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) MAJOR TRANSACTION IN RELATION TO (I) PROPOSED ACQUISITION OF 51% ISSUED SHARE CAPITAL OF SMART ASCENT LIMITED INVOLVING PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (II) CONTINUING CONNECTED TRANSACTION 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 8 to 70 of this circular. A letter from the Independent Board Committee is set out on pages 71 to 72 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 73 to 101 of this circular.

A notice convening the SGM to be held at Victoria Room I, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong on 16 July 2014 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, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 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.

26 June 2014

CONTENTS

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

"2004 Extrawell Circular"	the circular of Extrawell dated 25 March 2004
"2007 Extrawell Circular"	the circular of Extrawell dated 22 August 2007
"2009 Extrawell Circular"	the circular of Extrawell dated 21 May 2009
"2013 Extrawell Circular"	the circular of Extrawell dated 18 June 2013
"Acquisition" and "Disposal"	the sale and purchase of 51% interest in the share capital of the Target Company by Clear Rich as the Purchaser and Extrawell BVI as the Vendor
"Acquisition Agreement"	the conditional sale and purchase agreement dated 17 March 2014, with Extrawell BVI as Vendor and the Purchaser for the Acquisition of an aggregate of 5,100 ordinary shares of HK$1 each in the issued share capital of Target Company, representing 51% of the total issued capital of Target Company
"Announcement"	the joint announcements of the Company and Extrawell dated 18 and 19 March 2014 in respect of the Transactions
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Auditor" or "Deloitte"	Deloitte Touche Tohmatsu, Certified Public Accountants, and the auditors of the Company
"Board"	the board of directors of the Company
"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

"Capital Commitment"	means the unsecured interest-free shareholder's loan to be advanced by the Purchaser to the Target Company, to further the research, development and commercialization of the Target Group's oral insulin technology, such expenses, including but not limited to cover completion of clinical trials, marketing, selling and distribution of the oral insulin products and other administrative and general expenses and related capital commitments
"CAPEX"	the capital expenditures of the Target Company during the Commitment Period and primarily refers to spending on plant and machinery for the factories.
"CFDA"	means the China Food and Drug Administration
"Circular"	means this circular of the Company dated 26 June 2014
"Clear Rich" or "Purchaser"	Clear Rich International Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of United Gene
"Commitment Period"	the period of 3 years from the Completion Date of the Acquisition Agreement, during which the Purchaser undertakes, on a best endeavor basis, for the payment of the total Capital Commitment of the Target Company, with an aggregate amount not exceeding HK$600,000,000
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Completion Date"	within 7 Business Days after the fulfillment of all conditions precedents under the sub-section headed "Conditions Precedent" of the letter from the board of this circular or such other date as the Vendor and the Purchaser may agree in writing
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the sum of HK$780,000,000, being the purchase price for the Sale Shares

"Continuing Connected Transaction"	the Purchaser's undertaking, on a best endeavor basis, as a term of the Acquisition Agreement, for the total Capital Commitment of the Target Company for a period of 3 years from the Completion Date of the Acquisition Agreement, with an aggregate amount not exceeding HK$600,000,000, for the future development of the Target Company, conditional upon and subject to (i) the availability of funding of the Purchaser; (ii) the Capital Commitment provided for each year ended 31 March, as set out in the Acquisition Agreement, subject to variations as may be agreed between the Purchaser and the Vendor in writing; (iii) the Capital Commitment shall be provided to the Target Company only on a needed and necessary basis; (iv) the relevant approval of Independent Shareholders at the relevant SGM; (v) the relevant approval of independent shareholders of Extrawell at the relevant SGM (if applicable); (vi) the relevant necessary approval, authorizations or consent from relevant regulatory organization(s) and/or governmental department(s), such as the Stock Exchange and/or the SFC (if applicable); (vii) the Capital Commitment received by the Target Company shall only be used to pay for the relevant expenditures incurred for the purpose to further the research, development and commercialization of the Target Group's oral insulin technology, such expenses, including but not limited to cover completion of clinical trials, marketing, selling and distribution of the oral insulin products and other administrative and general expenses and related capital commitments; and (viii) the Capital Commitment shall not be applied nor used in any event, without the written consent of the Purchaser, for the repayment of any liability, debt and/or loan of the Target Group whether such liability or loan are actual or contingent, primary or collateral and several or joint
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"Conversion Price"	HK$2.5 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds

"Conversion Shares"	new Shares to be issued and allotted by United Gene upon the exercise of the conversion rights attaching to the Convertible Bonds at the Conversion Price
"Convertible Bonds"	the convertible bonds of an aggregate principal amount of HK$715,000,000 to be issued by the Company in favour of the Vendor or its nominee(s) (as it may direct in writing) with conversion rights to convert into 286,000,000 Conversion Shares at an initial Conversion Price of HK$2.5 per Conversion Share (subject to adjustments) upon Completion with the interest of 3.5% per annum for a conversion period of 7 years from the date of issue
"CRO"	the contract research organization named, Shenyang XinTaigoler Medical Technology Co. Ltd. (瀋陽鑫泰格爾醫藥科技開發有限公司), also called the project administrator
"Directors"	the directors of the Company
"East Asia"	East Asia Sentinel Ltd., Certified Public Accountants, and the current auditor of Extrawell and the Target Group
"Enlarged Group"	collectively as the Group and Target Group
"EU"	Europe
"Extrawell"	Extrawell Pharmaceutical Holdings Limited (精優藥業控股有限公司) (stock code: 858), a company incorporated in Bermuda with limited liability and issued shares of which are listed on the main board of the Stock Exchange
"Extrawell BVI" or "Vendor"	Extrawell (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Extrawell
"Extrawell Circulars"	2004 Extrawell Circular, 2007 Extrawell Circular, 2009 Extrawell Circular and 2013 Extrawell Circular, collectively as Extrawell Circulars
"Extrawell Group"	Extrawell and its subsidiaries

