 May 2014; and (ii) an amount of approximately HK$3.0 million is repayable on 30 May 2014 and all with a fixed interest rate of 6.65% per annum.

Liquidity and financial resources

As at 30 June 2012, the Group had bank and cash balances of approximately HK$170.0 million (30 June 2011: approximately HK$222.3 million).

The ratio of current assets to current liabilities of the Group was 15.73 as at 30 June 2012 compared to 31.89 as at 30 June 2011. The Group's gearing ratio as at 30 June 2012 was 0.07 (30 June 2011: 0.03) which is calculated based on the Group's total liabilities of approximately HK$25.4 million (30 June 2011: approximately HK$13.4 million) and the Group's total assets of approximately HK$356.0 million (30 June 2011: approximately HK$467.3 million).

During the Financial Year, the Group had invested in financial assets with an aim to increase and balance return on surplus cash. They were time deposits at banks and listed bonds which can be readily converted to liquid funding at any time on the securities market. The Group places importance to security, short-term commitment and availability of the surplus cash and cash equivalents.

Significant investments, acquisition and disposals

On 13 January 2012, the Group entered into a conditional injection of capital agreement (the "**Injection Agreement**") with Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("**Jilin Extrawell**"). Jilin Extrawell is an indirect wholly-owned subsidiary of the Extrawell Pharmaceutical Holdings Limited ("**Extrawell Pharmaceutical**"), a company listed in The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Since Dr. Mao Yumin ("**Dr. Mao**"), who is the honorary chairman, chief scientific adviser and a ultimate controlling shareholder of the Company, is also the chairman and a substantial shareholder of Extrawell Pharmaceutical, Jilin Extrawell is a connected person of the Company and the entering into the Injection Agreement constitutes a connected transaction of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Pursuant to the Injection Agreement, Jilin Extrawell agreed to inject RMB2.5 million by cash for 20% of the registered capital of a subsidiary of the Group, Longmark (Shanghai) as enlarged after such injection of capital (the "**Injection of Capital**"), within three months after signing of the Injection Agreement. Longmark (Shanghai) is currently operating the Health Care Centre. The Injection of Capital constitutes a deemed disposal by the Group of 20% equity interest of Longmark (Shanghai) within the meaning of Rule 14.29 of the Listing Rules. The completion of the Injection Agreement took place in April 2012.

Save as disclosed above, the Group had no other significant investments, nor had it made any material acquisition or disposal of the Group's companies or associated companies during the Financial Year.

Charges on the Group's assets

As at 30 June 2012, the Group and the Company did not have any charges on its assets (30 June 2011: nil).

Contingent liabilities

The Directors were not aware of any significant contingent liabilities of the Group and the Company as at 30 June 2012 (30 June 2011: nil).

Litigation

Litigation of the Group and the Company as at 30 June 2012 are set out in note 34 to the financial statements.

Commitments

Commitments of the Group and the Company as at 30 June 2012 are set out in note 32 to the 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, Renminbi ("**RMB**") and United States Dollars. The Group maintains a prudent strategy in its foreign exchange risk management, with the foreign exchange risks being minimised through balancing the foreign currency monetary assets against foreign currency monetary liabilities, and foreign currency revenue against foreign currency expenditure. The Group did not use any financial instrument to hedge against foreign currency risk. The Group will monitor its foreign currency exposure closely and consider hedging foreign currency exposure should the need arises.

Number and remuneration of employees

As at 30 June 2012, the Group had 218 (30 June 2011: 149) full-time employees, most of whom were working in the Company's subsidiaries in the PRC. It is the Group's policy that remuneration of the employees including the Directors is in line with the market and commensurate with the responsibilities. Discretionary year-end bonuses are payable to the employees based on individual performance. Other employee benefits include medical insurance, retirement schemes, training programmes and education subsidies.

Total staff costs including Directors' remuneration for the Financial Year amounted to approximately HK$20.0 million (2011: approximately HK$11.1 million) inclusive of approximately HK$1.1 million (2011: approximately HK$1.6 million) staff costs capitalized in the research and development costs.

Segment information

Details of the segment information are set out in note 8 to the financial statements.

(iii) For the financial year ended 30 June 2011

GROUP RESULTS

Turnover of the Group for the Financial Year amounted to approximately HK$90.2 million, representing approximately 81.36% significant decrease from the Previous Financial Year (approximately HK$483.9 million). Profit attributable to the owners of the Company for the Financial Year was approximately HK$5.2 million, representing a decrease of approximately HK$6.1 million compared to that of approximately HK$11.3 million in the Previous Financial Year.

BUSINESS REVIEW

Distribution of gene testing services

On 13 December 2010, the acquisition (the "**Acquisition**") of the entire equity interests in Fudan Guang Dong and Fudan HK was completed and both Fudan Guang Dong and Fudan HK have since become wholly owned subsidiaries of the Company.

After completion of the Acquisition, the Group obtained the permanent exclusive distribution rights for gene testing services in the PRC, Hong Kong and Macau, the permanent non-exclusive distribution rights in the other regions as well as the right of use of certain logos on gene testing services distributed by the Group. As the cost of gene testing services is much lower than previously obtained under the original non-exclusive arrangement, the Group has enjoyed a higher profit margin since the Acquisition.

On 3 May 2011, in view of the significant decrease in turnover generated by the distributors under the Franchise Agreements, and in order to manage the distribution channels more effectively and to achieve higher profit margin by reducing the selling expenses, the Group entered into five termination agreements (the "**Termination Agreements**") with relevant distributors to terminate the Franchise Agreements with effect from the same date. Details of the Franchise Agreements and the Termination Agreements are set out in note 23 to the financial statements.

The Group has begun to segment its market geographically and to establish marketing and distribution channels in the PRC which are under its direct supervision and management since March 2010. During the Financial Year, distributors for each market segment have been engaged, and marketing policies together with measures, which will be constantly reviewed and fine-tuned in response to the varying market factors in different market segment, have been drawn up. In addition, to ensure the quality of services provided by the distributors, the Group would provide comprehensive training on gene testing services to the distributors, particularly on interpretation of the test report.

For the Financial Year, the turnover of distribution of gene testing services decreased from approximately HK$253 million in the Previous Financial Year to approximately HK$71.2 million. This was mainly due to the significant drop of turnover of the distributors under the Franchise Agreements, and the transitional period brought by the change of market segmentation since March 2010. Nevertheless, the effect of the Group's newly adopted sales and marketing strategy as well as the Acquisition was clearly reflected in the improvement of the Group's gross profit margin, which increased substantially from approximately 14.71% in the Previous Financial Year to approximately 41.77%. The selling expenses also dropped approximately HK$6.3 million to HK$2.6 million compared with the Previous Financial Year.

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

In view of the prolonged succession problem of the CJV, First Jumbo Trading Limited ("**First Jumbo**"), the CJV's immediate holding company, resolved to voluntarily wind up on 8 March 2011. No turnover had been generated by the CJV since July 2010. Liquidators had been appointed to carry out the winding-up of First Jumbo and they would realise its assets where appropriate. The Group recorded a gain of approximately HK$161,000 upon deconsolidation of First Jumbo and its subsidiaries.

Distribution of bio-industrial products

Subsequent to the acquisition of CNL (Pinghu), which owns the exclusive distribution rights for distribution of bone chips and bone fat in the PRC for a period of 5 years commencing from 1 January 2010 (renewable for another ten years subject to no objection is raised by either party before 31 December 2014), the Group has been engaged in the trading of biological raw materials through CNL (Pinghu) since July 2010. During the Financial Year, turnover of bio-industrial products generated from wholesale of bone chips in the PRC was approximately HK$19 million, and the gross profit margin was approximately 19.78%.

Provision of health care management services

For the Financial Year, the Group incurred net expenses of approximately HK$3.1 million for the start-up of health care management services projects in Shanghai, the PRC. As these health care management services projects had not yet commenced operation during the Financial Year, no turnover had been generated by the Group.

PROSPECTS

Distribution of gene testing services

The Directors believe that the acquisition of Fudan Guang Dong would substantially increase the Group's market share in the distribution of gene testing services under the permanent exclusive and non-exclusive distribution rights. The Group will continue to diversify its business within the PRC and other regions and to expand its market share in distribution of gene testing services. The Group has commenced establishing distribution channels in Macau and other regions. 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. Moreover, in order to achieve higher profit margin, the Group has been frequently reviewing of the performance of each distribution channel. 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 establishing laboratories for the manufacture, research and development of gene testing products in Hong Kong and Shanghai, the PRC after the acquisition of Fudan HK. Fudan HK entered into a deed of gift on 8 November 2010, pursuant to which Fudan HK was delivered 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 the grantor of the gene testing services (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 products.

Distribution of bio-industrial products

In December 2010, CNL (Pinghu) commenced the construction of production plant, research and development laboratories and office in Pinghu, the PRC. With a team of experts including Mr. A. H. Grobben, who is a Dutch expert in hydrolyzed gelatin and bone fat refining technology, CNL (Pinghu) is expected to start production of hydrolyzed gelatin around March 2012. The total estimated costs inclusive of construction, production equipments and renovation costs would be approximately RMB40 million. Looking ahead, the Group will continue to explore other opportunities for further growth in bio-industrial business through strategic cooperation with the world's leading biotechnology enterprises, whether in terms of business, product or technology. In particular, the Group strives to build a sound product portfolio which offers high profitability potential.

Provision of health care management services

The Group is committed to providing high-end health care management services in respect of disease prevention and treatment to the public. The Group's health care management centre, the "United Gene (Shanghai) Health Care Centre", which commenced business in September 2011, serves as a high-end health care management and service centre with genome technology as its competitive edge. Operation of the United Gene (Shanghai) Health Care Centre would 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 set up an individualised comprehensive and lifelong health service model. The Group would research, develop and provide further health care management services, such as (i) testing of nutrition and metabolism and provision of treatment consultancy; (ii) provision of diet treatment; (iii) provision of medicine treatment consultancy and (iv) testing for gene mutation. The

Directors believe that the establishment of the United Gene (Shanghai) Health Care Centre could help in enhancing the Group's branding in the health care management and service industry, widening the Group's business model and strengthening its profitability in the forthcoming years.

The Group intends to set up more health care centres in other cities of the PRC, which would be funded by the net proceeds raised from the rights issue of the Company in May 2010.

FINANCIAL REVIEW

Capital structure

Details of the capital structure of the Company are set out in note 30 to the financial statements.

As at 30 June 2011, the Group had no bank borrowings or other long term financing (30 June 2010: nil).

Liquidity and financial resources

As at 30 June 2011, the Group had bank and cash balances of approximately HK$222.3 million (30 June 2010: approximately HK$344.2 million).

The ratio of current assets to current liabilities of the Group was 31.89 as at 30 June 2011 compared to 4.63 as at 30 June 2010. The Group's gearing ratio as at 30 June 2011 was 0.03 (30 June 2010: 0.18) which is calculated based on the Group's total liabilities of approximately HK$13.4 million (30 June 2010: approximately HK$97.1 million) and the Group's total assets of approximately HK$467.3 million (30 June 2010: approximately HK$526.7 million).

During the Financial Year, the Group had invested in financial assets with an aim to increase and balance return on surplus cash in accordance with its treasury policy. They were time deposits at banks with high credit ratings and listed financial assets which can be readily converted to liquid funding at any time on the securities market. The Group attaches importance to security, short-term commitment and availability of the surplus cash and cash equivalents.

Significant investments

On 9 July 2010, the Group 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), and the Group injected further capital investments into CNL (Pinghu) during the Financial Year. A total amount of approximately HK$40.4 million was invested by the Group.

On 8 November 2010, the Group entered into an acquisition agreement with two connected parties, namely, United Gene Health Group Limited and Fudan Health International Limited, to acquire the entire equity interests of both Fudan Guang Dong and Fudan HK 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 the 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 HK as at 13 December 2010 respectively. The Acquisition was approved by independent Shareholders and was completed on 8 December and 13 December 2010 respectively.

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

Details of future plans for material investments and their expected sources of funding in the coming year are stated in the paragraph 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 30 June 2011, the Group did not have any charges on its assets (30 June 2010: nil).

Contingent liabilities

The Directors are not aware of any significant contingent liabilities of the Group as at 30 June 2011 (30 June 2010: nil).

Commitments

Commitments of the Group as at 30 June 2011 are set out in note 34 to the 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, Renminbi ("**RMB**") and United States Dollars. The Group maintains a prudent strategy in its foreign exchange risk management, with the foreign exchange risks being minimised through balancing the monetary assets against monetary liabilities, and foreign currency revenue against foreign currency expenditure. The Group did not use any financial instrument to hedge against foreign currency risk. The Group will monitor its foreign currency exposure closely and consider hedging foreign currency exposure should the need arise.

Number and remuneration of employees

As at 30 June 2011, the Group had 149 (30 June 2010: 85) full-time employees, most of whom were working in the Company's subsidiaries in the PRC. It is the Group's policy that remuneration of the employees including the Directors is in line with the market and commensurate with the responsibilities. Discretionary year-end bonuses are payable to the employees based on individual performance. Other employee benefits include medical insurance, retirement schemes, training programmes and education subsidies.

Total staff costs including Directors' remuneration for the Financial Year amounted to approximately HK$11.1 million (2010: approximately HK$7.7 million) inclusive of HK$1.6 million staff costs capitalized in the research and development costs.

Segment information

Details of the segment information are set out in note 9 to the financial statements.

(iv) For the financial year ended 30 June 2010

GROUP RESULTS

Turnover of the Group for the Financial Year amounted to approximately HK$483.9 million, representing approximately 29.25% increase from the previous financial year ended 30 June 2009 (the "**Previous Financial Year**") (approximately HK$374.4 million). The increase in the turnover of approximately HK$109.5 million for the Financial Year was mainly contributed by the distribution of the gene testing services that commenced in the People's Republic of China (the "**PRC**") in May 2009. Profit attributable to the equity holders of the Company for the Financial Year was approximately HK$11.3 million, compared to that of approximately HK$745.2 million in the Previous Financial Year. This was due to the release of a bank loan and other liabilities amounting to approximately HK$631.4 million pursuant to a scheme of arrangement which became effective on 18 July 2008 (the "**Scheme**") and the gain on deconsolidation of the subsidiaries amounting to approximately HK$134.5 million during the Previous Financial Year.

BUSINESS REVIEW

Distribution of gene testing services

The Group has continued to diversify its business within the PRC and to expand the market share of its distribution of gene testing services. One of its subsidiaries, China United Gene Health Limited ("**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 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 Franchise Agreement pertaining to the relevant Distributor and to 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, all the Distributors had generated approximately HK$232.7 million sales from the distribution of gene testing services, which was higher than the Specified Amounts. No Distributor failed to meet the respective Specified Amount and was required to repay any amount of the relevant Loan.