"Financial Adviser" or "Wallbanck"	Wallbanck Brothers Securities (Hong Kong) Limited, the financial adviser of the Company
"Fosse Bio"	Fosse Bio-Engineering Development Limited, a company incorporated in Hong Kong with limited liability and owned as to 51% by the Target Company
"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 whether Continuing Connected Transaction and the transactions contemplated thereunder (including the Caps), entered into between the Purchaser and the Vendor 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.
"Independent Financial Adviser" or "Donvex Capital"	Donvex Capital Limited, a corporation licensed to carry out type 6 regulated activities under the SFO
"Independent Shareholders"	the Shareholders other than those required under Listing Rules to abstain from voting on the resolution(s) to be proposed at the SGM, to approve the Acquisition Agreement, the allotment and issue of the Conversion Shares by the Company under Specific Mandate, the Continuing Connected Transaction and the transactions contemplated thereunder
"Independent Valuer" or "Roma"	Roma Appraisals Limited, an independent valuation firm based in Hong Kong
"Latest Practicable Date"	23 June 2014, 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"	18 July 2014 or such other date as the Vendor and the Purchaser may agree in writing for fulfilment of conditions precedent
"Maximum Capital Commitment"	The aggregate amount of total Capital Commitment of the Target Company not exceeding HK$600,000,000 which the Purchaser undertakes, on a best endeavor basis, to assume during the Commitment Period
"Medicine"	the oral insulin enteric-coated soft capsules which the Extrawell Group has completed part A of Phase III clinical trial protocol, relating to the multi-centered, randomized, double-blinded and placebo-controlled clinical trial filed with the CFDA
"Nation Joy"	Nation Joy Industries Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Target Company
"PRC"	the People's Republic of China which, for the purpose of the Announcement and this circular only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan, Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SA Accountant's Report"	the report of financial information of the Target Group as set out in Appendix IIA
"Sale Shares"	5,100 ordinary shares of HK$1 each of the Target Company representing 51% of the total issued capital of the Target Company
"SFC"	the Securities & Futures Commission of Hong Kong
"SGM"	a special general meeting of the Company to be held and convened to consider and, if thought fit, to approve by the relevant Independent Shareholders, among others, the Acquisition, the Acquisition Agreement, the allotment and issue of the Conversion Shares by the Company under the Specific Mandate, the Continuing Connected Transaction and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of United Gene

"Shareholder(s)"	The registered holder(s) of the Shares of United Gene
"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
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission of Hong Kong
"Target Company" or "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
"Target Group" or "Smart Ascent Group"	the Target Company or Smart Ascent and its subsidiaries
"Transactions"	the Acquisition, the Continuing Connected Transaction and the transactions contemplated thereunder, collectively as the Transactions
"United Gene" or "the Company"	United Gene High-Tech Group Limited (聯合基因科技集團有限公司) (stock code: 399), 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
"United Gene Group" or "the Group"	United Gene and its subsidiaries
"USA"	the United States of America
"US FDA"	the United States Food and Drug Administration
"WC"	working capital of the Target Company
"Welly Surplus"	Welly Surplus Development Limited, a company incorporated in Hong Kong with limited liability and owned as to 51% by the Target Company
"%"	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:
Unit No. 2111, 21/F
West Tower Shun Tak Centre
Nos. 168-200 Connaught Road
Central, Hong Kong

26 June 2014

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION; (2) PROPOSED ISSUANCE OF CONVERTIBLE BONDS UNDER THE SPECIFIC MANDATE; AND (3) CONTINUING CONNECTED TRANSACTION CONCERNING THE ACQUISITION OF 51% SHAREHOLDING INTEREST IN SMART ASCENT LIMITED

INTRODUCTION

Reference is made to the Announcements of the Company and Extrawell dated 18 March 2014 and 19 March 2014 in relation to, among other things, the Acquisition and the Continuing Connected Transaction.

On 17 March 2014, the Purchaser and the Vendor entered into the Acquisition Agreement in relation to the sale and purchase of 51% interest in the share capital of the Target Company, the holding company engaged in the research and development of the

Medicine. Completion of the Acquisition Agreement is conditional upon, among others, the conditions precedent set out in the Acquisition Agreement being satisfied on or before Long Stop Date.

The Consideration shall be HK$780,000,000, as payable upon Completion and to be satisfied by the Purchaser to the Vendor by the issuance of Convertible Bonds for a total principal amount of HK$715,000,000 by the Company and cash payment of HK$65,000,000, in the manner as set out below.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are independent third parties of the Company and its associates, within the meaning ascribed thereto under the Listing Rules.

The issue of 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 approved by the Independent Shareholders at the SGM.

Upon Completion, the Target Company will be owned as to 51% by the Company and become an indirect non wholly-owned subsidiary of the Company while Extrawell will indirectly and beneficially own 49% of the Target Company. Extrawell shall then become a connected person of the Company.

As a term of the Acquisition Agreement, the Purchaser has undertaken to the Vendor, on a best endeavor basis, that for a period of 3 years from the Completion Date of the Acquisition Agreement, the Purchaser, shall solely assume the future capital and operational expenditures of the Target Company by way of unsecured interest-free shareholder's loans, with an aggregate amount not exceeding HK$600,000,000, for the Target Company's future development of the Medicine.

The transaction contemplated under the Capital Commitment constitutes a continuing connected transaction for the Company and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (1) further information on the Acquisition and the Acquisition Agreement and the allotment and issue of the Conversion Shares by the Company under the Specific Mandate and the transactions contemplated hereunder pursuant to the Acquisition; (2) further information on the Continuing Connected Transaction; (3) the recommendation of the Independent Board Committee to the Independent Shareholders on the Continuing Connected Transaction; (4) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transaction; (5) the valuation report on the Sale Shares compiled by an Independent Valuer; and (6) a notice of the SGM.

THE ACQUISITION AGREEMENT

Date

17 March 2014

Parties

Purchaser : Clear Rich International Limited, a wholly-owned subsidiary of United Gene High-Tech Group Limited.

Vendor : Extrawell (BVI) Limited, a wholly-owned subsidiary of Extrawell Pharmaceutical Holdings Limited.

Assets to be acquired by the Purchaser

The Sale Shares, representing 51% of the issued share capital of the Target Company. The original acquisition cost of the Sale Shares paid by the Extrawell Group was approximately HK$373,830,000.

Consideration

The Consideration shall be HK$780,000,000 and is payable by the Purchaser to the Vendor upon Completion in the following manners:

(i) an aggregate sum of HK$715,000,000 shall be payable by issue of the relevant Convertible Bonds for the principal amount of HK$715,000,000 by the Company to Vendor or its nominee(s) (as it may direct in writing) upon Completion; and

(ii) an aggregate sum of HK$65,000,000 shall be payable in cash by the Purchaser to the Vendor upon Completion.

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

Conditions Precedent

Completion is conditional upon the following conditions being fulfilled or, as the case may be, waived:

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

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

(iii) no implication or obligation (including but not limited to trading halt and/or suspension of trading of shares) on Extrawell concerning sufficiency of operations or assets and/or cash company issue under all relevant Listing Rules (including but not limited to Listing Rules 13.24 and 14.82) having been triggered or ruled by the Listing Committee/Division of the Stock Exchange;

(iv) the Purchaser being satisfied with the results of the due diligence exercise on the Target Group, including but not limited to their respective businesses, assets, liabilities, operations or other status which the Purchaser thinks necessary and appropriate to conduct;

(v) the Purchaser being satisfied with the relevant valuation report on the shares and/or the oral insulin related investments of the Target Company by an independent valuer specified by the Purchaser;

(vi) no adverse change in the business and/or financial or trading positions or prospects and/or status of any license(s) and/or rights of the Target Group;

(vii) the Board having approved and authorised the transactions contemplated under the Acquisition Agreement, the Continuing Connected Transaction and the issue of the Convertible Bonds by the Company, the allotment and issue of the Conversion Shares by the Company under the Specific Mandate;

(viii) the board of directors of Extrawell having approved and authorised the transactions contemplated under the Acquisition Agreement;

(ix) the passing of the necessary resolution(s) by the Shareholders at the relevant SGM approving the Acquisition Agreement, the allotment and issue of the Conversion Shares by the Company under the Specific Mandate and the transactions contemplated hereunder;

(x) the passing of the necessary resolution(s) by the Independent Shareholders at the relevant SGM approving the Continuing Connected Transaction by the Company;

(xi) the passing of the necessary resolution(s) by the independent shareholders of Extrawell at the relevant SGM approving the Acquisition Agreement by the Vendor and the transactions contemplated hereunder;

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

(xiii) none of the undertakings, negative pledges, warranties and representations of the Vendor contained in the Acquisition Agreement having been breached in any material respect or being misleading or untrue in any material respect;

(xiv) all necessary governmental and regulatory approvals or consents (or waivers), including but not limited to those from the Stock Exchange and/or the SFC, required by the Vendor and the Purchaser or any of them for the consummation of the transactions contemplated herein having been obtained; and

(xv) all necessary third party approvals or consents (or waivers) required by the Vendor and the Purchaser or any of them for the consummation of the transactions contemplated herein having been obtained.

The Purchaser may waive the condition (iv), (vi) and (xiii) above at its discretion.

The progress of the due diligence exercise on Target Group before Completion has indicated that the scope of due diligence may not cover areas of trade secrets of the Medicine, as restricted by the Vendor, and that the scope of due diligence on business operations in the USA and EU is uncertain.

Therefore, it is fair and reasonable for the Board to hold the view that it may be in the interest for the Shareholders as a whole to waive the condition (iv) in relevant and certain circumstances.

If any condition set out above has not been satisfied (or, as the case may be, waived by the Purchaser) on or before Long Stop Date, the Acquisition Agreement shall cease and determine (save for the provisions in respect of confidentiality thereunder) and none of the parties shall have any obligations and liabilities thereunders save for any antecedent breaches of the terms of the Acquisition Agreement.

The Purchaser shall use its reasonable endeavours to procure the holding of the SGM for the purpose of fulfilling the conditions precedent set out in (ix) and (x) above by Long Stop Date and to ensure that the conditions precedent set out in (ix), (x), (xiv) and (xv) above (in so far as obtaining approvals or consents or waivers by the Purchaser is concerned) shall be fulfilled by Long Stop Date. The Vendor and the Purchaser undertake to provide information and documentation to the other so as to provide evidence for the full satisfaction of the conditions precedent above which it shall use its reasonable endeavours to procure or ensure fulfillment before Long Stop Date.

If any condition precedent has not been fulfilled by Long Stop Date, either the Vendor or the Purchaser shall be entitled to rescind the Acquisition Agreement by giving 3 Business Days' prior written notice to the other whereupon the relevant provisions of the Acquisition Agreement shall from such date have no further force and effect and no party to the Acquisition Agreement shall have any liability under them (without prejudice to the rights of the parties to Acquisition Agreement in respect of any antecedent breaches).

As at the Latest Practicable Date, no parties to the Acquisition Agreement have any intention to amend the Acquisition Agreement and waive any such conditions. However, the Company does not exclude the possibility of amending the Acquisition Agreement and waiving the relevant conditions should unexpected and unforeseeable factors, events and circumstance necessitate.

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

As at the Latest Practicable Date, no condition has been waived. As at the Latest Practicable Date, the Company has not yet identified any factors that could cause the Company to consider to waive the conditions (iv) and (vi) but does not exclude such possibility.

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

(i) appointed an investigation agent to conduct searches on criminal litigation on, civil litigation on and winding up of the Target Company and its subsidiaries, namely Fosse Bio and Welly Surplus. The said subsidiaries are the principal parties involved in the development of the Medicine;

(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 in April 2021;

(iii) reviewed all the relevant documents approved by CFDA regarding the clinical trials of oral insulin, including the clinical reports of Phase I, II and part A of III;

(iv) reviewed the CRO's engagement letter;

(v) performed site visits to the hospitals in Harbin, Shen Yang, Ji Lin and Beijing that were involved with the part A of Phase III clinical trials and interviewed the relevant doctors there;

(vi) arranged a site visit to Tsinghua University, Beijing, to attend a press conference in relation to the relevant presentation of progress and results of clinical trials of the Medicine and interviewed the relevant professor who heads the relevant development of the Medicine; and

(vii) reviewed the relevant announcements and circulars of Extrawell in relation to the Medicine.

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

The Purchaser's Undertaking for the Capital Commitment during the Commitment Period

As a term of the Acquisition Agreement, the Purchaser has undertaken to the Vendor, on a best endeavour basis, that for the Commitment Period of 3 years from the Completion Date of the Acquisition Agreement, the Purchaser shall solely assume the total future capital and operational expenditures of the Target Group by way of unsecured interest-free shareholder's loans, with an aggregate amount not exceeding HK$600,000,000, for the Target Group's future development, with details as indicated in the paragraph headed as Continuing Connected Transaction below.

According to Clause 8.4.7 of the Acquisition Agreement, the Purchaser shall not demand any repayment of the Capital Commitment from the Target Company, either in full or in part, until the Target Group has registered operational profits and the maximum amount that the Purchaser may request or demand from the Target Group for repayment of the Capital Commitment in each year shall not exceed 30% of the net profit of the Target Group.

Completion

Subject to the fulfillment of all the Conditions Precedent, Completion shall take place on or before 5:00 p.m. of the Completion Date.

If any provision of Completion is not complied with by the Vendor on Completion Date, the Company may defer Completion Date or proceed to Completion so far as practicable (but without prejudice to the Company's rights thereunder insofar as the defaulting party shall not have complied with its obligation thereunder) or rescind the Acquisition Agreement pursuant to the terms and conditions of the Acquisition Agreement.

Upon Completion, the Target Company will be owned as to 51% by the Company and become an indirect non wholly-owned subsidiary of the Company. The financial results of the Target Group will be consolidated into the financial statements of the Group and, at the same time, the Target Company will cease to be a subsidiary of the Extrawell Group.

BASIS FOR DETERMINING THE CONSIDERATION

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor and with reference to, amongst others:

(i) Historical financial position and performance of the Target Group

Set out below is a summary of the audited financial information of the Target Group for the three years ended 31 March 2013 and for the eleven months ended 28 February 2014:

	For the 11 months ended 28 February 2014	**For the year ended 31 March 2013**	**For the year ended 31 March 2012**	**For the year ended 31 March 2011**
	HK$	*HK$*	*HK$*	*HK$*
Turnover	–	–	–	–
Loss for the year	(3,019,302)	(4,596,602)	(6,642,234)	(11,077,926)
	As at 28 February 2014	**As at 31 March 2013**	**As at 31 March 2012**	**As at 31 March 2011**
	HK$	*HK$*	*HK$*	*HK$*
Net asset value	250,902,271	253,921,573	258,518,175	265,160,409
Cash and cash equivalents	87,183	88,797	116,309	12,474
Gearing ratio	0.22	0.24	0.22	0.22

According to the financial information of the Target Group for the three years ended 31 March 2013 and for the eleven months ended 28 February 2014 as set out in Appendix IIA ("**SA Accountants' Report**"), the Target Group's Medicine is still at the stage of research and development and yet to be commercialised. Therefore, the Target Group did not record any turnover for the three years ended 31 March 2013 and for the eleven months ended 28 February 2014. The major expenses incurred by the Target Group were research and development expenses and the staff costs. Research and development expenses amounts to the cost incurred for the research and development of the Medicine which were not qualified to be capitalised in intangible assets.