During the Financial Year, turnover of the distribution of gene testing services was approximately HK$253 million (approximately HK$46.9 million in the Previous Financial Year). This substantial increase of approximately 439.95% was mainly due to the enlarged distribution coverage in the PRC since May 2009, which contributed approximately HK$232.7 million to the turnover during the Financial Year. The gross profit margin increased from approximately 13.93% in the Previous Financial Year to approximately 14.71% in the Financial Year due to the enhancement of direct distribution channels to certain customers in the PRC.

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

On 18 September 2009, for commercial reasons, the CJV and Laolaishou Biotech Company Limited (濟南老來壽生物科技有限公司) ("**Laolaishou**"), an independent third party, mutually agreed to terminate the exclusive distribution agreement in respect of the sales of the products of Laolaishou in the PRC with immediate effect. Termination of this agreement would not have any material financial impact on the Group's operations or financial position.

In October 2009, a member of the top management of the CJV, who is mainly responsible for sales and marketing, encountered serious health problems. Since then, the Group has been looking for a suitable replacement. This has affected the turnover of the CJV which dropped significantly.

During the Financial Year, sales of the pharmaceutical products of the CJV was approximately HK$230.9 million as compared to approximately HK$323.9 million in the Previous Financial Year. This represents a substantial decrease of approximately 28.71% and gross profit margin decreased from approximately 1.71% in the Previous Financial Year to approximately 1.63% in the Financial Year.

PROSPECTS

Distribution of gene testing services

The management believes that the distribution of gene testing services has a strong market potential due to the continued increasing awareness of health care by the Chinese people and the increased national income of the PRC. The directors of the Company (the "**Directors**") believe that the Group has gained a substantial market share in the gene testing services market in the PRC. In view of its long-term development plans, the Group has to put equal weight to both the market preservation measures and the market development measures to be carried out in the gene testing business. From the year 2010 onwards, the Group will segment the market geographically and set up different policies and measures for further development. In addition, the Group will establish its marketing and distribution channels that may be managed by the Group directly, so as to achieve a more sustainable and stable growth in this business sector.

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 (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 was injected as at 30 June 2010 and applied towards the start-up and development costs for the business relating to health care centre. 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 its first health care centre to provide the genome-based health care services. This health care centre serves as a pilot project before the Group commences on developing such services in large-scale in the future. For the Financial Year, this health care centre did not generate any income because it was still in the development and planning stages of setting up the provision of health care management services.

After conducting market research and feasibility study in the health care centre business, the Group intends to set up more health care centres (which would be cardiac medical centres) in Guangzhou, Shanghai, Beijing and other cities of the PRC, and use principally the genome technology to provide personal disease prevention and health advancement services. This development projects would be funded by the net proceeds raised from the rights issue of the Company in May 2010 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 the sale of pharmaceutical products

In view of the subdued financial performance and management succession problem of the CJV, the Group has been discussing with the joint venture partner on future development of the CJV's business. The Board is of the view that if the management succession problem of the CJV is resolved, the current business situation of the CJV would not have any material financial impact on the Group.

Bio-industrial business

In June 2009, the State Council of the PRC Government issued the announcement of 《促進生物產業加快發展若干政策》("**Advance bio-industry to speed up the development of a number of policies**"). Since then, the bio-industry in the PRC has entered into an accelerating development trend. In view of this development, the Group intends to aggressively explore more businesses related to the bio-industry to increase its profitability. On 9 July 2010, the Group acquired CNL (Pinghu) Biotech Co. Ltd. ("**CNL (Pinghu)**") which is principally engaged in the business of wholesaling bone chips in the PRC. As a result, the Group has become involved in the trading of biological raw materials, and through CNL (Pinghu), the Group would establish more cooperation with the European biotechnology enterprises and seek more acquisition opportunities.

FINANCIAL REVIEW

Capital structure

On 19 March 2010, the Company announced to the Shareholders a proposed rights 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 of HK$0.01 each, at the subscription price of HK$0.052 per rights share. Best Champion Holdings Limited ("**Best Champion**"), the substantial shareholder of the Company, and Grand Investment (Securities) Limited, both acting as the underwriters, entered into an underwriting agreement with the Company on 19 March 2010 to fully underwrite the proposed rights shares. Approximately HK$310.4 million net funds had been raised upon completion of the rights issue on 18 May 2010, of which approximately 90% is expected to be applied for future business development activities including but not limited to investing in the health care centres 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.. Approximately 10% of the funds will be used for general working capital of the Group.

Details of the capital structure of the Company are set out in note 27 to the financial statements.

As at 30 June 2010, the Group had no bank borrowings or other long term financing (30 June 2009: nil).

Liquidity and financial resources

As at 30 June 2010, the Group had bank and cash balances of approximately HK$344.2 million (30 June 2009: approximately HK$74.1 million).

The ratio of current assets to current liabilities of the Group was 4.63 as at 30 June 2010 compared to 3.05 as at 30 June 2009. The Group's gearing ratio as at 30 June 2010 was 0.18 (30 June 2009: 0.23) which is calculated based on the Group's total liabilities of approximately HK$97.1 million (30 June 2009: approximately HK$32.3 million) and the Group's total assets of approximately HK$526.7 million (30 June 2009: approximately HK$140.2 million).

Significant investment

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 ("**SH HealthCare Joint Venture**") in Shanghai, which is a limited liability company with a registered capital of RMB22.5 million. United Gene HealthCare has contributed partial investment cost of RMB900,000 for a 20% equity interest in SH HealthCare Joint Venture. As the operation of SH HealthCare Joint Venture did not reflect the mission of the Group, on 18 June 2010, United Gene HealthCare entered into a share transfer agreement to dispose of the 20% equity interest in SH HealthCare Joint Venture to another independent third party for the sum of RMB900,000.

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. CNL (Pinghu) is established in the PRC with limited liability and is principally engaged in the business of wholesale of bone chips in the PRC. 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 upon release of the audited financial statements of CNL (Pinghu) for the year ended 31 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 Financial Year (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 30 June 2010, the Group did not have any charges on its assets (30 June 2009: nil).

Contingent liabilities

The Directors are not aware of any significant contingent liabilities of the Group as at 30 June 2010 (30 June 2009: nil).

Commitments

Commitments of the Group as at 30 June 2010 are set out in notes 30 and 31 to the 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 minimised through balancing the monetary assets against monetary liabilities, and foreign currency revenue against foreign currency expenditure. The Group did not use any financial instrument to hedge against foreign currency risk. The Group will monitor its foreign currency exposure closely and consider hedging foreign currency exposure should the need arise.

Number and remuneration of employees

As at 30 June 2010, the Group had 85 (30 June 2009: 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 including the Directors is in line with the market and commensurate 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 Financial Year amounted to approximately HK$7.7 million (2009: approximately HK$5 million).

Segment information

Details of the segment information are set out in note 9 to the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE TARGET COMPANY GROUP

The audited consolidated financial statements of the Target Group prepared in accordance with HKFRSs for the year ended 31 March 2013, together with the accompanying notes (the "**2013 Target Financial Statements**"), are included on pages 34 to 95 in the annual report for the year ended 31 March 2013 of the Target Group (the "**2013 Target Annual Report**") published on 18 July 2013.

The audited consolidated financial statements of the Target Group prepared in accordance with HKFRSs for the year ended 31 March 2012, together with the accompanying notes (the "**2012 Target Financial Statements**"), are included on pages 30 to 85 in the annual report for the year ended 31 March 2012 of the Target Group (the "**2012 Target Annual Report**") published on 20 July 2012.

The audited consolidated financial statements of the Target Group prepared in accordance with HKFRSs for the year ended 31 March 2011, together with the accompanying notes (the "**2011 Target Financial Statements**"), are included on pages 29 to 85 in the annual report for the year ended 31 March 2011 of the Target Group (the "**2011 Target Annual Report**") published on 21 July 2011.

Each of the 2013 Target Financial Statements, the 2012 Target Financial Statements and the 2011 Target Financial Statements (but not any other part of the 2013 Target Annual Report, the 2012 Target Annual Report and the 2011 Target Annual Report, respectively) are incorporated by reference into this circular and forms part of this circular. The 2013 Target Annual Report, the 2012 Target Annual Report and the 2011 Target Annual Report have been released on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Target Company (www. extrawell.com.hk) under "Investor Corner".

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis extracted from the annual reports of the Target Group for each of the financial years ended 31 March 2013, 2012 and 2011, respectively:

(i) For the financial year ended 31 March 2013

A. BUSINESS REVIEW

Overall Performance

In the year under review, China's economic growth slowed from 9.3% in 2011 to 7.8% in 2012 as a result of decline in external demand resulting from prolonged sovereign debt crisis in the Eurozone and feeble recovery in the US economy. Despite such uncertain global economic environment, the PRC pharmaceutical industry continued to grow by riding on the extensive healthcare reforms under the Twelfth Five-Year Plan (2011–2015) which include further strengthening the delivery of medical care and the public health infrastructure, providing accessible health insurance, and ensuring a sound system for drug supply and security. The Twelfth Five-Year Plan reflects the central government's continued commitment in healthcare reform, focusing healthcare as a social priority and providing more support for technology innovation in the pharmaceutical industry. The reform efforts thus far have brought about progress toward giving the nation's citizens access to basic medical services, with increased parity between urban and rural residents. While permitting market space to meet additional demands, regulatory policies and measures to pharmaceutical enterprises are reinforcing which tend to pose cost and price pressures, intensifying market competition and leading to acceleration of integration within the industry. In response to the challenging market situation, the Group had persistently adopted its policies in continuously optimising operational efficiencies through streamlining the business operations and flexibly adjusting its marketing and distribution strategies to achieve performance.

The Group maintained its turnover and gross profit at about HK$151.1 million and HK$46.7 million respectively, representing a slight decrease of about 4.0% and 1.6% as compared with that of last financial year. These were mainly the results of the Group's effort on brand building in rural markets which potential demand existed for the Group's manufactured pharmaceuticals and unwinking disciplines over product costs. Excluding the non-recurring item of reclassification of exchange differences from translation reserve of about HK$8.4 million of last financial year, and after taking into account the share of loss of an associate of about HK$3.1 million due to its business start-up costs and a write-back of provision of direct expenses attributable to sales of about HK$4.0 million included in other revenue, the Group's core operations maintained stable performance during the year under review.

The Group's profit for the year attributable to the equity holders of the Company was about HK$10.9 million, representing a decrease of about HK$9.5 million as compared to profit of about HK$20.4 million (comprising a non-recurring item of reclassification of exchange differences from translation reserve of about HK$8.4 million).

Turnover and Operating Results

Imported Pharmaceutical Sector

Turnover decreased by about 15.2% from about HK$105.7 million last year to about HK$89.6 million this year mainly due to sales mix and price adjustment on products for customers under the adjusted distribution model.

Despite the aforesaid, after consolidation of distribution channels during the year, the Group will be in better position to monitor credit control over the trade receivables and minimise operating costs. Segment results decreased from about HK$25.1 million in 2012 to about HK$19.3 million in 2013. However, when taking into account the non-recurring item of reclassification of exchange differences from translation reserve of about HK$8.4 million of last financial year and other revenue relating to a write-back of provision of direct expenses attributable to sales of about HK$4.0 million this financial year, the segment results decreased slightly from about HK$16.7 million to about HK$15.3 million, representing a decrease of about HK$1.4 million comprising increase in costs and expenses incurred in product license renewal of about HK$0.4 million during the year under review.

The Group would take positive approach in responding quickly to dynamic market by adopting flexibly strategies and initiatives as appropriate to develop the business and strive for better business performance.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products increased to about HK$61.4 million, an increase of approximately 18.9% when compared to about HK$51.7 million in 2012. The increase was mainly due to growth in demand of end-user terminal market which comprises hospitals and retail pharmacies.

During the year under review, in the face of severe challenges against the backdrop of competitive market situation and rising operating costs, management actively adopted brand building strategy by deploying more resources in organizing marketing and promotional activities so as to firmly grasp the market share in the expanding rural markets. The strategy was proved successful with increase in sales of the Group's two product lines (specialised in improving the immunity system of human body against infectious diseases and for treating iron deficiency anemia) and improved gross margin which balanced off the rising operating costs. As a result, segment profit improved to about HK$2.5 million, an increase of about 22.3% as compared to about HK$2.1 million in 2012.

While the Group would strategically extend its sales network in the rural markets, the Group would leverage the opportunities of plant relocation and production facilities advancement to enrich its product mix through research and development and would consolidate resources of its manufacturing operations in Changchun so as to enhance operating efficiency and facilitate future development by internally generated resources.

Gene Development Sector

During the year, gene development remained inactive and no revenue was recorded.

Oral Insulin Sector

The clinical trial is still in progress. There was no revenue generated in the sector. The decrease in loss was due to lesser research and development expenses incurred during the year.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$10.4 million in 2012 to about HK$9.5 million in 2013, representing a decrease of about HK$0.9 million or 8.8%. The decrease was the result of reduction in logistics costs and associated expenses of the imported pharmaceuticals operating under the adjusted distribution model, ongoing cost and credit control measures by manufacturing operations for entertainment, travelling and impairment expenditure which balanced off the increase in spending on symposium, medical meeting and promotion expenses to drive sales growth and to secure market share.

Administrative Expenses

Administrative expenses of the Group amounted to about HK$27.9 million which included the professional fee provided for the acquisition of minority interest in Smart Ascent Limited of about HK$1.1 million and costs and associated expenses incurred in product license renewal of about HK$0.4 million, representing an increase of 2.4% from about HK$27.2 million in 2012.

Research and Development Expenses

Decrease in research and development expenses from about HK$4.9 million in 2012 to about HK$3.3 million in 2013 was mainly attributable to less expense recognised in relation to the clinical trial of oral insulin.

Other Revenues

Other revenues increased from about HK$3.6 million in 2012 to about HK$5.9 million in 2013. This was mainly due to a write-back of provision of about HK$4.0

million for direct expenses attributable to sales as it was no longer required under the adjusted distribution model of the trading business, and such write-back was partially offset by the decrease of foreign exchange gain.

B. OUTLOOK

Amid uncertainties over the global economic recovery, China's economic growth tends to slow but sees to adjust and transform on a more sustainable growth path. The continuous increase of investment by the central government in deepening the healthcare reforms and the accelerated demand in urban and rural areas will give momentum to the development and expansion of the PRC pharmaceutical market.

Chronic conditions such as diabetes and hypertension are proliferating rapidly in the PRC given the aging population, accelerating urbanisation coupled with unhealthy diets and sedentary lifestyles in recent years. The Group's oral insulin project has seen promising move during the year as the Group has completed the multi-centered, randomised, doubleblinded and placebo-controlled clinical trial of oral insulin on treatment of type 2 diabetes with satisfactory results and the project team is stepping up efforts in organising the extended clinical trial with more extensive sampling in the PRC. Promoting the success of the oral insulin project will still be given high priority in the years to come so that the Group could capture the enormous market opportunities arising from the growing number of diabetics in the PRC.

The construction of new production facilities in Changchun has been progressing for the plant relocation by end of this year. It is a turning point for the Group to enhance its core competitiveness of its manufacturing segment by upgrading its production capacity and enhancing its operational efficiency for its long-term growth and development.

Meanwhile, the Group will continue to put efforts in product research and development and exploit new products through collaborative relations with international enterprises to sustain long-term development and growth of the Group.

C. FINANCIAL REVIEW

Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 31 March 2013, the Group had total cash and bank balances (including pledged bank deposits) of about HK$156.2 million (2012: HK$159.7 million), representing a decrease by approximately 2.2%.

The Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$19.7 million (2012: HK$19.6 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2013 was 0.09 (2012: 0.09), calculated based on the Group's total assets of about HK$717.6 million (2012: HK$687.8 million) and total debts of about HK$63.2 million (2012: HK$59.4 million), comprising amounts due to non-controlling interests of subsidiaries of about HK$57.2 million (2012: HK$54.6 million) and loan from a non-controlling interest of about HK$6.0 million (2012: HK$4.8 million).

Foreign Exchange Exposure

Save for certain purchases are denominated in Euros, the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group manages the foreign currency exposure by closely monitoring the foreign currency movements and may purchase foreign currencies at spot rate, when and where appropriate for meeting its payment obligation. No hedge on foreign currencies was made during the year but the Group will use financial instruments for hedging purpose when considered appropriate.

Employment and Remuneration Policy

As at 31 March 2013, the Group had 294 employees (2012: 295). Staff costs (including directors' emoluments) for the year ended 31 March 2013 amounted to approximately HK$27.4 million (2012: approximately HK$28.2 million), reflecting cost economies from consolidation of human resources and streamlined business operations.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities.

The share option scheme as adopted by the Company on 8 August 2002 ("**2002 Scheme**") expired on 14 August 2012. On its expiration, the shareholders of the Company have approved the adoption of a new share option scheme (the "**Scheme**") on 24 August 2012. The Scheme became effective on 29 August 2012 after obtaining approval from the Listing Committee of the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

From the effective date of the Scheme to 31 March 2013, no share option has been granted under the Scheme.

(ii) For the financial year ended 31 March 2012

A. BUSINESS REVIEW

Overall Performance

With the adoption of the Twelfth Five-Year Plan in 2011 and the central government's increasing investment to the nation's healthcare reforms, the pharmaceutical industry continued to demonstrate a strong growth momentum supported by robust market demand primarily driven by natural growth and aging of population, accelerating urbanization and the people's rising living standards. The deepening implementation of stricter regulatory requirements towards the industry along with the healthcare reforms and the inflationary atmosphere during the year posed pressures and ongoing challenges to the operating environment of pharmaceutical enterprises, intensifying market competition and changing the landscape of the industry.

In the context of the ever-changing competitive landscape, the Group persisted in optimising operational efficiencies by streamlining the business operations and adjusting its marketing and distribution strategies whilst fortifying stringent controls over costs and expenses. In line with adjusting the distribution model on trading business of imported pharmaceuticals, there was a decline of the Group's turnover to about HK$157.4 million, representing a decrease of 20.8% as compared with that of last financial year. However, positive effects of an improved overall gross margin from 26.2% to 30.2% and a reduction of the total administrative, selling and distribution expenses by about HK$9.3 million from HK$46.9 million to HK$37.7 million were achieved. As a result, the Group's profit for the year was about HK$15.9 million comprising reclassification of exchange differences from translation reserve of about HK$8.4 million in respect of partial disposal of operation outside Hong Kong upon adjusting the distribution model of the imported pharmaceutical business.

The Group's profit for the year attributable to the equity holders of the Company was about HK$20.4 million, representing an increase of about HK$8.8 million as compared to profit of about HK$11.6 million in 2011.

Turnover and Operating Results

Imported Pharmaceutical Sector

While turnover for the imported pharmaceutical sector decreased by about 33.5% from about HK$158.9 million last year to about HK$105.8 million this year, which was primarily due to price adjustments on products for customers under the introduction of the adjusted distribution model, segment profit was maintained at about HK$25.1 million including the reclassification of exchange differences from translation reserve of about HK$8.4 million. The result was achieved as there were a corresponding reduction of operating costs and expenses upon the adjusted distribution model, and an increasing sales contribution of the dermatological product propelled by effective execution of academic promotion activities during the year.

Confronting the complexity and challenges in the pharmaceutical market amidst macroeconomic volatility, management will devote continuing efforts to adopt strategies more flexibly according to market changes and will strive for further improvement on business performance.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products increased to about HK$51.7 million, an increase of approximately 29.5% as compared to about HK$39.9 million in 2011. The substantial increase in sales was mainly attributable to the increase in sales of the Group's two product lines specialised in improving the immunity system of human body against infectious diseases and for treating iron deficiency anemia.

During the year under review, the launch of a series of deepening policies in healthcare reforms triggered low-price bidding competition on drugs and heavier burden of regulatory costs for drug manufacturers. Impacted by the fierce market competition and inflationary environment, management made relentless efforts in rationalising production procedures to enhance productivity and adjusting marketing strategies to penetrate into rural markets. The severe challenges in the operating environment were also mitigated by improving gross margin with product mix and the continuous cost control measures to manage operating expenses. As a result, segment profit was maintained at about HK$2.1 million, a decrease of about HK$0.4 million as compared to about HK$2.5 million in 2011.

After entering into the land resumption and compensation agreement with the governmental authority in end of 2011, a relocation arrangement of the Group's production facilities by stages with minimal disruption to its existing operation is organised. It is the Group's intention to advance the capacity and capability of its new production facilities to enhance its core competitiveness in the long run. Meanwhile, the Group would continue to optimise its product mix to capture greater market share and reduce the production and operation costs in order to secure profitability and drive for better performance.

Gene Development Sector

During this year, gene development remained inactive and no revenue was recorded.

Oral Insulin Sector

The clinical trial is in progress. There was no revenue generated in the sector. The decrease in loss was due to lesser research and development expenses incurred for the clinical trial this year.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$17.5 million in 2011 to about HK$10.4 million in 2012, representing a decrease of about HK$7.1 million or 40.4%. This was mainly attributable to reduction in logistics costs and associated expenses upon adjusting the distribution model of our imported pharmaceutical products and more effective utilisation of marketing resources and execution of marketing strategies.

Administrative Expenses

Administrative expenses of the Group reduced by 7.4% from about HK$29.4 million in 2011 to about HK$27.2 million in 2012 which was mainly due to reduction in staff costs upon the adjusted distribution model on imported pharmaceuticals and benefits achieved from consolidation of human resources.

Research and Development Expenses

Research and development expenses reduced from about HK$8.3 million in 2011 to about HK$4.9 million in 2012 attributable to less expenses relating to the oral insulin project were recognised in the year under review.

Other Revenues

Other revenues decreased from about HK$8.3 million in 2011 to about HK$3.6 million in 2012, a decrease by 57.3%. This was mainly due to no consultancy service rendered for other factories during the year and such reduction of about HK$7.3 million was partially offset by the increase of interest income by about HK$0.8 million and foreign exchange gain of about HK$1.5 million.

B. OUTLOOK

While national policy changes and the healthcare reforms pose uncertainties ahead, the central government's commitments in establishing a universal healthcare coverage over the nation's population boost demand for quality pharmaceuticals and encourage innovation in the pharmaceutical industry.

It has been a positive move for the Group during the year as the clinical trial of oral insulin is conducted in the clinical trial centres in the Mainland, under the administration of the project administrator engaged by the Group. The multicentered, randomized, double-blinded, placebo-controlled clinical trial is progressing towards validating the efficacy and safety of the use of oral insulin. The Group would focus resources on the ongoing progress of the clinical trial and believe that the success of the project will foster the growth of the Group.

With enhancement of the Group's core competitiveness as its key focus, the Group will continue to identify investment projects with potentials to bring prospects for the Group and will seek collaborative opportunities which will create synergies to develop and tap the advantages of growing domestic demand in the Mainland.

The Group is committed to maintaining a stable growth of its business in the challenging operating environment and holds a cautiously optimistic view towards the coming year.

C. FINANCIAL REVIEW

Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 31 March 2012, the Group had total cash and bank balances (including pledged bank deposits) of about HK$159.7 million (2011: HK$145.3 million), representing a moderate increase by approximately 9.9%.

The Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$19.6 million (2011: HK$20.7 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2012 was 0.06 (2011: 0.06) calculated based on the Group's total debts of about HK$39.4 million (2011: HK$36.8 million), comprising amount due to a non-controlling interest of about HK$32.4 million (2011: HK$32.4 million).

Foreign Exchange Exposure

Save for certain purchases are denominated in Euros, the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group manages the foreign currency exposure by closely monitoring the foreign currency movements and may purchase foreign currencies at spot rate, when and where appropriate for meeting its payment obligation. No hedge on foreign currencies was made during the period but the Group will use financial instruments for hedging purpose when considered appropriate.

D. EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2012, the Group had 295 employees (2011: 415). Staff costs (including directors' emoluments) for the year ended 31 March 2012 amounted to approximately HK$28.2 million (2011: approximately HK$39.0 million). The decrease was mainly due to adjustments in the distribution model of trading business and the consolidation of human resources in the Group's operations. The Group has not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor has it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities. The employees (including directors) are remunerated according to their performance, work experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme. In August 2002, shareholders of the Company have approved the adoption of a share option scheme (the "**Scheme**"). The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

No share option was granted under the Scheme during the year ended 31 March 2012.

(iii) For the financial year ended 31 March 2011

A. BUSINESS REVIEW

Overall Performance

In the year under review, various initiatives were introduced by the Chinese Government in the wake of 3-year healthcare reform as undertaken since 2009, which included an increase in budgeted investment for the reform from RMB850 billion to RMB1,134.2 billion, implementation of a series of new policies at both national and provincial levels; promulgation of new Good Manufacturing Practice, and setting of stricter regulation towards environmental protection under the "Twelfth Five-Year Plan" beginning in year 2011. The market has undergone rapid growth and consolidation where large pharmaceutical enterprises tend to expand rapidly by way of mergers and acquisitions in order to lower costs through economies of scale, and to enlarge and strengthen distribution networks for market share.

In view of the highly competitive business environment, the Group took proactive steps to adjust its marketing and distribution strategies for its imported products and focus on cost control over the business operations. As a result, the Group managed to maintain a turnover of about HK$198.8 million, representing an increase of 1.3% as compared with that of last financial year. Although this led to a slight decrease in overall gross margin from 27.4% to 26.2%, the total administrative, selling and distribution expenses reduced slightly by HK$2.4 million to HK$45.9 million when compared to HK$48.3 million as in last year, which was primarily due to cost reduction upon adjustment of its distribution model for part of its imported product portfolio.

During the year, the Group had continuously deployed resources in progressing the clinical trial of the oral insulin project, resulting in an upsurge of research and development expenses to HK$8.3 million. Barring from such increase, the Group's profit before taxation for the year would have been at level of about HK$12.6 million (2010: HK$12.8 million), a decrease of HK$0.2 million.

The Group's profit for the year attributable to the equity holders of the Company was about HK$11.6 million, representing a decrease of about HK$3.1 million as compared to profit of about HK$14.6 million in 2010. This was mainly due to the Group's share of expenses incurred in the oral insulin project.

Turnover and Operating Results

Imported Pharmaceutical Sector

In the year under review, turnover and segment result increased by 5.6% and 21.4% respectively to approximately HK$158.9 million and HK$17.9 million as a result of increase in volume of sales.

The pharmaceutical market in the Mainland continued to be fueled by the increasing demand brought by the healthcare reform. However, the Group faced increasing pressure due to intensifying competition. In response to the market challenges, the Group had made a strategic move during the year in adjusting its distribution model and simplifying the path of distribution for some of its products. Through integrating large volumes of distributional transactions and encouraging bulk orders, price adjustment was made for certain product whilst the profitability remained intact as there was a corresponding reduction in the related selling and distribution expenses. This helped to maintain market share and improved overall performance in the year under review.

The Group would endeavor to continue adopting measures and strategies to achieve satisfactory performance despite intensifying market competition.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products dropped to about HK$39.9 million, a decline of approximately 12.8% as compared to about HK$45.7 million in 2010, resulting from decrease in sales volume amid the severe price-cut competition in certain provinces.

In this challenging market environment, apart from taking measures to streamline organization to reduce costs, increase efficiency and output of the production process, and being vigilant to strict controls on cost and capital expenditure, management would continue focusing on launching products with better margin such as "Ferrous Sulfate Sustained-released Tablet" for treating iron deficiency anemia, which had contributed positively to both the turnover and gross profit in the year under review.

Affected by the pricing pressure on products and costs, the segment result was maintained at about HK$2.5 million, representing a decrease of 40.9% as compared to about HK$4.2 million in 2010.

Facing the challenges ahead, the Group would take positive approaches in developing its product lines by focusing on cost control as well as enhancing production capacity and capability upon future relocation of factory on the site acquired in year 2011. In the meantime, the Group believes that tapping with the competitive advantage of its established brand name products it will be back on the right track and will deliver better results in future.

Gene Development Sector

During this year, gene development remained inactive and no revenue was recorded.

Oral Insulin Sector

There was no revenue generated in the sector during this year. The increase in loss was mainly due to an increase in research and development expenses incurred in progressing the clinical trial, and the administrative expenses in relation thereon.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$19.8 million in 2010 to about HK$16.5 million in 2011, representing a decrease of about HK$3.3 million or 16.9%. This was mainly attributable to reduction in distribution and promotion expenses upon reshuffling its marketing and distribution strategies.

Administrative Expenses

Administrative expenses of the Group remained stable at HK$29.4 million, an increase by 3.5% from about HK$28.4 million which was mainly due to inflationary adjustment.

Research and Development Expenses

Research and development expenses were about HK$8.3 million for the year under review, about HK$7.5 million higher than HK$0.8 million in year 2010, which were mainly related to the oral insulin project.