The loss after income tax for the year ended 31 March 2013 was approximately HK$4,597,000 (for the year ended 31 March 2012: approximately HK$6,642,000), representing a decrease of approximately 30.8%. The decrease in loss after tax was mainly due to the significant decrease of research and development expenses of approximately 44.9% from approximately HK$4,414,000 for the year ended 31 March 2012 to approximately HK$2,431,000 for the year ended 31 March 2013.

According to the SA Accountants' Report, as at 31 March 2013, the Target Group had net asset value of approximately HK$253,922,000 (as at 31 March 2012: approximately HK$258,518,000), representing a decrease of approximately 1.8%. The cash and cash equivalents of the Target Group was approximately HK$89,000 (as at 31 March 2012: approximately HK$116,000), representing a decrease of approximately 23.3%. The Target Group's gearing ratio, being a ratio of total liabilities over its total assets, was equivalent to approximately 0.24 (as at 31 March 2012: approximately 0.22), representing an increase of 0.02.

According to the SA Accountants' Report, the loss after income tax for the 11 months ended 28 February 2014 was approximately HK$3,019,000 (for the 11 months ended 28 February 2013: approximately HK$4,538,000), representing a decrease of approximately 33.5% as compared to the same period of the preceding year. The decrease in loss after tax was mainly due to the other revenue recorded during the 11 months ended 28 February 2014, as to include HK$2,000,000 sundry income and HK$634,000 of foreign exchange gain. The sundry income relates to a waiver of shareholder's loan by Mr. Ong at the amount of HK$2 million.

According to the SA Accountants' Report, as at 28 February 2014, the Target Group had a net asset value of approximately HK$250,902,000 (as at 28 February 2013: approximately HK$253,980,000), representing a decrease of approximately 1.2%. The cash and cash equivalents of the Target Group was approximately HK$87,000 as at 28 February 2014 (as at 28 February 2013: approximately HK$89,000), representing a decrease of approximately 2.2%. The Target Group's gearing ratio, being a ratio of total liabilities over its total assets, was approximately 0.22 as at 28 February 2014 (as at 28 February 2013: approximately 0.24), representing an increase of approximately 0.02.

(ii) Future prospects of the Target Company

The Company holds the view that the future prospects of the Target Company are positive given: 1) the existing and expected growth in the large diabetes market in the PRC and globally; 2) according to the Company's best knowledge and information, the Medication is possibly the only oral insulin medicine in the world that has passed part A of Phase III clinical trials involving double-blind placebos; and 3) the PRC is possibly expected to continue its healthcare reforms to the benefit of innovative medications for patients with diabetes.

In negotiating and determining the settlement of the Consideration, the Company considered cash, equity, debt and convertible debt as options. The Company did not elect to pay the entire Consideration by cash as the Company's current cash position is insufficient to settle the total Consideration nor feasible for raising debt to finance the purchase due to the significant interest burden incurred due to the Company's unfavourable cash flow profile. During the arm's length negotiations between the Company and Vendor, the Vendor indicated a desire for a portion of the Consideration to be settled in cash for funding the existing operations of the Vendor.

In assessing the fairness and reasonableness of the Consideration, the Company has taken into account that the valuation of the Target Company prepared by Roma has incorporated the cost of the Capital Commitment of HK$600 million in determining the valuation of HK$1,030 million. Thus, the Company considers the Consideration to be 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$715,000,000
Maturity date	:	7th anniversary of the date of issue ("**Maturity Date**")
Interest	:	3.5% per annum
Conversion Price	:	The Conversion Price is HK$2.5 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$2.5 represents: (i) a premium of approximately 73.61% to the closing price of HK$1.44 per Share as quoted on the Stock Exchange on the last trading date of signing of the Acquisition Agreement; (ii) a premium of approximately 68.24% to the average closing price of HK$1.486 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the Acquisition Agreement; (iii) a premium of approximately 70.53% to the average closing price of approximately HK$1.466 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the Acquisition Agreement; and (iv) a premium of approximately 273.13% to the net asset price of approximately HK$0.67 per Share, calculated based on the unaudited consolidated net assets of HK$765,681,000 as at 31 December 2013 and 1,136,193,024 Shares in issue as at the date of the Acquisition Agreement.

The Conversion Price for the Convertible Bonds was determined after arm's length negotiations between the Purchaser and the Vendor, with reference to 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 United Gene 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$2.5, a maximum number of 286,000,000 Conversion Shares will be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bonds, which represent:

(i) approximately 25.17% of the total issued share capital of the Company as at the date of the Announcement dated 18 March 2014; and

(ii) approximately 20.11% of the total issued share capital of United Gene as enlarged by the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to Convertible Bonds; and

(iii) approximately 25.17% 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 approved 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$35,750,000) 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.

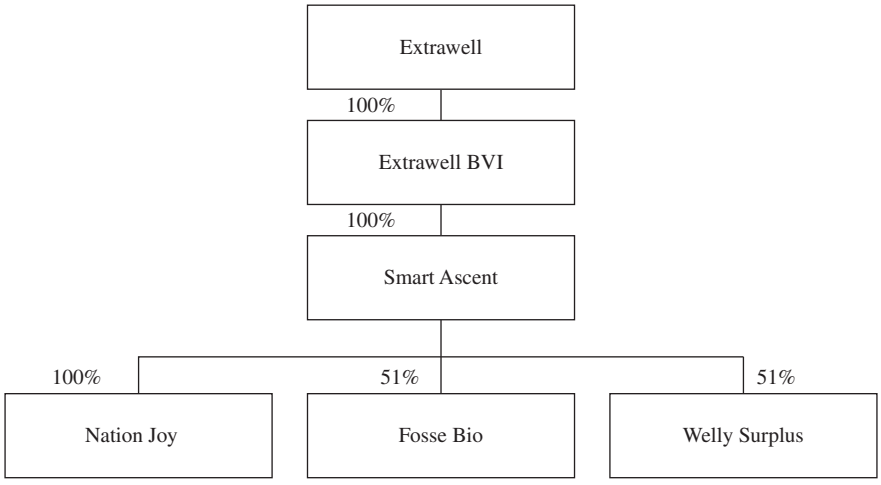
Conversion Period	:	The period commencing from the date of issue of the Convertible Bonds and ending on the day which falls on the 7th anniversary of the date of issue of the Convertible Bonds.
Early Redemption	:	The Company shall not be entitled to redeem all or part of the outstanding Convertible Bonds prior to the Maturity Date. Furthermore, 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$35,750,000) of the principal amount of the Convertible Bonds. Furthermore, 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 of the Stock Exchange 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.

SPECIFIC MANDATE

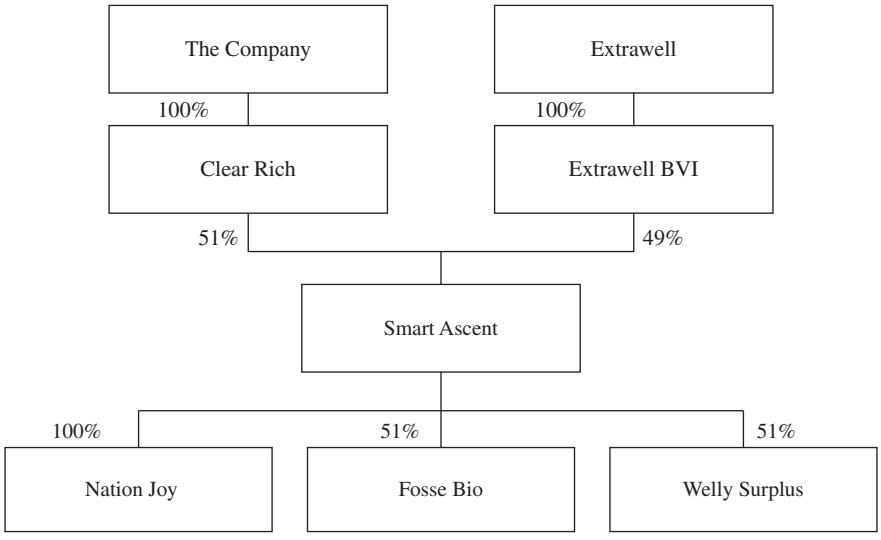
The Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds shall be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the SGM.

CHANGE IN SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

(a) Shareholding structure of Smart Ascent before Completion



(b) Shareholding structure of Smart Ascent immediately after Completion



EFFECTS OF THE ACQUISITION 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 and assuming exercise in full of the conversion rights attaching to the Convertible Bonds at the conversion price of HK$2.5 (subject to adjustments) per Conversion Share, for illustration purposes only:

	As at the Latest Practicable Date		**Immediately after Completion and assuming exercise in full of the conversion rights attaching to the Convertible Bonds at the conversion price of HK$2.5 (subject to adjustments) per Conversion Share**		**Immediately after Completion and assuming exercise in full of the conversion rights attaching to the Convertible Bonds at the conversion price of HK$2.5 (subject to adjustments) per Conversion Shares and assuming the conversion of the Company's convertible bonds of HK$133 million issued on 11 June 2013**	
	No. of Shares (Note 4)	*Approximate % of issued share capital of the Company (Note 4)*	*No. of Shares (Note 4)*	*Approximate % of issued share capital of the Company (Note 4)*	*No. of Shares*	*Approximate % of issued share capital of the Company*
Substantial shareholder						
Dr. Mao Yumin	566,400,000	4.99%	566,400,000	3.98%	91,640,000	5.22%
United Gene Holdings Limited *(Note 1)*	67,500,000	5.94%	67,500,000	4.75%	180,000,000	10.26%
Best Champion Holdings Limited *(Note 2)*	61,650,000	5.43%	61,650,000	4.33%	61,650,000	3.51%
China United Gene Investment Holdings Limited *(Note 3)*	178,210,350	15.68%	178,210,350	12.53%	178,210,350	10.16%
Sub-total	363,991,350	32.04%	363,991,350	25.59%	511,491,350	29.15%
Chau Yiu Ting	121,500,000	10.69%	121,500,000	8.54%	121,500,000	6.92%
VMS Investment Group Limited	81,045,000	7.13%	81,045,000	5.70%	81,045,000	4.62%
Extrawell BVI *(Note 5)*	–	–	286,000,000	20.11%	286,000,000	16.30%
Sub-total	566,536,350	49.86%	852,536,350	59.95%	1,000,036,350	56.99%
Public Shareholders						
Other Shareholders	569,656,674	50.14%	569,656,674	40.05%	754,056,674	43.01%
Total	1,136,193,024	100.00%	1,422,193,024	100.00%	1,754,693,024	100.00%

Notes:

1. United Gene Holdings Limited is wholly and beneficially owned by Dr. Mao.

2. Best Champion Holdings Limited, the substantial 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. 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.

5. As illustrated above, the Vendor will become the substantial Shareholder holding 20.11% of Shares of the Company immediately after Completion and assuming exercise in full of the conversion rights attaching to the Convertible Bonds at the conversion price of HK$2.5 (subject to adjustments) per Conversion Share.

REASONS FOR AND BENEFITS OF THE ACQUISITION FOR THE PURCHASER

Reference is made to the circular of the Company dated 26 April 2013 (the "**Convertible Bonds Circular**") concerning the placing of convertible bonds for the principal amount of up to HK$74,000,000 and subscription of convertible bonds of 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. In assessing the Target Group, the Directors hold the view that the Target Group's nil track record and net current liabilities in 31 March 2012 and 2013 were not fundamental for consideration because it is usual and normal for a pharmaceutical company engaging in research and development of new drug and medicine to have no track record and net current liabilities until the said new drug or medicine is successfully commercialized.

The Medicine of the Target Company has yet to complete all clinical trials in the PRC and the completion of these trials is necessary before commercialization approval is granted in the PRC. As a result, the Company was able to negotiate for a more favourable price than for a medicine that has completed all clinical trials.

Furthermore, it is fair and reasonable for the Company to hold the view that the positive results of part A of Phase III clinical trials of the Medicine is an important milestone and indicator of possibility of success for the remaining part B of Phase III clinical trials, as part B of Phase III clinical trial is an enlarged version of the successfully completed part A of Phase III clinical trial.

Upon Completion, the Target Company will become an indirect non wholly-owned subsidiary of the Company. By acquiring the 51% interest in the Target Company, the Group will be able to exercise control over the management of, and to have financial benefits from, the Target Company, which is the holding company of Fosse Bio and Welly Surplus. Fosse Bio is principally engaged in the research and development of oral insulin products in collaboration with Tsinghua University, Beijing, and is the developer of the Medicine, which will be launched in the PRC upon completion of part B of Phase III clinical trials and the grant of approval by the relevant PRC authority.

The Directors expect that these subsidiaries will require funding to complete the development of the Medicine and the Purchaser has entered into a Capital Commitment agreement with the Vendor. As part of the agreement, the Company has the right to recuperate the capital that it commits to the Target Group with preference over other shareholders, providing the Company with the benefit as the first shareholder to recover its investment in the Target Group.