Other Revenues and Impairment on Trade Receivables

Other revenues mainly comprised reversal of impairment on trade receivables, sundry income and interest income. Other revenues decreased by about HK$1.9 million from about HK$13.5 million to about HK$11.6 million this year. This was the result of decrease in reversal of impairment on trade receivables of about

HK$3.2 million, increase in sundry income of HK$1.0 million in respect of consultancy services rendered to other factories as well as increase in interest income by about HK$0.3 million.

Taxation

In the year 2010, there was a write-back of tax provision of HK$4 million for potential tax exposure for the new PRC income tax law on advice given by the PRC tax professionals. And when taking into account of this factor, the tax charges were generally in line with the Group's profit in year 2011.

B. OUTLOOK

With the engagement of clinical trial expertise for provision of the clinical trial management services and related clinical studies, and subsequent to the Group's submission of its best implementation plan to the State Food and Drug Administration of the PRC in 2010, the cautious approach in conducting the forefront but essentially reinforcing work laid a solid foundation towards advancement of a new stage. Manufacturing of clinical trial materials has been done and the patient recruitment process of the clinical trial is progressing well in clinical trial centres located in reputable hospitals in the PRC. Concurrently, the Group has been allocating its best resources to expedite the processes and believes that with the joint efforts of the expertise, this phase of clinical trial will progress steadily with encouraging results. The Group stays positive and optimistic on its success.

In addition to the oral insulin project, the Group would continue to input resources in the research and development initiatives. Product development projects with potential investment value or complementary to the Group's product structure will be prudently considered to strengthen its market position and to sustain a long-term growth and development of the Group. Through taking positive initiatives in striving for operational performance, the Group is optimistic about its future prospects.

C. FINANCIAL REVIEW

Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 31 March 2011, the Group had total cash and bank balances (including pledged bank deposits) of about HK$145.3 million (2010: HK$125.6 million), representing an increase by approximately 15.7%.

The Group did not have bank borrowings during the year but with banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$20.7 million (2010: HK$20.6 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2011 was 0.06 (2010: 0.05) calculated based on the Group's total debts of about HK$36.8 million (2010: HK$32.6 million), comprising amount due to a non-controlling interest of about HK$32.4 million (2010: HK$32.4 million).

Currency Structure

The Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions were mainly conducted in Hong Kong dollars, Renminbi or United States dollars and the exchange rates of these currencies were relatively stable throughout the period. No hedge on foreign currencies was made during the period, however the Group has closely monitored its exposure to foreign currency movement.

D. EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2011, the Group had 415 employees (2010: 416). Staff costs (including directors' emoluments) for the year ended 31 March 2011 amounted to approximately HK$39.0 million (2010: approximately HK$38.4 million). The slight increase was mainly due to salary adjustment. The Group has not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor has it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities. The employees (including directors) are remunerated according to their performance, work experience and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme. In August 2002, shareholders of the Company have approved the adoption of a share option scheme (the "**Scheme**"). The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

No share option has been granted under the Scheme.

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27 September 2013

United Gene High-Tech Group Limited
Rooms 1405-1406, 14/F,
Harbour Centre,
25 Harbour Road, Wan Chai,
Hong Kong

Dear Sir/Madam,

Re: Valuation of the Fair Values of the Sale CBs to be Issued by Extrawell Pharmaceutical Holdings Limited

In accordance with the instructions from United Gene High-Tech Group Limited (hereinafter referred to as the "**Company**"), we have carried out a valuation of the fair values of the tranche one and tranche two Sale CBs (hereinafter collectively referred to as the "**Sale CBs**"), namely the sale convertible bond I (hereinafter referred to as "**Sale CB-I**") with the face value of HK$320,650,000, and the sale convertible bond II (hereinafter referred to as "**Sale CB-II**") with the face value of HK$256,520,000, in relation to the Company's proposed acquisitions of the Sale CBs to be issued by Extrawell Pharmaceutical Holdings Limited (hereafter referred to as the "**Issuer**"). We are instructed that for pro forma accounting purposes, the Sale CBs were assumed to be issued by the Issuer on 1 July 2011 and 31 December 2012. We are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing you with our opinion of the fair values of the Sale CBs as at 1 July 2011 and 30 June 2012 (assuming the Sale CBs were issued on 1 July 2011), and 31 December 2012 (assuming the Sale CBs were issued on 31 December 2012) (hereinafter collectively referred to as the "**Dates of Valuation**").

It is our understanding that this valuation will be used by the Company for pro forma accounting reference purpose with reference to the requirements of Hong Kong Accounting Standard 32 "Financial Instruments: Presentation" and Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" (hereinafter respectively referred to as "**HKAS 32**" and "**HKAS 39**").

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company for pro forma accounting reference and public documentation purpose with reference to the requirements of HKAS 32 and HKAS 39. This report is not to be used for any purpose other than that mentioned above, including issue to third parties, without our prior approval of use, form, context in which it is released.

Roma Appraisals Limited assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and information provided by the management of the Company and/or its representative(s) (hereinafter referred to as the "**Management**").

In preparing this report, we have had discussions with the Management in relation to the terms and conditions of the Sale CBs (hereinafter referred to as the "**Terms and Conditions**") and other relevant information concerning the Sale CBs. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Sale CBs provided to us by the Management and have considered such information and data as accurate and reasonable.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

3. TERMS AND CONDITIONS

The Sale CBs were assumed to be issued on 1 July 2011 and 31 December 2012 by the Issuer. The Issuer does not have the intention to apply for the listing of the Sale CBs; therefore, an active market does not exist.

Aggregate Principal Amount	:	Sale CB-I: HK$320,650,000; and Sale CB-II: HK$256,520,000
Issue Date	:	Assumed to be 1 July 2011 for the valuations as at 1 July 2011 and 30 June 2012; and Assumed to be 31 December 2012 for the valuation as at 31 December 2012
Interest Rate	:	Nil
Maturity Date	:	Twentieth anniversary of the issue date
Conversion Price	:	HK$0.6413 per conversion share, subject to adjustments
Conversion Period	:	The period commencing from the issue date up to the seventh business day prior to the maturity date

Conversion	:	The Company shall have the right at any time and from time to time during the conversion period to convert the whole or part of the principal amount of the Sale CBs in amounts of not less than a whole multiple of HK$32,065,000 on such conversion.

4. FAIR VALUES OF THE SALE CBS

We have valued the Sale CBs on the basis of fair value. According to HKAS 32 and HKAS 39, fair value is defined as "**the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction**".

5. VALUATION METHODOLOGY

We estimated the fair values of the liability components of the Sale CBs by discounting the estimated contractual cash flows over the remaining contractual terms of the Sale CBs at the discount rates that were appropriate to the riskiness of the Sale CBs, with reference to the prevailing market rates for a similar instrument with similar credit rating and maturity.

We estimated the credit rating of the Issuer by considering its key financial ratios based on its financial statements for the year ended 31 March 2012, and comparing the ratios to adjusted key industrial financial ratios as published by Standard & Poor's.

We adopted the binomial model to estimate the fair values of the Sale CBs. The binomial model involves the construction of binomial price trees, which are diagrams representing different possible paths that might be followed by the stock price over the life of the Sale CBs. The underlying assumption is that the stock price follows a random walk. In each time step, the stock price has certain probabilities of moving up and down by certain percentage amounts. Binomial trees of the underlying Sale CBs are utilized to estimate the values of the Sale CBs at each time step based on the possible future stock prices and the respective probabilities at each time step.

The fair values of the conversion components of the Sale CBs were estimated by subtracting the fair values of the liability component from the aggregate fair values of the Sale CBs.

6. MAJOR ASSUMPTIONS

6.1 Discount Rate

We estimated that discount rates for the Sale CBs by the build-up method by adding credit spreads and other risk premiums to the prevailing risk free rates.

Having considered the financial ratios of the Issuer, we assumed a range of credit rating from "AA" to "A". The comparisons between the key financial ratios of the Issuer and the benchmark ratios are set out as follows:

		Benchmark Ratios			
	Issuer	AAA Rating	AA Rating	A Rating	B Rating
EBITDA Margin *(%)*	8.0	28.3	26.9	20.1	14.6
Return on Capital *(%)*	1.2	30.6	23.7	20.9	7.6
EBIT Interest Coverage	N/A *Note1*	28.6	13.9	11.2	1.3
EBITDA Interest Coverage	N/A *Note1*	31.9	17.7	14.7	2.2
Funds from Operations/ Total Debt *(%)*	248.6	251.0	61.9	55.7	11.6
Free Operating Cash Flow/Total Debt *(%)*	140.1	201.8	51.3	34.9	3.8
Discretionary Cash Flow/Total Debt *(%)*	140.1	122.9	26.7	26.2	2.9
Total Debt/EBITDA	0.4	0.4	1.2	1.4	5.6
Total Debt/Capital *(%)*	0.8	13.7	27.0	34.0	78.2

Note 1: The Issuer did not incur any interest expenses for the year ended 31 March 2012.

We selected several comparable bonds of similar credit ratings to estimate the average credit spreads as at the Dates of Valuation. The selection criteria are set out as follows:

- The remaining bond lives of the comparable bonds should be over 15 years;
- The credit ratings of the comparable bonds should be between "AA" and "A";
- The issuers of the comparable bonds should be principally engaged in pharmaceuticals, chemicals or related industries; and
- Historical trading data of the comparable bonds should be available in Bloomberg.

During the bond selection process, we were not aware of any comparable bonds listed in Hong Kong that matched the aforementioned selection criteria. Given that the bond market in the United States was one of the largest and more mature markets worldwide, we have adopted eight comparable bonds traded in the bond market in the United States. We considered that it is appropriate to adopt these bonds as the comparable bonds as they are traded despite some of their issuers are not listed. The comparable bonds were selected on a best effort basis and the details of the exhaustive list of the comparable bonds selected are set out as follows:

Issuer	Currency	Country of Issuance	Coupon Rate (%)	Maturity Date	Years to Maturity as at			Credit Rating
					1/7/11	30/6/12	31/12/12	
Merck & Co., Inc.	USD	U.S.	6.500	1 December 2033	22.42	21.42	20.92	AA
GlaxoSmithKline Capital Inc.	USD	U.S.	5.375	15 April 2034	22.79	21.79	21.29	A+
Wyeth LLC	USD	U.S.	6.500	1 February 2034	22.59	21.59	21.09	AA
Merck Sharp & Dohme Corporation	USD	U.S.	5.950	1 December 2028	17.42	16.42	15.92	AA
Merck Sharp & Dohme Corporation	USD	U.S.	6.400	1 March 2028	16.67	15.67	15.16	AA
Pharmacia Corporation	USD	U.S.	6.600	1 December 2028	17.42	16.42	15.92	AA
Lubrizol Corporation	USD	U.S.	6.500	1 October 2034	23.25	22.25	21.75	AA
El du Pont de Nemours and Company	USD	U.S.	6.500	15 January 2028	16.54	15.54	15.04	A

Source: Bloomberg

Details of the issuers of the comparable bonds selected are set out as follows:

Issuer	Stock Code	Market Capitalization as at 31/12/12 *(US$ Million)*	Description
Merck & Co., Inc.	MRK.US	124,461	The company is a global health care company that delivers health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products, which it markets directly and through its joint ventures. The company has operations in pharmaceutical, animal health, and consumer care.
GlaxoSmithKline Capital Inc.	Private	N/A	The company operates as a subsidiary of GlaxoSmithKline PLC. GlaxoSmithKline PLC is a research-based pharmaceutical company. The company develops, manufactures, and markets vaccines, prescription, and over-the-counter medicines, as well as health-related consumer products. The company provides products for infections, depression, skin conditions, asthma, heart and circulatory disease, and cancer.
Wyeth LLC	Private	N/A	The company develops, manufactures, and distributes pharmaceuticals and health care products. The company offers vaccines, bio-technology products, nutritional, and non-prescription medicines.

Issuer	Stock Code	Market Capitalization as at 31/12/12 *(US$ Million)*	Description
Merck Sharp & Dohme Corporation	Private	N/A	The company operates in the pharmaceutical industry. The company discovers, develops, manufactures, and markets pharmaceutical products for a broad range of conditions.
Pharmacia Corporation	Private	N/A	The company was acquired and integrated into Pfizer Inc. The company researched, manufactured, and sold pharmaceuticals worldwide. The company's pharmaceutical segment included prescription products for humans and animals, bulk pharmaceuticals, and contract manufacturing.
Lubrizol Corporation	Private	N/A	The company supplies performance chemicals to diverse markets. The company develops, sells, and produces specialty additive packages used in transportation and industrial finished lubricants.
El du Pont de Nemours and Company	DD.US	41,941	The company is a global chemical and life sciences company, with businesses that include agriculture and industrial biotechnology, chemistry, biology, materials science and manufacturing. The company operates globally and offers a wide range of products and services for markets including agriculture and food, building and construction, electronics and communications.

Source: Bloomberg

The respective discount rates as at the Dates of Valuation are set out as follows:

	1 July 2011	30 June 2012	31 December 2012
a) Risk Free Rate *(%)*	2.769	1.155	0.953
b) Average Credit Spread *(%)*	7.377	7.604	7.416
c) Other Risk Premium *(%)*	0.375	0.380	0.380
Discount Rate (Rounded) *(%)*	**10.521**	**9.138**	**8.749**

Notes:

a) Estimated with reference to the yields of Hong Kong government bonds and treasury bills as at the Dates of Valuation as extracted from Bloomberg.

b) Estimated with reference to the average yield spreads of the aforementioned comparable bonds, adjusted for other risk factors. For each comparable bond, we obtained the yield-to-maturity ("**YTM**") of each of the comparable bonds as at the Dates of Valuation from Bloomberg. Corresponding yield of the United States government bond over the time to maturity of the comparable bond was subtracted from the YTM to estimate the yield spread of the comparable bond. The yield spreads of the comparable bonds as at the Dates of Valuation are set out as follows:

Issuer		**Yield Spread as at**	
	1 July 2011	**30 June 2012**	**31 December 2012**
Merck & Co., Inc.	1.150%	1.361%	1.145%
GlaxoSmithKline Capital Inc.	1.187%	1.569%	1.442%
Wyeth LLC	1.419%	1.647%	1.471%
Merck Sharp & Dohme Corporation	1.238%	1.402%	1.316%
Merck Sharp & Dohme Corporation	1.340%	1.496%	1.387%
Pharmacia Corporation	1.387%	1.674%	1.545%
Lubrizol Corporation	1.682%	1.954%	1.535%
El du Pont de Nemours and Company	1.610%	1.724%	1.489%
Average Yield Spread	1.377%	1.604%	1.416%

An additional risk premium of 6% was added to the average yield spreads to estimate the average credit spreads as at the Dates of Valuation. The risk premium was estimated based on our professional judgment and past experience in valuations of similar convertible bonds. The breakdown of the risk premium is listed as follows:

Factor Considered	Additional Risk Premium
Illiquidity	1%
Lack of marketability	1%
Difference in size	2%
Difference in profitability	2%

c) Estimated with reference to the country risk premium of Hong Kong over the United States market as sourced from Damodaran Online.

6.2 Binomial Model

The major inputs to the binomial models are set out as follows:

	1 July 2011	30 June 2012	31 December 2012
d) Stock Price *(HK$)*	0.630	0.475	0.600
e) Exercise Price *(HK$)*	0.641	0.641	0.641
f) Discount Rate *(%)*	10.521	9.138	8.749
g) Risk Free Rate *(%)*	2.769	1.155	0.953
h) Expected Bond Period *(Years)*	20.001	19.001	19.998
i) Expected Volatility *(%)*	65.762	66.000	65.100
j) Expected Dividend Yield *(%)*	0.000	0.000	0.000

Notes:

d) Based on the stock prices of the Issuer as at the Dates of Valuation as extracted from Bloomberg.

e) Based on the Terms and Conditions.

f) Estimated based on the aforementioned build-up method.

g) Estimated with reference to the yields of Hong Kong government bonds and treasury bills as at the Dates of Valuation as extracted from Bloomberg.

h) Based on the Terms and Conditions.

i) Estimated with reference to the historical price volatilities of the shares of Issuer as at the Dates of Valuations over the expected bond periods as extracted from Bloomberg.

j) Estimated by Bloomberg regarding the historical dividend payout of the Issuer.

7. SOURCES OF INFORMATION

Our valuation considered and relied on some key information as follows:

- The Terms and Conditions as provided by the Management;
- Annual reports of the Issuer as sourced from the website of The Stock Exchange of Hong Kong Limited;
- Announcements made by the Company in relation to the acquisition of the Sale CBs as sourced from the website of The Stock Exchange of Hong Kong Limited; and
- Market data as sourced from Bloomberg.

8. LIMITING CONDITIONS

Our conclusion of the fair values is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. This valuation reflects facts and conditions existing at the Dates of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinion, or estimates identified as being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on information provided by the Management and the relevant announcements, circulars and financial data published by the Issuer, if necessary, to a considerable extent in arriving at our opinion of values. We are not in the position to verify the accuracy of all information provided to us. However, we have no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We have not investigated the title to or any legal liabilities of the Sale CBs. We have assumed no responsibility for the title to the Sale CBs valued. Save as and except for the purpose stated above, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. In accordance with our standard practice, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. No responsibility is accepted to any third party for the whole or any parts of its contents. The title of this report shall not pass to the Company until all professional fee has been paid in full.

9. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Hong Kong Dollars (HK$). We hereby confirm that we have neither present nor prospective interests in the Sale CBs, the Company, the Issuer and their associated companies or the values reported herein.

10. OPINION OF VALUES

Based on the investigation and analysis stated above, the valuation method employed and key assumptions appended above, the fair values of the Sale CBs as at the Dates of Valuation, in our opinion, were reasonably stated as below:

Fair Values of Sale CB-I as at the Dates of Valuation

	1 July 2011	**30 June 2012**	**31 December 2012**
	HK$	*HK$*	*HK$*
Liability Component	43,363,889	60,874,444	59,919,444
Conversion Component	290,485,000	209,481,667	270,682,778
Aggregate Fair Value of Sale CB-I	333,848,889	270,356,111	330,602,222

Fair Values of Sale CB-II as at the Dates of Valuation

	1 July 2011	**30 June 2012**	**31 December 2012**
	HK$	*HK$*	*HK$*
Liability Component	34,691,111	48,699,556	47,935,556
Conversion Component	232,388,000	167,585,333	216,546,222
Aggregate Fair Value of Sale CB-II	267,079,111	216,284,889	264,481,778

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

INTRODUCTION

On 27 April 2013, the Company entered into the S&P Agreement to acquire (i) Sale CB-I in an aggregate principle amount of HK$320,650,000 from Vendor A and 450,000,000 Target Company Shares (representing approximately 18.83% of the total issued share capital of the Target Company as at the date of the Latest Practicable Day) from Vendor B at an aggregate Consideration I of HK$608,000,000 (Transaction I); and (ii) Sale CB-II in an aggregate principle amount up to HK$256,520,000 from Vendor A, at an aggregate Consideration II up to a maximum amount of HK$256,000,000, in four batches (Transaction II). In addition, pursuant to the S&P Agreement, Vendor A and the Company shall each have the option not to complete the sale and purchase of Sale CB-II – Fourth Batch by giving not less than 10 Business Days notice in writing to the other party from 27 April 2013 up to the Completion Date II – Fourth Batch.

Consideration I of HK$608,000,000 shall be satisfied by the Company upon Completion I by (i) cash consideration of HK$120,000,000 to Vendor A; (ii) issuance of Convertible Bonds I in the principle amount of HK$200,000,000 to Vendor A or his nominee(s); and (iii) issuance of Convertible Bonds I in the principle amount of HK$288,000,000 to Vendor B or its nominee(s).

Consideration II up to a maximum amount of HK$256,000,000 shall be satisfied by the Company upon Completion II by issuance of Convertible Bonds II in an aggregate principal amount of HK$256,000,000 in four batches to Vendor A.

Among others, the conditions precedent of Transaction I set out in the S&P Agreement included the completion of the Placing Agreement, Subscription Agreement and the Acquisition Agreement and their relevant transactions contemplated thereunder. The Placing Agreement and Subscription Agreement are entered into by the Company on 18 February 2013 with supplemental agreements dated 19 April 2013 for the placing and the subscription of 10-year 0.1 % convertible bonds in an aggregate principal amount up to HK$74,000,000 and in an aggregate principal amount of HK$59,000,000 respectively (the "**Placing and Subscription**"). The Acquisition Agreement was entered into between Mr. Ong as vendor and Extrawell (BVI), a wholly-owned subsidiary of the Target Company, as purchaser on 27 July 2007 with the supplemental agreement dated 23 February 2013 for the acquisition of an aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent, representing approximately 49% of the total issued capital of Smart Ascent, which is a subsidiary of the Target Company, at a consideration of HK$660,000,000 (the "**Target Acquisition**"). As a result, the impact of the Placing and Subscription and the Target Acquisition have also been taken into account in the pro forma adjustments for Transaction I.

Accordingly, the unaudited pro forma financial information ("**Unaudited Pro Forma Financial Information**") of the Enlarged Group has been prepared to illustrate the effect of (i) completion of Transaction I; (ii) completion of the proposed acquisition of the first three batches of Sale CB-II in Transaction II; and (iii) completion of the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II, after taking into account the impact from the completion of Placing Agreement, Subscription Agreement and the Acquisition Agreement as described above.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared by the directors of the Company (the "**Directors**") based on the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2012 as extracted from the interim report of the Group for the six months ended 31 December 2012, after making certain pro forma adjustments, as if the Transactions I and II had been completed on 31 December 2012.

The unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group are based on (i) the audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 30 June 2012, as extracted from the published annual report of the Group for year ended 30 June 2012 as referred to in Appendix IA to this Circular; and (ii) the audited consolidated statement of comprehensive income of the Target Group for the year ended 31 March 2013, as extracted from the published annual report of the Group for the year ended 31 March 2013 as referred to in Appendix IIA, after making pro forma adjustments, as if the Transactions I and II had been completed on 1 July 2011.

The Unaudited Pro Forma Financial Information is based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Transactions I and II that are (i) directly attributable to the transactions and (ii) factually supportable, is summarized in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, the Unaudited Pro Forma Financial Information of the Enlarged Group may not purport to predict what the financial position or the results and cash flows of the Enlarged Group would have been upon completion of the Transactions I and II for any future periods or on any future dates.

The capitalized terms set out above and below have the same meaning as those defined elsewhere in this circular.

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Pro forma adjustments						
	The Group as at 31 December 2012	Completion of the Placing and Subscription	Completion of Transaction I	Subtotal	Completion of the proposed acquisition of the first three batches of Sale CB-II in Transaction II	Sub-total	Completion of the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*		*(Note 3)*		*(Note 4)*	
Non-current assets								
Property, plant and equipment	58,317			58,317		58,317		58,317
Intangible assets	7,426			7,426		7,426		7,426
Interest in an associate	–		313,875	313,875		313,875		313,875
Investments in convertible bonds	–		330,602	330,602	198,361	528,963	66,120	595,083
Deposits paid for acquisition of property, plant and equipment	968			968		968		968
	66,711			711,188		909,549		975,669
Current assets								
Inventories	474			474		474		474
Prepayments, deposits and other receivables	20,090			20,090		20,090		20,090
Trade receivables	40			40		40		40
Available-for-sale financial assets	100,500			100,500		100,500		100,500
Restricted bank balances	223			223		223		223
Bank balances and cash	231,757	131,162	(122,000)	240,919		240,919		240,919
	353,084			362,246		362,246		362,246
Current liabilities								
Trade payables	543			543		543		543
Accruals and other payables	16,397			16,397		16,397		16,397
Amount due to a shareholder	4,933			4,933		4,933		4,933
Other borrowing due within one year	4,933			4,933		4,933		4,933
	26,806			26,806		26,806		26,806
Net current assets	326,278			335,440		335,440		335,440
Total assets less current liabilities	392,989			1,046,628		1,244,989		1,311,109

		Pro forma adjustments						
	The Group as at 31 December 2012	Completion of the Placing and Subscription	Completion of Transaction I	Subtotal	Completion of the proposed acquisition of the first three batches of Sale CB-II in Transaction II	Sub-total	Completion of the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*		*(Note 3)*		*(Note 4)*	
Non-current liabilities								
Convertible bonds	–	13,745	49,897	63,642	19,632	83,274	6,544	89,818
Deferred tax liabilities	1,096			1,096		1,096		1,096
Loans from a non-controlling shareholder of a subsidiary	9,250			9,250		9,250		9,250
	10,346			73,988		93,620		100,164
Net assets	382,643			972,640		1,151,369		1,210,945
Capital and reserves								
Share capital	158,139			158,139		158,139		158,139
Reserves	216,137	117,417	472,580	806,134	178,729	984,863	59,576	1,044,439
Equity attributable to owners of the Company	374,276			964,273		1,143,002		1,202,578
Non-controlling interests	8,367			8,367		8,367		8,367
Total equity	382,643			972,640		1,151,369		1,210,945

(B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Pro forma adjustments						
	The Group for the year ended 30 June 2012	Completion of the Placing and Subscription	Completion of Transaction I	Subtotal	Completion of the proposed acquisition of the first three batches of Sale CB-II in Transaction II	Sub-total	Completion of the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 5)	*(Note 6)*		*(Note 7)*		*(Note 8)*	
Revenue	25,475			25,475		25,475		25,475
Cost of sales	(10,437)			(10,437)		(10,437)		(10,437)
Gross profit	15,038			15,038		15,038		15,038
Other income	7,820		4,562	12,382	2,737	15,119	912	16,031
Loss on acquisition of Sale CBs	–		(154,461)	(154,461)	(153,268)	(307,729)	(51,089)	(358,818)
Fair value change of investments in convertible bonds	–		(81,003)	(81,003)	(48,602)	(129,605)	(16,201)	(145,806)
Selling expenses	(2,436)			(2,436)		(2,436)		(2,436)
Administrative expenses	(55,678)			(55,678)		(55,678)		(55,678)
Impairment loss on goodwill	(1,954)			(1,954)		(1,954)		(1,954)
Impairment loss on intangible assets	(94,397)			(94,397)		(94,397)		(94,397)
Share of result of an associate	–		30,620	30,620		30,620		30,620
Loss from operations	(131,607)			(331,889)		(531,022)		(597,400)
Finance costs	(150)	(3,537)	(11,821)	(15,508)	(4,651)	(20,159)	(1,550)	(21,709)
Loss before tax	(131,757)			(347,397)		(551,181)		(619,109)
Income tax credit	2,060			2,060		2,060		2,060
Loss for the year	(129,697)			(345,337)		(549,121)		(617,049)

		Pro forma adjustments						
	The Group for the year ended 30 June 2012	Completion of the Placing and Subscription	Completion of Transaction I	Subtotal	Completion of the proposed acquisition of the first three batches of Sale CB-II in Transaction II	Sub-total	Completion of the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 5)	*(Note 6)*		*(Note 7)*		*(Note 8)*	
Other comprehensive income after tax:								
Exchange difference on translating foreign operations	1,839			1,839		1,839		1,839
Fair value changes of property	1,395			1,395		1,395		1,395
Fair value changes of available-for-sale financial assets	116			116		116		116
Share of other comprehensive income of an associate	–		7	7		7		7
Other comprehensive income for the year, net of tax	3,350			3,357		3,357		3,357
Total comprehensive loss for the year	(126,347)			(341,980)		(545,764)		(613,692)
Loss for the year attributable to:								
Owners of the Company	(123,882)	(3,537)	(212,103)	(339,522)	(203,784)	(543,306)	(67,928)	(611,234)
Non-controlling interests	(5,815)			(5,815)		(5,815)		(5,815)
	(129,697)			(345,337)		(549,121)		(617,049)
Total comprehensive loss for the year attributable to:								
Owners of the Company	(120,883)	(3,537)	(212,096)	(336,516)	(203,784)	(540,300)	(67,928)	(608,228)
Non-controlling interests	(5,464)			(5,464)		(5,464)		(5,464)
	(126,347)			(341,980)		(545,764)		(613,692)