The Directors consider that the terms of the Acquisition Agreement and the Consideration are in ordinary course of business and on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

At the Latest Practicable Date, the Company has no intention to acquire further interest in the Target Company, but will not exclude the possibility to acquire further interest of the Target Company conditional upon with favorable terms, conditions and circumstances as in the interests and for the benefits of the Company and the Shareholders as a whole.

CONTINUING CONNECTED TRANSACTION

The Purchaser's Undertaking for Capital Commitment for the Commitment Period

As a term of the Acquisition Agreement, the Purchaser has undertaken to the Vendor, that for a period of 3 years from the Completion Date of the Acquisition Agreement, the Purchaser, on a best endeavor basis, solely assume the future capital and operational expenditures of the Target Company by way of unsecured interest-free shareholder's loans, with an aggregate amount not exceeding HK$600,000,000, for the Target Company's future development, conditional upon and subject to, amongst others:

(i) the availability of funding of the Purchaser;

(ii) the Capital Commitment provided for each year ending 31 March, as set out below, subject to variations as may be agreed between the Purchaser and the Vendor in writing;

(iii) the Capital Commitment shall be provided to the Target Company only on a needed and necessary basis;

(iv) the relevant approval of Independent Shareholders at the relevant SGM;

(v) the relevant approval of independent shareholders of Extrawell at the relevant special general meeting (if applicable);

(vi) the relevant necessary approval, authorizations or consent from relevant regulatory organization(s) and/or governmental department(s), such as the Stock Exchange and/or the SFC (if applicable);

(vii) the Capital Commitment received by the Target Company shall only be used to pay for the relevant expenditure incurred for the purpose to further the research, development and commercialization of the Target Group's Medicine, such expenses, including but not limited to cover completion of clinical trials, marketing, selling and distribution of the Medicine and other administrative and general expenses and related expenditures; and

(viii) the Capital Commitment shall not be applied, nor used in any event, without the written consent of the Purchaser, for the repayment of any liability, debt and/or loan of the Target Group whether such liability or loan are actual or contingent, primary or collateral and several or joint.

Accordingly, the proposed Capital Commitment to be assumed by the Purchaser during the Commitment Period is as follows:

Period	**Aggregate Annual Caps HK$** *(approximate)*
For the year ending 31 March 2015	200,000,000
For the year ending 31 March 2016	500,000,000
For the year ending 31 March 2017	600,000,000

The Purchaser undertakes and acknowledges that Extrawell will not be required to contribute capital to the Target Company until the time that the Purchaser has fully paid the Maximum Capital Commitment.

Capital Commitment Breakdown

	2015	2016	2017
Research and Development costs			
Remaining PRC research and development costs	65,000,000	–	–
USA administrative costs *(Note 1)*	–	10,750,000	10,000,000
USA research and development costs	32,400,000	74,650,000	15,000,000
EU administrative costs *(Note 1)*	–	7,600,000	11,500,000
EU research and development costs	–	7,000,000	13,500,000
Anticipated annual R&D spending	97,400,000	100,000,000	50,000,000
CAPEX			
Factory 1	20,000,000	–	–
Machinery for Factory 1	30,000,000	–	–
Factory 2	20,000,000	–	–
Machinery for Factory 2	30,000,000	–	–
Anticipated annual CAPEX *(Note 2)*	100,000,000	–	–
Working capital			
Inventory working capital	2,600,000	200,000,000	50,000,000
Anticipated annual WC spent	2,600,000	200,000,000	50,000,000
Aggregated anticipated spending	200,000,000	300,000,000	100,000,000
Total aggregated anticipated spending			600,000,000

Note 1: *USA and EU administrative costs represent cost including but not limited to rental, office, salary of supporting staffs.*

Note 2: *Upon Completion, the Company preliminarily plans to engage relevant experienced architects and consultants for design of the factories and the construction plan in July 2014 for operation in June 2015. This plan is subject to the hiring of relevant consultants upon Completion and any changes in the manufacturing capabilities and conditions of the Group.*

The key milestones of the Medicine with proposed Capital Commitment are set out below:

Project Phase	The Company Timing (subject to Completion) (in or about)	Extrawell Timing (in or about)
Part B of Phase III clinical trials commenced	July 2014	July 2014
Result of part B of Phase III clinical trials submitted to CFDA for approval	March 2015	January 2016
Approval of CFDA expected to be obtained	June 2015	June 2016
Construction of factory – commence	July 2014	June 2015
Construction of factory – complete	June 2015	June 2016
Manufacturing permit will be obtained	September 2015	September 2016
Commercialization of Products to commence	November 2015	October 2016
Clinical trials to commence in USA	July 2014	
Clinical trials to commence in Europe	July 2015	
Results of clinical trials will be submitted to USA	June 2018	
Results of clinical trials will be submitted to Europe	June 2019	
Approval by US FDA for commercialization	February 2019	
Approval by Europe for commercialization	February 2020	

To the best knowledge, information and belief of the Directors and according to the information and representation of Extrawell, at the time the Purchaser has fully paid the Maximum Capital Commitment, the issue as to the further contribution of the capital to the Target Company will be subject to further negotiations between and depend upon the respective financial statuses of the Purchaser and the Vendor at the relevant time.

According to Clause 8.4.7 of the Acquisition Agreement, the Purchaser shall not demand any repayment of the Capital Commitment from the Target Company either in full or in part, until the Target Group has registered operation profits and the maximum amount that the Purchaser may request or demand the Target Group for repayment of the Capital Commitment in each year shall not exceed 30% of the net profit of the Target Group.

According to Clause 8.1.1 of the Acquisition Agreement, the Purchaser's Capital Commitment to the Vendor is subject to the availability of funding of the Purchaser. Upon Completion and if the Company be able to raise fund through various fund raising activities as placing and rights issues, it is fair and reasonable for the Board to hold the view that the Company would have sufficient financial resources to operate its existing business segments after the Acquisition.

To the best knowledge, information and belief of the Company and under the present circumstances, should the Company be unable to raise fund, at this stage and in general, there would be no material impact on the Company's existing business segments and operations save and except for the clinical trials timetable for the Medicine that may be postponed for one year.

The Company intends to carry out fund raising activities after Completion, but at present no concrete plan has yet been proposed. As at this stage, the major acquisition is not completed, no detailed plan has been formulated nor have any negotiations been initiated by the Company concerning any fundraising activities.

As the cash balances of the Company at 30 May 2014 are approximately HK$300 million, the Company's current cash balances are insufficient to satisfy the entirety of the Capital Commitment. The Company will use its best endeavor to raise the funds as necessary to ensure that the Medicine's timetable be met. The preliminary fund raising size is up to HK$500,000,000 on or before 31 March 2015.

The Company will not consider pure debt financing at this stage, as the Company is unlikely able to obtain favorable financing terms due to the Company's recent business performance. While the Company has no concrete fundraising plans at present, the Company does not exclude the possibility of fundraising through placing of shares or convertible bonds, subject to negotiations with investors and the favorability of market conditions. The Company also will not exclude the possibility to raise funds through rights issue or open offer, subject to market conditions.