(C) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

	The Group for the year ended 30 June 2012	Pro forma adjustments: Completion of the Placing and Subscription	Completion of Transaction I	Subtotal	Completion of the proposed acquisition of the first three batches of Sale CB-II in Transaction II	Sub-total	Completion of the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II	Total
	HK$'000	HK$'000 (Note 9)	HK$'000 (Note 10)	HK$'000	HK$'000 (Note 11)	HK$'000	HK$'000 (Note 12)	HK$'000
CASH FLOW FROM OPERATING ACTIVITIES								
Loss before tax	(131,757)	(3,537)	(212,103)	(347,397)	(203,784)	(551,181)	(67,928)	(619,109)
Adjustments for:								
Depreciation on property, plant and equipment	4,568			4,568		4,568		4,568
Amortisation on intangible assets	1,687			1,687		1,687		1,687
Impairment loss on an intangible asset	94,397			94,397		94,397		94,397
Impairment loss on goodwill	1,954			1,954		1,954		1,954
Loss on disposal of property, plant and equipment	1,545			1,545		1,545		1,545
Interest income	(2,260)		(4,562)	(6,822)	(2,737)	(9,559)	(912)	(10,471)
Interest income on available-for-sale financial assets	(3,867)			(3,867)		(3,867)		(3,867)
Net gain on available-for-sale financial assets	(756)			(756)		(756)		(756)
Loss on acquisition of Sale CBs	–		154,461	154,461	153,268	307,729	51,089	358,818
Fair value change of investments in convertible bonds	–		81,003	81,003	48,602	129,605	16,201	145,806
Share of result of an associate	–		(30,620)	(30,620)		(30,620)		(30,620)
Finance costs	150	3,537	11,821	15,508	4,651	20,159	1,550	21,709
Operating cash flow before working capital changes	(34,339)	–	–	(34,339)	–	(34,339)	–	(34,339)
Changes in inventories	(37)			(37)		(37)		(37)
Changes in prepayment, deposits and other receivables	(5,036)			(5,036)		(5,036)		(5,036)
Changes in trade receivables	11,652			11,652		11,652		11,652
Changes in trade payables	(802)			(802)		(802)		(802)
Changes in accruals and other payables	5,521			5,521		5,521		5,521

		Pro forma adjustments						
	The Group for the year ended 30 June 2012	Completion of the Placing and Subscription	Completion of Transaction I	Subtotal	Completion of the proposed acquisition of the first three batches of Sale CB-II in Transaction II	Sub-total	Completion of the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 9)	*(Note 10)*		*(Note 11)*		*(Note 12)*	
Net cash used in operations	(23,041)	–	–	(23,041)	–	(23,041)	–	(23,041)
Tax paid	(2,209)	–	–	(2,209)	–	(2,209)	–	(2,209)
NET CASH USED IN OPERATING ACTIVITIES	(25,250)	–	–	(25,250)	–	(25,250)	–	(25,250)
INVESTING ACTIVITIES								
Interest received	2,260			2,260		2,260		2,260
Interest received on available-for-sale financial assets	3,867			3,867		3,867		3,867
Additions of property, plant and equipment	(27,913)			(27,913)		(27,913)		(27,913)
Additions of intangible assets	(3,484)			(3,484)		(3,484)		(3,484)
Additions of available-for-sale financial assets	(62,105)			(62,105)		(62,105)		(62,105)
Proceeds on disposals of property, plant and equipment	3,815			3,815		3,815		3,815
Proceeds on available-for-sale financial assets	41,745			41,745		41,745		41,745
Acquisition of an associate and investments in convertible bonds	–		(122,000)	(122,000)		(122,000)		(122,000)
NET CASH USED IN INVESTING ACTIVITIES	(41,815)		(122,000)	(163,815)		(163,815)		(163,815)
FINANCING ACTIVITIES								
Capital injection by a non-controlling shareholder of a subsidiary	3,077			3,077		3,077		3,077
Loan advanced from others	11,040			11,040		11,040		11,040
Proceeds from Placing and Subscription	–	131,162		131,162		131,162		131,162
Interest paid	(150)	(133)		(283)		(283)		(283)
NET CASH GENERATED FROM FINANCING ACTIVITIES	13,967	131,029		144,996		144,996		144,996

	The Group for the year ended 30 June 2012	Pro forma adjustments: Completion of the Placing and Subscription	Completion of Transaction I	Subtotal	Completion of the proposed acquisition of the first three batches of Sale CB-II in Transaction II	Sub-total	Completion of the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 9)	*(Note 10)*		*(Note 11)*		*(Note 12)*	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(53,098)	131,029	(122,000)	(44,069)	–	(44,069)	–	(44,069)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	868			868		868		868
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	222,267			222,267		222,267		222,267
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR, represented by bank balances and cash	170,037	131,029	(122,000)	179,066	–	179,066	–	179,066

Notes to the Unaudited Pro Forma Financial Information

1. The adjustments in connection with the Placing and Subscription of the convertible bonds represent:

   (i) HK$131,162,000 net proceed received from the Placing and Subscription, after deducting HK$1,838,000 transaction cost in relation to the Placing and Subscriptions, which took place on 11 June 2013; and

   (ii) the recognition of liability and equity components of the convertible bonds in an aggregate principal amount of HK$133,000,000 issued by the Company. Under Hong Kong Accounting Standard 32 "Financial Instruments: Presentation" ("**HKAS 32**") and HKAS 39 "Financial Instruments: Recognition and Measurement" ("**HKAS 39**"), the convertible bonds issued by the Company contain the liability (together with the early redemption option which is closely related to the host liability component) and the conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is classified as an equity instrument. Accordingly, the gross proceeds, after allocation of the transaction cost of HK$1,838,000, are split into the liability component with fair value of HK$13,745,000 and equity component of HK$117,417,000 on 11 June 2013.The fair value of the liability component of the convertible bonds is based on the valuation carried out by Roma Appraisal Limited, an independent professional valuer not connected with the Group. For the purpose of preparing the Unaudited Pro Forma Financial Information, the fair value on 11 June 2013 is assumed to be the sames as that of 31 December 2012.

2. The adjustments in connection with Transaction I for the acquisition of Sale CB-I and Sale Shares represent:

   (i) cash consideration of HK$120,000,000 to Vendor A and estimated transaction cost of HK$2,000,000;

   (ii) the consideration by the Company – the recognition of liability and equity components of the Convertible Bonds I to be issued by the Company with principal amount of HK$200,000,000 to Vendor A and principal amount of HK$288,000,000 to Vendor B which are non-interest bearing, can be converted into a total of 1,220,000,000 shares of the Company at a conversion price of HK$0.4 per share and will be matured on the date falling on the tenth anniversary of the issue of the Convertible Bonds I. Under HKAS 32 and HKAS 39, the Convertible Bonds I to be issued by the Company contain both the liability and conversion option components. The conversion option, that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments, is classified as an equity instrument. Accordingly, the liability component and the conversion option classified as equity component are recognised at fair value of HK$49,897,000 and HK$478,558,000 respectively assuming the Convertible Bonds I were issued on 31 December 2012. The fair value of the liability component and the conversion option of the Convertible Bonds I is based on the valuation carried out by Roma Appraisal Limited;

   (iii) the Company's investment – the investment in Sale CB-I with principal amount of HK$320,650,000 issued by the Target Company with fair value of the embedded conversion derivative of approximately HK$270,683,000 and fair value of the loan component of HK$59,919,000 to be carried at amortised cost subsequently. The fair value of the embedded conversion derivative and the loan component are based on the valuation carried out by Roma Appraisal Limited;

   (iv) the recognition of loss on acquisition of Sale CB-I of HK$5,978,000 in profit or loss, being the excess of the fair value of Convertible Bonds I to be issued to Vendor A with principal amount of HK$200,000,000 amounting to HK$216,580,000 and cash consideration of HK$120,000,000 over the fair value of Sale CB-I amounting to HK$330,602,000 as at 31 December 2012; and

(v) the recognition of interest in an associate of HK$313,875,000, which represents the aggregate of (i) the consideration of HK$311,875,000 for the acquisition of 18.83% equity interest in Target Company, which is the fair value of the Convertible Bonds I with principal amount of HK$288,000,000 to be issued by the Company, and (ii) the transaction cost of HK$2,000,000. The Group applies the acquisition method to account for the acquisition of the 18.83% equity interest in Target Company. In applying the acquisition method, the identifiable assets, liabilities and contingent liabilities of the Target Company are recorded at fair values at the date of the completion. Assuming that the fair value of those assets acquired and liabilities assumed are same as their respective carrying amount as at the date of acquisitions the amount of contingent liabilities assumed to be zero and assuming no intangible assets acquired, a goodwill of HK$313,875,000 is recognised.

The goodwill is calculated based on the aggregate of the consideration for the acquisition of 18.83% interest in the Target Group and the transaction cost over 18.83% of net asset value of the Target Group.

In accordance with HKAS 27 "Consolidated and Separate Financial Statements", the acquisition of non-controlling interest is an equity transaction among shareholders, with any difference between (i) the carrying amount of non-controlling interest being acquired; and (ii) the consideration paid being recognised as a reserve movement. As a result, the net assets of the Target Group would be decreased for the same amount of the total consideration paid and payable for such acquisition, amounting to HK$679,904,000 (comprising the fair value of convertible bonds with aggregate principal of HK$641,300,000 amounting to HK$661,204,000 and cash consideration of HK$18,700,000).

Since the Target Group's audited net assets value as at 31 March 2013 prior to such acquisition of non-controlling interest is only HK$583,292,000, as a result of this acquisition, its net assets value will be decreased by HK$679,804,000 and resulted in net liabilities position. In accordance with HKAS 28 "Investments in Associates", the Group's share of net liabilities of the Target Group as associated company is limited to zero, therefore, the entire consideration to be paid for the acquisition of 18.83% equity interest in the associate would be allocated as goodwill. For simplicity, it is assumed that the carrying amounts of the net assets of the Target Group as at 31 March 2013 approximate to that of 31 December 2012 and the net assets approximate fair value.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the Directors have assessed whether the interest in an associate may be impaired as at 31 December 2012 on a pro forma basis, in accordance with HKAS 36 "Impairment of Assets", and concluded that there is no impairment in respect of the interest in an associate in the pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2012.

Upon actual completion of the Acquisition, if at all, and in subsequent reporting periods, the entire carrying amount of the investment (including goodwill) will be tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount on the actual date of performing the impairment test if any impairment indicator exists, any impairment loss recognised, if necessary, forms part of the carrying amount of the investment.

3. The adjustments in connection with the proposed acquisition of the first three batches of Sale CB-II in Transaction II by issuance of Convertible Bonds II by the Company represent:

   (i) the consideration by the Company – the recognition of liability and equity components of the Convertible Bonds II to be issued by the Company with principal amount of HK$192,000,000 which are non-interest bearing, can be converted into 480,000,000 shares of the Company at a conversion price of HK$0.4 per share and will be matured on the date falling on the tenth anniversary of the issue of the Convertible Bonds II. Under HKAS 32 and HKAS 39, the Convertible Bonds II to be issued by the Company contain both the liability and conversion option components. The conversion option, that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments, is classified as an equity instrument. Accordingly, the liability component and the conversion option classified as equity component are recognised at fair value of HK$19,632,000 and HK$172,368,000 respectively assuming the Convertible Bonds II were issued on 31 December 2012. The fair value of the liability component and the conversion option of the Convertible Bonds II is based on the valuation carried out by Roma Appraisal Limited;

   (ii) the Company's investment – the investment in the first three batches of Sale CB-II with principal amount of HK$192,000,000 issued by the Target Company with fair value of the embedded conversion derivative of approximately HK$162,409,000 and fair value of the loan component of HK$35,952,000 carried at amortised cost subsequently. The fair values of the embedded conversion derivative and the loan component are based on the valuation carried out by Roma Appraisal Limited;

   (iii) the recognition of gain on acquisition of the first three batches of Sale CB-II of HK$6,361,000 in profit or loss, being the excess of the fair value of the first three batches of Sale CB-II amounting to HK$198,361,000 over the fair value of Convertible Bonds II with principal amount of HK$192,000,000 amounting to HK$192,000,000 as at 31 December 2012; and

   (iv) the transaction cost involved is assumed to be insignificant.

4. The adjustments in connection with the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II by issuance of Convertible Bonds II by the Company represent:

   (i) the consideration by the Company – the recognition of liability and equity components of the Convertible Bonds II to be issued by the Company with principal amount of HK$64,000,000 which are non-interest bearing, can be converted into 160,000,000 shares of the Company at a conversion price of HK$0.4 per share and will be matured on the date falling on the tenth anniversary of the issue of the Convertible Bonds II. Under HKAS 32 and HKAS 39, the Convertible Bonds II to be issued by the Company contain both the liability and conversion option components. The conversion option, that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments, is classified as an equity instrument. Accordingly, the liability component and the conversion option classified as equity component are recognised at fair value of HK$6,544,000 and HK$57,456,000 respectively assuming the Convertible Bonds II were issued on 31 December 2012. The fair value of the liability component and the conversion option of the Convertible Bonds II is based on the valuation carried out by Roma Appraisal Limited;

   (ii) the Company's investment – the investment in Sale CB-II – Forth Batch with principal amount of HK$64,000,000 to be issued by the Target Company with fair value of the embedded conversion derivative of approximately HK$54,136,000 and fair value of the loan component of HK$11,984,000 carried at amortised cost subsequently. The fair values of the embedded conversion derivative and the loan component are based on the valuation carried out by Roma Appraisal Limited;

(iii) the recognition of gain on acquisition of Sale CB-II – Forth Batch of HK$2,120,000 in profit or loss, being the excess of the fair value of Sale CB-II – Forth Batch amounting to HK$66,120,000 over the fair value of Convertible Bonds II with principal amount of HK$64,000,000 amounting to HK$64,000,000 as at 31 December 2012; and

(iv) the transaction cost involved is assumed to be insignificant.

5. The adjustment represents the effective interest expense on the debt component of the Company's convertible bonds of HK$133,000,000 at an effective interest rate of 25.74% per annum charged to profit or loss on the liability component with fair value of HK$13,745,000 upon initial recognition, which is based on the valuation as at 11 June 2013 carried out by Roma Appraisal Limited, assuming the fair value on 11 June 2013 approximate to that of 1 July 2011.

6. The adjustments represent:

(i) The effective interest income of HK$4,562,000 on Sale CB-I of HK$320,650,000 at effective interest rate of 10.52% per annum on loan component with fair value of HK$43,364,000, which would be credited to the statement of comprehensive income based on 20 years maturity, in accordance with the valuation as at 1 July 2011 carried out by Roma Appraisal Limited, assuming the Transaction I had been completed on 1 July 2011;

(ii) the recognition of loss on acquisition of Sale CB-I of HK$154,461,000 in profit or loss, being the excess of the fair value of Convertible Bonds I to be issued to Vendor A with principal amount of HK$200,000,000 amounting to HK$368,310,000 and cash consideration of HK$120,000,000 over the fair value of Sale CB-I amounting to HK$333,849,000 as at 1 July 2011;

(iii) The fair value decrease of the conversion derivative of Sale CB-I of HK$81,003,000, in accordance with the valuation as at 30 June 2012 carried out by Roma Appraisal Limited, assuming the Transaction I had been completed on 1 July 2011;

(iv) The interest expense of HK$11,821,000 on Convertible Bonds I of HK$488,000,000 at effective interest rate of 27.50% per annum on liability component with fair value of HK$42,993,000, which would be charged to the statement of comprehensive income based on 10 years maturity, in accordance with the valuation as at 1 July 2011 carried out by Roma Appraisal Limited, assuming the Transaction I had been completed on 1 July 2011; and

(v) the share of result and other comprehensive income of an associate, using equity accounting, assuming the Transaction I had been completed on 1 July 2011, which is calculated based on the audited results of the Target Group for the year ended 31 March 2013 as extracted from the published annual report of the Target Group for the year ended 31 March 2013 as referred to in Appendix IIA to this Circular and adjusted for the effective interest expense amounting to HK$10,272,000 and the fair value change of the convertible bonds amounting to HK$162,007,000 issued by Target Group. No adjustment has been made to the result and other comprehensive income of the associate for the portion attributable to the 49% non-controlling interest as a result of the Target Acquisition as the amount involved is considered insignificant.

7. The adjustments represent:

(i) The interest income of HK$2,737,000 on the first three batches of the Target Company's Sale CB-II of HK$192,390,000 at effective interest rate of 10.52% per annum on loan component with fair value of HK$26,108,000, which would be credited to the statement of comprehensive income based on 20 years maturity, in accordance with the valuation as at 1 July 2011 carried out by Roma Appraisal Limited, assuming the proposed acquisition of the first three batches of Sale CB-II in Transaction II were completed on 1 July 2011;

(ii) the recognition of loss on acquisition of the first three batches of Sale CB-II of HK$153,268,000 in profit or loss, being the excess of the fair value of Convertible Bonds II with principal amount of HK$192,000,000 amounting to HK$353,577,000 over the fair value of the first three batches of Sale CB-II amounting to HK$200,309,000 as at 1 July 2011;

(iii) The fair value decrease of the conversion derivative of the first three batches of Sale CB-II of HK$48,602,000, in accordance with the valuation as at 30 June 2012 carried out by Roma Appraisal Limited, assuming the proposed acquisition of the first three batches of Sale CB-II in Transaction II were completed on 1 July 2011; and

(iv) The interest expense of HK$4,651,000 on the Company's Convertible Bonds II of HK$192,000,000 at effective interest rate of 27.50% per annum on liability component of HK$16,915,000, which would be charged to the statement of comprehensive income based on 10 years maturity, in accordance with the valuation as at 1 July 2011 carried out by Roma Appraisal Limited, assuming the proposed acquisition of the first three batches of Sale CB-II in Transaction II were completed on 1 July 2011.

8. The adjustments represent:

(i) The interest income of HK$912,000 on the Target Company's Sale CB-II – Fourth Batch of HK$64,130,000 at effective interest rate of 10.52% per annum on loan component with fair value of HK$8,673,000, which would be credited to the statement of comprehensive income based on 20 years maturity, in accordance with the valuation as at 1 July 2011 carried out by Roma Appraisal Limited, assuming the proposed acquisition of the Sale CB-II – Fourth Batch in Transaction II was completed on 1 July 2011;

(ii) the recognition of loss on acquisition of Sale CB-II – Forth Batch of HK$51,089,000 in profit or loss, being the excess of the fair value of Convertible Bonds II with principal amount of HK$64,000,000 amounting to HK$117,859,000 over the fair value of Sale CB-II – Forth Batch amounting to HK$66,770,000 as at 1 July 2011;

(iii) The fair value decrease of the conversion derivative of Sale CB-II – Fourth Batch of HK$16,201,000, in accordance with the valuation as at 30 June 2012 carried out by Roma Appraisal Limited, assuming the proposed acquisition of Sale CB-II – Fourth Batch in Transaction II was completed on 1 July 2011; and

(iv) The interest expense of HK$1,550,000 on the Company's Convertible Bonds II of HK$64,000,000 at effective interest rate of 27.50% per annum on liability component of HK$5,638,000, which would be charged to the statement of comprehensive income based on 10 years maturity, in accordance with the valuation as at 1 July 2011 carried out by Roma Appraisal Limited, assuming the proposed acquisition of the Sale CB-II – Fourth Batch in Transaction II was completed on 1 July 2011.

9. The adjustments represent:

   (i) the adjustment to loss before tax on the effective interest expense of the Company's convertible bonds of HK$133,000,000 for the Placing and Subscription recognised in profit or loss;

   (ii) the net cash inflow for the Placing and Subscription; and

   (iii) the interest payment on 0.1% coupon on the Company's convertible bonds of HK$133,000,000 during the year ended 30 June 2012.

10. The adjustments represent:

   (i) the effective interest income of the Target Company's Sale CB-I for the Transaction I;

   (ii) the loss on acquisition of the Sale CB-I for the Transaction I;

   (iii) the fair value change of the Sale CB-I during the year, assuming the Transaction I had been completed on 1 July 2011;

   (iv) the effective interest expense of the Company's Convertible Bonds I for the Transaction I;

   (v) share of result of an associate using equity accounting, assuming the Transaction I had been completed on 1 July 2011 as discussed in note 6(iv) above; and

   (vi) the cash consideration of HK$120,000,000 and transaction cost of HK$2,000,000 paid for the Transaction I.

11. The adjustments represent:

   (i) the effective interest income of the Target Company's first three batches of Sale CB-II with principal amount of HK$192,000,000 of Transaction II;

   (ii) the loss on acquisition of the first three batches of Sale CB-II for the Transaction II;

   (iii) the fair value change of the first three batches of Sale CB-II during the year, assuming the Transaction II had been completed on 1 July 2011; and

   (iv) the effective interest expense of the Company's Convertible Bonds II with principal amount of HK$192,000,000 for the Transaction II.

12. The adjustments represent:

   (i) the effective interest income of the Target Company's Sale CB-II – Fourth Batch with principal amount of HK$64,000,000 of Transaction II;

   (ii) the loss on acquisition of the Sale CB-II – Fourth Batch for the Transaction II;

   (iii) the fair value change of the Sale CB-II – Forth Batch during the year, assuming the Transaction II had been completed on 1 July 2011; and

   (iv) the effective interest expense of the Company's Convertible Bonds II with principal amount of HK$64,000,000 for the Completion II – Fourth Batch of Transaction II.

13. The above adjustments are made assuming: (1) the effect of change in foreign currency on the Target Company is insignificant; (2) the tax impact of all the transactions is insignificant; and (3) no conversion of any convertible bonds and no repayment by the Company on its convertible bonds.

14. For the purpose of preparing the Unaudited Pro forma Financial Information, the amounts of fair values of all the Company's convertible bonds and the Target Company's Sale CBs are based on the aforementioned independent valuation reports, where appropriate. In addition, in the absence of a formal valuation, the directors of the Company have not made any fair value adjustment on the intangible assets of which the fair value may be significantly different from their carrying amount as at 31 December 2012. The Company is in the process of identifying and determining the fair values of the identifiable assets and liabilities of the Target Group. Accordingly, the actual goodwill may be significantly different from that includes in interest in an associate and presented in this Unaudited Pro Forma Financial Information. Had these valuations been finalised as of the actual completion date, the amounts of the Unaudited Pro Forma Financial Information of the Enlarged Group may be different from the amounts presented in this appendix and the difference may be significant.

(E) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF UNITED GENE HIGH-TECH GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of United Gene High-Tech Group Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2012, the unaudited pro forma consolidated statement of comprehensive income for the year ended 30 June 2012, the unaudited pro forma consolidated statement of cash flows for the year ended 30 June 2012 and related notes as set out on pages IV-1 to IV-16 of the circular issued by the Company dated 27 September 2013 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-16 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the (i) proposed acquisition of 18.83% issued share capital of Extrawell Pharmaceutical Holdings Limited (the "**Target Company**") involving proposed issuance of convertible bonds under specific mandate; (ii) proposed acquisition of an aggregate of HK$320,650,000 convertible bonds issued by the Target Company involving proposed issuance of convertible bonds under specific mandate; and (iii) proposed acquisition of an aggregate up to HK$256,520,000 convertible bonds issued by the Target Company involving proposed issuance of convertible bonds under specific mandate (collectively referred to as the "**Acquisition**") on the Group's financial position as at 31 December 2012 and the Group's financial performance and cash flows for the year ended 30 June 2012 as if the Acquisition had taken place at 31 December 2012 and 1 July 2011 respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 31 December 2012, on which a review report has been published whereas the Group's financial performance and cash flows have been extracted from the Group's financial statements for the year ended 30 June 2012, on which an audit report has been published.

Directors' Responsibilities for the unaudited pro forma financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2012 or 1 July 2011 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 September 2013

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

(a) Share Capital

The authorised and issued share capital of the Company as at the Latest Practicable Date, and immediately after exercise in full of the conversion rights attaching to the Convertible Bonds (assuming no further issue and/or repurchase of Shares from the Latest Practicable Date up to exercise in full of the conversion rights attaching to the Convertible Bonds) were and are expected to be as follows:

Authorised:		*HK$*
50,000,000,000	Shares of HK$0.01 each	500,000,000.00
Issued and fully paid or credited as fully paid:		
1,080,693,024	Shares in issue as at the Latest Practicable Date	10,806,930.24
1,860,000,000	Conversion Shares to be allotted and issued	18,600,000.00
2,940,693,024	Shares in issue immediately after exercise in full of the conversion rights attaching to the Convertible Bonds (assuming no further issue and/or repurchase of Shares from the Latest Practicable Date up to exercise in full of the conversion rights attaching to the Convertible Bonds)	29,406,930.24

The Conversion Shares shall rank *pari passu* in all respects among themselves and with all other existing Shares outstanding at the date of conversion and all Conversion Shares shall include rights to participate in all dividends and other distributions.

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

(b) Convertible bonds

As at the Latest Practicable Date, the Company has outstanding convertible bonds with the aggregate principal amount of HK$17,000,000 which will be due on the 10th anniversary at the date of issue and could be convertible into approximately 42,500,000 Shares at the initial conversion price of HK$0.40 (subject to adjustments).

Save as above mentioned, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for or convert into Shares as at the Latest Practicable Date.

3. DIRECTORS' INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Long positions in the issued share capital of the Company

Name of Director	Capacity	Number of Shares/ underlying Shares held	Percentage of the issued Share capital of the Company
Ms. Xiao Yan	Beneficial owner	115,000	0.0106%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor their associates had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Disclosure of substantial shareholders' interests

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Capacity	Number of Shares/underlying Shares held	Approximate percentage of the issued share capital of the Company
Dr. Mao Yumin ("**Vendor A**") *(Note 1)*	Beneficial owner	33,770,000	3.13%
	Interest of a controlled corporation	361,001,350	33.40%
United Gene Holdings Limited *(Note 1)*	Beneficial owner	108,500,000	10.04%
	Interest of a controlled corporation	252,501,350	23.36%
Dr. Xie Yi ("**Dr. Xie**") *(Note 2)*	Interest of a controlled corporation	252,501,350	23.36%
Ease Gold Investment Limited *(Note 2)*	Interest of a controlled corporation	252,501,350	23.36%
Good Links Limited *(Note 3)*	Interest of a controlled corporation	252,501,350	23.36%

Name of Shareholder	Capacity	Number of Shares/underlying Shares held	Approximate percentage of the issued share capital of the Company
Victory Trend Limited *(Note 3)*	Interest of a controlled corporation	252,501,350	23.36%
Best Champion Holdings Limited *(Note 4)*	Beneficial owner	61,650,000	5.70%
	Interest of a controlled corporation	190,851,350	17.66%
China United Gene Investment Holdings Limited	Beneficial owner	190,851,350	17.66%

Notes:

1. United Gene Holdings Limited is wholly-owned by Vendor A, which owns 33.50% equity interests of Best Champion Holdings Limited.

2. Ease Gold Investment Limited, is wholly-owned by Dr. Xie, which owns 33.50% equity interests of Best Champion Holdings Limited.

3. Victory Trend Limited, is owned as to 50% by Vendor A and as to 50% by Dr. Xie, which wholly owns Good Links Limited. Good Links Limited owns 33.00% equity interests of Best Champion Holdings Limited.

4. The equity interest of Best Champion Holdings Limited is owned as to 33.50%, 33.50% and 33.00% by United Gene Holdings Limited, Ease Gold Investment Limited and Good Links Limited, respectively.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

2. DIRECTORS' SERVICE CONTRACTS

The executive Director, Ms. Lee Nga Yan ("**Ms. Lee**"), entered into a service agreement with the Company, which will continue until being terminated by either party by giving not less than two months' prior notice in writing to the other party. Subject to the review by the remuneration committee of the Company from time to time, Ms. Lee will be entitled to a director's remuneration (including a director's fee) of HK$40,000 per month and a discretionary year end payment, which is to be determined by the Board with reference to her duties and responsibilities in the Group and market benchmarks.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation).

3. INTEREST IN ASSETS, CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors have, or had, any direct or indirect interest in any assets which had been or are proposed to be acquired, disposed of by or leased to, any member of the Group since 30 June 2012, the date to which the latest published audited financial statements of the Company were made up. None of the Directors are materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor their respective associates had an interest in any business that competes with or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses which the Directors were appointed as directors to represent the interests of the Group.

5. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into the ordinary course of business) within two years immediately preceding the Latest Practicable Date and are or may be material:

(i) the S&P Agreement (as amended and supplemented by a supplemental agreement dated 7 May 2013 and a second supplemental agreement dated 30 August 2013);

(ii) the capital injection and subscription agreement dated 25 April 2013 entered into between (i) 東龍脈(上海)健康管理服務有限公司 ("**東龍脈**"), an indirect wholly-owned subsidiary of the Company, as shareholder; (ii) 吉林精優長白山藥業有限公司 (Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd ("**Jilin Extrawell**"), as shareholder; (iii) 龍脈(上海)健康管理服務有限公司 (Longmark (Shanghai) HealthCare Limited) ("**Longmark (Shanghai)**") a wholly-owned subsidiary of United Gene (Shanghai), as target company; and (iv) Mr. Xie Yi, a beneficial owner of a controlling Shareholder, as subscriber, in relation to the injection of capital of RMB7.49 million (approximately HK$9.44 million) by

Dr. Xie as consideration to subscribe 37.47% of the registered capital of the Target Company as enlarged by the capital injection and subscription.

(iii) the Placing Agreement;

(iv) the Subscription Agreement;

(v) the underwriting agreement dated 25 June 2012 entered into between the Company and Grand Investment (Securities) Limited, as the underwriter, in relation to the issue of rights shares by the Company at the subscription price of HK$0.022 per right share on the basis of three rights shares for every ten existing shares held;

(vi) the Tan Jia Zhen Life Sciences Prize Sponsorship agreement dated 22 May 2012 entered into between (i) the Company as the assignee; (ii) 聯合基因科技有限公司 (United Gene Holdings Limited*), a connected person of the Company, as the assignor; and (iii) 上海市生物醫葯行業協會(Shanghai Biopharmaceutical Industry Association*) (the "**SBIA**") as the administrator of the 談家楨生命科學獎(Tan Jia Zhen Life Sciences Prize*) (the "**Prize**"), in relation to (i) the assignation of the Prize by the Company; (ii) the obligations to provide an aggregate of RMB9 million (approximately HK$10.89 million) for the grant of the Prize together with the administrative cost by United Gene Holdings Limited; and (iii) the continuous responsibility for the administration of the Prize undertaking by SBIA; and

(vii) the conditional injection of capital agreement dated 13 January 2012 entered into between (i) United Gene HealthCare Limited, Shanghai ("**United Gene (Shanghai)**"), an indirect wholly-owned subsidiary of the Company; (ii) Longmark (Shanghai) HealthCare Limited ("**Longmark (Shanghai)**"), wholly-owned subsidiary of United Gene (Shanghai); and (iii) Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd ("**Jilin Extrawell**"), in relation to injection of capital of RMB2.5 million (approximately HK$3.08 million) by Jilin Extrawell as consideration to acquire 20% of the registered capital of Longmark (Shanghai) as enlarged by the injection of capital.

6. LITIGATIONS

(i) Litigation concerning Longmark (Shanghai) in PRC

On 17 April 2012, a writ of summons was issued by 江蘇天騰建設集團有限公司 (Jiangsu Tianteng Construction Group Co., Limited) ("**Jiangsu Tianteng**") in the PRC as the plaintiff against Longmark (Shanghai), an indirect non-wholly owned subsidiary of the Company, as the defendant in relation to the disputes arising from the consideration and completion of construction services under the construction agreement entered into between Longmark (Shanghai) and Jiangsu Tianteng dated 23 May 2011.

On 27 May 2012, Longmark (Shanghai) reached an out of court settlement with Jiangsu Tianteng and entered into a trust agreement with Jiangsu Tianteng and a lawyer on the same day (collectively referred to as the "**Settlement Agreements**"). According to the Settlement Agreements, Longmark (Shanghai) agreed to pay the remaining balance of the construction fee of RMB2,978,000 to the lawyer who act as a trustee for Longmark (Shanghai) and such amounts would be released by installments to Jiangsu Tianteng based on the conditions set out in the Settlement Agreements, and Jiangsu Tianteng agreed to (i) file an application to withdraw the litigation against Longmark (Shanghai) to the Changning District Court of the PRC; and (ii) repair the installed but defective aeration facilities for satisfying relevant fire safety requirements before 25 June 2012. A notice of withdrawal dated 4 June 2012 for the litigation was issued by the Changning District Court of the PRC after the lawyer had paid RMB2,000,000 to Jiangsu Tianteng on behalf of Longmark (Shanghai). The aeration facilities of Longmark (Shanghai) was unable to satisfy the relevant fire safety requirements before 25 June 2012, which is a condition precedent for settlement of the remaining balance of RMB978,000 in accordance to the Settlement Agreements. Accordingly, Longmark (Shanghai) is under no obligation to pay the remaining balance of RMB978,000 to Jiangsu Tianteng.

However, on 23 September 2012, Jiangsu Tianteng filed another claim to demand the settlement for the remaining construction cost of RMB978,000 claiming Longmark (Shanghai) has taken actions to prevent or to hinder the fulfilment of the relevant condition. Pursuant to the judgment of the first sentence dated 24 December 2012, Longmark (Shanghai) is liable to pay RMB978,000 to Jiangsu Tianteng and legal fee of RMB7,000. On 8 January 2013, Longmark (Shanghai) filed an application to appeal to the Shanghai No.1 Intermediate People's Court. Pursuant to the judgment of the second sentence dated 26 July 2013, the appeal made by Longmark (Shanghai) was rejected and the original judgment of the Changning District Court was maintained. Accordingly, Longmark (Shanghai) is liable to pay RMB978,000 to Jiangsu Tianteng, legal fee of the first sentence and second sentence of RMB7,000 and RMB14,000. The amount of RMB978,000 previously paid to and was in custody by the lawyer was recorded as other receivable in books of Longmark (Shanghai) and the Directors of the Company have made (i) an impairment loss of RMB978,000 (equivalent to approximately HK$1,210,000) which is considered irrecoverable; and (ii) a provision for legal fees of RMB21,000 (equivalent to approximately HK$26,000) during the year ended 30 June 2013.

(ii) Litigation concerning CNL (Pinghu) in the PRC

On 17 April 2012, a writ of summons was issued by 江蘇瑞峰建設集團有限公司 (Jiangsu Ruifeng Construction Group Co., Limited) ("**Jiangsu Ruifeng**") in the PRC as the plaintiff against CNL (Pinghu) Biotech Co. Ltd. ("**CNL (Pinghu**"), an indirect non-wholly owned subsidiary of the Company, as the defendant in relation to the disputes arising from the consideration and completion of construction services under the construction contracting services agreement dated 8 October 2010, the construction agreement dated 17 December 2010 and the supplemental agreement dated 8 March 2011 (collectively referred to as the "Construction Agreements") entered into between CNL (Pinghu) and Jiangsu Ruifeng, to claim the outstanding construction cost of RMB13,150,000, the related interests and litigation costs of the case. In accordance to the Construction Agreements, the total construction cost is RMB16,675,000. Jiangsu Ruifeng had issued invoices amounting to RMB29,126,000 in relation to the construction work they performed. The aggregated invoice amount is substantially different from the contractual amount and CNL (Pinghu) only settled an amount of RMB16,601,000 and recorded as the cost of building as at 30 June 2013.

On 24 April 2012, Jiangsu Ruifeng obtained a civil ruling against CNL (Pinghu), pursuant to which a bank deposit of RMB15,000,000 or equivalent amount of assets of CNL (Pinghu) were to be frozen, but the actual amount frozen was HK$222,000 as at 30 June 2012, which is significantly lower than the amount stated in the civil ruling. The frozen balance was released during the year ended 30 June 2013.

On 14 January 2013, an independent construction consulting company which was appointed by Pinghu District Court issued a statement certifying the total construction cost incurred would be in a range between RMB15,093,000 (equivalent to HK$18,614,000) and RMB18,766,000 (equivalent to HK$23,144,000). In the opinion of legal advisor, the possibility for Pinghu District Court for adopting the construction cost of RMB18,766,000 is higher. As of 30 June 2013, total amount of construction costs paid by the Group so far was RMB16,601,000 (equivalent to HK$20,839,000). The Directors further made a provision of RMB2,165,000 (equivalent to HK$2,718,000) during the year ended 30 June 2013.

(iii) Litigation concerning United Gene (Shanghai) in the PRC

On 14 December 2012, a writ of summons was issued by 重慶聯合基因技術有限公司 (Chong Qing United Gene Technology Co., Limited) ("**Chong Qing United Gene**") in the PRC as the plaintiff against United Gene (Shanghai), an indirectly wholly-owned subsidiary of the Company, as the defendant, suing United Gene (Shanghai) for the cooperation agreement, dated 26 May 2011 ("**Cooperation Agreement**") and entered into between an authorised person of Chong Qing United Gene and United Gene (Shanghai), that was invalid under the applicable laws of the PRC for the amounts of RMB800,000 for license fees, RMB4,000,000 for purchases of inventory, the related interest and legal fees of the litigation from United Gene (Shanghai).

Pursuant to the judgment from Yangpu District Court on 16 July 2013, the Cooperation Agreement was valid and legally binding under the applicable laws of the PRC. However, with mutual consent from Chong Qing United Gene and United Gene (Shanghai), the Cooperation Agreement was terminated on 2 July 2013. According to the judgment, United Gene (Shanghai) is ordered to pay RMB4,000,000 and legal fees of RMB39,000 to Chong Qing United Gene. The Directors have made a provision of RMB4,039,000 (equivalent to approximately HK$5,070,000) during the year ended 30 June 2013. The case is still under appeal.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries were engaged in any litigation or arbitration or claim which is in the opinion of the Directors of material importance and no litigation or claim which is in the opinion of the Directors of material importance to be pending or threatened by or against any member of the Group.

7. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the experts who have provided their opinion or advice for inclusion in this circular:

Name	Qualification
Donvex Capital Limited ("**Donvex Capital**")	a licensed corporation to carry out type 6 regulated activities under the SFO
Deloitte Touche Tohmatsu ("**Deloitte**")	Certified Public Accountants
Roma Appraisals Limited ("**Roma**")	Independent professional valuer

As at the Latest Practicable Date, Donvex Capital, Deloitte and Roma have given and have not withdrawn their written consent to the issue of this circular with the inclusion herein of their letter and references to their name or opinion in the form and context in which it is included.

As at the Latest Practicable Date, Donvex Capital, Deloitte and Roma did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Donvex Capital, Deloitte and Roma did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by, or leased to any member of the Group since 30 June 2012, the date of which the latest published audited consolidated financial statements of the Group were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Rooms No. 1405-1406, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong on any Business Day from the date of this circular up to and including the date of the SGM:

(a) the bye-laws of the Company;

(b) the annual reports of the Company for each of the three financial years ended 30 June 2010, 2011 and 2012;

(c) the accountant's report on the unaudited pro forma financial statement of the Enlarged Group as set out in Appendix IV of this circular;

(d) the valuation report in respect of the fair value of the Sale CBs as at 27 September 2013 prepared by Rome Appraisals Limited;

(e) the written consents given by the experts as referred to in the paragraph headed "Expert's Qualification and Consent" in this appendix;

(f) the letter from the Independent Board Committee, the text of which is set out on pages 78 to 79 in this circular;

(g) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 80 to 115 in this circular;

(h) the service contract referred to in the section headed "Directors' Service Contracts" in this appendix;

(i) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(j) the circular of the Company dated 26 April 2013 in relation to, among others, (i) the placing of convertible bonds of the Company of up to an aggregate principal amount of HK$74,000,000 under the specific mandate; and (ii) connected transaction involving subscription of convertible bonds of the Company in an aggregate principal amount of HK$59,000,000 under the specific mandate;

(k) the circular of the Company dated 24 December 2012 in relation to, among others, (i) the proposed share consolidation, (ii) the proposed change in board lot size, (iii) the proposed change of domicile, (iv) the proposed amendments to the articles of association and (v) the proposed capital reorganisation;

(l) the listing document of the Company dated 18 July 2012 in relation to, among others, the rights issue of 3,649,352,418 rights shares on the basis of three rights shares for every ten existing shares held on the record date; and

(m) this circular.

9. GENERAL

(a) The company secretary of the Company is Mr. Poon Hon Yin ("**Mr. Poon**") Mr. Poon is qualified as a Certified Public Accountant registered with the Hong Kong Institute of Certified Public Accountants and is also a fellow member of the Association of Chartered Certified Accountants. Mr. Poon has been a managing director of Probiz CPA Limited since 2006.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principle place of business of the Company in Hong Kong is Room Nos. 1405-1406, Harbour Centre, No.25 Harbour Road, Wanchai, Hong Kong.

(c) The English texts of this circular shall prevail over their Chinese text in case of inconsistencies.

UNITED GENE HIGH-TECH GROUP LIMITED
聯合基因科技集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 399)

NOTICE IS HEREBY GIVEN THAT an special general meeting (the "**Meeting**") of United Gene High-Tech Group Limited (the "**Company**") will be convened and held at Room Nos. 1405-1406, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong on Friday, 18 October 2013 at 4:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modification) the following resolutions:

ORDINARY RESOLUTION

1. "**THAT:**

(i) the S&P Agreement dated 27 April 2013 (as amended and supplemented by a supplemental agreement dated 7 May 2013 and a second supplemental agreement dated 30 August 2013) as defined and described in the circular of the Company dated 27 September 2013 (the "**Circular**") of which this resolution forms part (a copy of each of the S&P Agreement and the said supplemental agreements having been produced at the meeting and marked "**A**" and "**B**" respectively and each initialed by the chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder and in connection therewith and any other ancillary documents, be and are hereby approved, ratified and/or confirmed;

(ii) subject to the completion of the relevant stages of the S&P Agreement, the creation and issue by the Company of the Convertible Bonds (as defined in the Circular) to the Vendors (as defined in the Circular) in accordance with the terms and conditions of the S&P Agreement and the terms and conditions of the Convertible Bonds attached to the S&P Agreement and all transactions thereunder be and are hereby approved, ratified and confirmed;

(iii) subject to the completion of the relevant stages of the S&P Agreement and the Listing Committee of The Stock Exchange of Hong Kong Limited having granted the listing of, and permission to deal in, the Conversion Shares (as defined in the Circular) the issue and allotment of up to 1,860,000,000 Conversion Shares (as defined in the Circular) at the initial conversion price of HK$0.40 each (subject to adjustments) which may fall to be issued upon the exercise of the conversion rights attaching to the said Convertible Bonds be and are hereby approved, ratified and confirmed;

(iv) subject to the completion of the relevant stages of the S&P Agreement, the exercise of the conversion rights attaching to the Sale CBs (as defined in the Circular) be and is hereby approved, ratified and confirmed;

(v) the directors of the Company (the "**Directors**") (or a duly authorised committee thereof) be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents or agreements and to take all such steps which, in the opinion of the Directors (or a duly authorised committee thereof), may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the S&P Agreement and the exercise of the conversion rights attaching to the Sale CBs, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors (or a duly authorised committee thereof), in the interests of the Company."

On behalf of the Board
United Gene High-Tech Group Limited
Lee Nga Yan
Executive Director

Hong Kong, 27 September 2013

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business in Hong Kong:
Room Nos. 1405–1406
Harbour Centre
No.25 Harbour Road
Wanchai
Hong Kong

Notes:

(1) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or (if holding two or more shares of the Company (the "**Shares**")) more proxies to attend and vote in his stead. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

(2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or other authority must be deposited with the branch share registrar and transfer agent of the Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

(3) When there are joint holders of any Shares, any one of such persons may vote at the Meeting either personally or by proxy in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders are present at the Meeting jointly or by proxy, then one of the said persons so present whose name stands first on the register of members of the Company shall alone be entitled to vote in respect of such Share.

(4) Completion and return of the form of proxy will not preclude members from attending and voting at the Meeting and in such event, the form of proxy shall be deemed to be revoked.