The Company will comply with the relevant Listing Rules requirements when carrying out fund raising activities.

To the best knowledge, information and belief of the Board, at present the Board is not aware nor has knowledge of any material consequences should the Company be unable to fulfill undertaking for the Capital Commitment.

Internal Control on the Continuing Connected Transaction

(i) Financial Control

An audit committee will be formed to advise, monitor and review on the fairness and reasonableness of the expenditures of the Target Company during and after the Commitment Period as to ascertain whether the expenditure is in the interests of the Company and the Shareholders as a whole. The audit committee will be formed soon after Completion with appointment of members with qualification and experience in oral insulin or relevant businesses. A bimonthly report regarding the fairness and reasonableness of the expenditures of the Target Company will be issued to the Board for consideration and scrutiny.

The audit committee will be comprised of 3 members, with 2 board members including 1 independent non-executive director with accounting and/or finance qualification.

The Medicine is currently under research and development, and globally no oral insulin products are sold and thus no oral insulin industry exists.

The project manager of the Target Group will submit a budget to the said audit committee bi-monthly for examination and approval of the items of the budget. Any over-budget event must be promptly reported to the said audit committee for approval and review before any payment be made for the said event.

To prevent the Target Company from misusing the Capital Commitment, all budgets are subjected to pre-approval and review procedure by the audit committee. Management accounts will be monitored by the financial controller of the Company and the accounts of the Target Company are subject to interim review and annual audit conducted by the Company's auditor at the discretion of the Company.

The Company will appoint directors to the board of the Target Company so as to gain control over the Target Group's decision making and this will allow the Company to monitor the application of the Capital Commitment after Completion.

(ii) Business Control

An expert research supervision committee, consisting of members with relevant expertise, qualifications and experiences will be formed to advise, monitor and review the progress of the clinical trials of the Medicine. A bimonthly report regarding the progress of the Medicine will be issued to the Board for consideration and scrutiny.

The expert research supervision committee currently consists of two members from the Company, as follows:

(a) Dr. Yu Wei Ping, aged 55, has extensive experience developing pharmaceutical products in the PRC and USA and is the adviser and Joint Chairman to the Department of Innovation and Strategic Development of the Company since 25 October 2013. He provides innovation and strategy advice of pharmaceutical nature to the Company and its subsidiaries in relation to research and development of the Group's pharmaceutical and biotechnological related projects and products, and other scientific technologies. Dr. Yu holds a Doctor of Science in Pharmaceutics from the Centre d'Etude Pharmaceutique, Université de Paris-Sud, France, a Master of Science in Pharmaceutics from the Shanghai Institute of Pharmaceutical Industry, the PRC and a Bachelor of Science in Pharmacy from Shanghai Traditional Medical University, the PRC. Dr. Yu was a senior director at Celsion Corporation, USA; director at Adherex Technologies Inc., Canada and senior scientist at Valentis, Inc., USA. Dr. Yu is a member of the American Association of Pharmaceutical Scientists. Celsion Corporation, USA, Adherex Technologies Inc., Canada and Valentis, Inc., USA, are corporations engaged in businesses relating to pharmaceutical products and new drugs development. Dr. Yu Wei Ping currently is the Chief Scientific Officer of Xian Libang Pharmaceutical Limited and Vice-President of Xian Libang Pharmaceutical Industry Group Limited within the Xi'an Libang Enterprises

Group. The Xi'an Libang Enterprises Group is a high-tech biopharmaceutical-oriented corporate group specializing in the development, production and distribution of over 100 pharmaceutical and nutritional products with its research teams and network of professionals in Canada, China and the USA, as to facilitate the timely approval of their PRC pharmaceutical products. Dr. Yu is experienced in using the multi-regional clinical pathway and obtaining approval for medicines in the PRC in a timely manner.

(b) Dr. Zhang Zhihong, aged 72, is an independent non-executive Director and a member of the audit committee of the Company since 8 June 2011. Dr. Zhang graduated from Fudan University majoring in biophysics in 1963 and obtained a doctorate degree in science from Kyoto University, Japan in 1988. From 1990 to 1991, Dr. Zhang was a senior visiting fellow at the medical school of Harvard University in the USA. From 1986 to 2000, Dr. Zhang undertook various senior positions at Fudan University, including as the officer of the Department of Physiology and Biophysics and the associate dean of the School of Life Sciences. Dr. Zhang was the deputy chairman of the Biophysical Society of China from 1994 to 2002 and the chairman of the Shanghai Society of Biophysics from 2000 to 2008. Dr. Zhang has extensive knowledge and is highly regarded in the field of biophysics and physiology in the PRC and it is fair and reasonable for the Board to hold the view that Dr. Zhang Zhihong, a reputable former professor from Fudan University and a former senior visiting fellow with Harvard University's world renowned medical school who engaged in the fields of study of biophysics and physiology, which are fields of study that are relevant in evaluating medications, is a valuable asset to the Company's research supervision committee.

The Company intends to recruit one to three additional experts to join the committee soon after Completion. The selection criteria for members will be based on the candidates' qualifications, experience and merits in the related industries, as including but not limited to biochemistry, bio-engineering, pharmaceutical, medicine, chemical, and engineering.

Any expert, advising on the expert research supervision committee, is not required to have experience in oral insulin, as at present, oral insulin is still under research and development and globally no oral insulin products exists and therefore no oral insulin industry exists.

It is commonly recognized that scientists with scientific research qualification in pure sciences, biochemistry, bio-molecular studies, genetic studies or chemical engineering are deemed capable to provide valuable advice to the research supervision committee in reviewing and advising on the scientific process and procedure for the research and development of the Medicine.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION FOR THE PURCHASER

The inclusion of the said undertaking constitutes an essential term of the Acquisition Agreement for facilitating the consummation of the Acquisition. Furthermore, the said undertaking indicates the Purchaser's intention to further develop the Medicine of the Target Group.

The establishment of the said committees enables the Company to adopt a cautious and prudent approach in controlling the expenditures of the development of the Medicine and allows for the continuous monitoring and effective allocation of funds.

BASIS FOR DETERMINING THE CONTINUING CONNECTED TRANSACTION

In arriving at the proposed annual caps concerning the Purchaser's undertaking, the capital and operational expenditures for the Commitment Period under the Acquisition Agreement and other terms as stated in the Acquisition Agreement have been taken into consideration. The determination of the Capital Commitment was based on the potential maximum needs of the future development of the Medicine. The Directors anticipate that the maximum cost to develop and commercialize the Medicine will involve HK$247 million for clinical trials in the USA and EU and PRC, HK$253 million as working capital for inventory, and HK$100 million as CAPEX.

The proposed annual caps were estimated with reference to the Company's expectations on the maximum costs to be incurred to develop the Medicine by year. In 2015, the said caps would be HK$97 million, HK$100 million, HK$3 million for research and development, CAPEX and working capital, respectively. In 2016 it would be HK$100 million and HK$200 million for research and development and working capital, respectively. In 2017 it would be HK$50 million and HK$50 million for research and development and working capital, respectively.

INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in the trading of beauty products and equipment, provision of genetic testing services and distribution of bio-industrial products.

As at the Latest Practicable Date, the Company holds approximately 19% of shareholding of Extrawell and hence is a connected person of Extrawell (within the meaning of the Listing Rules).

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendor and its ultimate beneficial owners, are independent third parties of the Company (within the meaning of the Listing Rules).

INFORMATION ON THE PURCHASER

Clear Rich International Limited is a wholly-owned subsidiary of the Company and is principally engaged in investment holding.

INFORMATION ON THE VENDOR

Extrawell (BVI) Limited, a wholly-owned subsidiary of Extrawell Pharmaceutical Holdings Limited, is principally engaged in investment holding.

INFORMATION ON TARGET COMPANY

According to the information and representations by Extrawell, Smart Ascent is a private company incorporated in Hong Kong with limited liability, having an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1 each, all of which have been issued and are fully paid.

In Extrawell's announcement dated 16 July 2013, Extrawell announced that all the conditions precedent to the relevant acquisition agreement were fulfilled and the completion took place on 16 July 2013, Smart Ascent became beneficially owned as to 100% by Extrawell BVI and an indirect wholly-owned subsidiary of Extrawell as at the Latest Practicable Date. The original acquisition cost of the Sale Shares paid by the Extrawell Group was approximately HK$373,830,000.

Smart Ascent is principally engaged in investment holding and is the holding company for the Medicine. The material assets of Smart Ascent are Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of Smart Ascent, and Nation Joy, being a wholly-owned subsidiary of Smart Ascent. Fosse Bio is principally engaged in development and commercialisation of the Medicine. Welly Surplus is currently inactive but, subject to the completion of the relevant sale and purchaser agreement, may choose to indirectly hold the 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 in the development of the Medicine. Nation Joy is set up as investment holding company and is currently inactive.

The Medicine is one of the oral insulin products being developed by the Target Group that has successfully completed part A of the Phase III, consisting of a multi-centered, randomized, double-blinded and placebo-controlled clinical trial. Subject to the Completion, it is currently estimated that the extended clinical trial based on part B of Phase III clinical trials will commence in or about July 2014. The report on the results of the clinical trials is expected to be submitted for assessment by CFDA in or around March 2015 and, subject to satisfactory assessment by the CFDA, the commencement of manufacturing of the Medicine will be anticipated as in the second half of 2015.

The Phase III clinical trial filed with the CFDA had been designed into two parts and related to double-blinded and placebo-controlled clinical trials, which was more complicated and time-consuming as compared to the previous completed clinical trials but was considered to be a solid foundation for CFDA's assessment. As the Medicine, being a new drug, is used for double-blinded and placebo-controlled tests, and the control group patients under part A of Phase III clinical trial would only be given oral insulin placebos, there had been more restrictive criteria and process for selection of patients, and the participating hospitals selected by the project administrator were also more cautious in conducting part A of the Protocol by formulating and adopting more sophisticated administrative procedures and medication guides. As a result, more time was required to complete part A of Phase III clinical trials than anticipated.

With the experiences gained by the Target Group from part A of Phase III clinical trial as completed and with positive effects of the Medicine, and given that the patients in the control group under part B of Phase III clinical trial will not be given only the placebos, it is fair and reasonable to expect that with additional resources by the Company upon the Completion, the project team would have an advantage to manage, monitor and accelerate the timing of part B of the Phase III clinical trial.

According to the information and representation provided by Extrawell and to the best knowledge of the Company, the Company believes that under normal circumstances part B of Phase III of clinical trials are normally considered as the final clinical trial before commercialization in the PRC, save and except for any unforeseeable event and change of relevant laws and regulations as indicated in the risk factors.

Conditional upon the success of the on-set of the Capital Commitment, the Company believes that the approval of the Medicine is expected to be obtained in June 2015.

The Target Group primarily aims to manufacture, market and distribute the Medicine through distributors who then resells the Medicine on a nationwide basis. The key distribution channels cover hospitals (including clinics) and drug stores, and through this distribution network sales can be extended to pharmacies and other retail outlets for easier access and purchase by patients with a doctor's prescription.

Under Extrawell's business plan, two distributors will be appointed in each of the 30 major cities of the PRC including provinces and coastal cities. Reputable distributors possessing certification of "Good Supply Practices for Pharmaceutical Products" (i.e. GSP) for distributing pharmaceutical products including prescription and pharmaceuticals are potential candidates for consideration. Selection will be based on a variety of criteria including their credit record, customer portfolio and distribution network. Distributors play an important role in the distribution of the Medicine. By leveraging their networks and operating expertise to purchase, store, resell and transport the pharmaceutical products, the Medicine can achieve a quick geographic coverage in the PRC market and enhance its competitiveness in gaining market share.

Also as disclosed in 2013 Extrawell Circular was that the construction of the foundation and the surrounding walls of and the roads for access to a manufacturing plant has been completed. Subject to further review by the board of directors of Extrawell of the then progress of the clinical trial in early 2014, it is the present intention of the board of directors of Extrawell to enter into supplemental agreement with Sea Ascent Investment Limited in early 2014 for the extension of the longstop date of the relevant sale and purchase agreement, and to agree on the timetable for the construction of the plant so that the construction can be restarted in or around June 2014 for completion and delivery thereof to Extrawell Group in or around June 2015. According to Extrawell, as at the Latest Practicable Date, the longstop date of the relevant sale and purchase agreement has not been extended.

The Company has proposed to utilize 16 hospitals, twice the number proposed by Extrawell, and hire between 4 to 6 additional supervisors, subject to change and confirmation. The Company will commence the engagement of the additional hospitals and supervisors upon Completion. At this stage, the Company does not foresee any material difficulties in contracting additional hospitals, hiring more supervisors and expediting the time table.

Before the initiation of the present Transaction, Smart Ascent had adopted Extrawell's timetable of clinical trials. However, after the Completion of the Transaction and with the arrival of the Company as the new controlling shareholder and the injection of the Capital Commitment for providing sufficient resources for the clinical trials, it is fair and reasonable for the Company to hold the view that the Company shall use its control over the Target Company's board of directors to direct Smart Ascent into adopting a new timetable.

With the availability and injection of the Capital Commitment, it is fair and reasonable for the Company to hold the view that the clinical trials may be completed earlier than Smart Ascent's initially adopted timetable.

In view of how the expected timetable of the clinical trials proposed by the Company is different from the expected timetable of the Extrawell, the Company holds the view that the Target Group, after Completion, with the availability of the Capital Commitment as capital for providing sufficient resources for strengthening, consolidating and adopting the following operational activities and measures: 1) to enable multiple clinical trials to be operated concurrently in a greater number of hospitals; 2) to employ additional supervisors to coordinate and operate the clinical trials in conjunction with the CRO and hospitals; and 3) to utilize the multi-regional clinical trial pathway, it is fair and reasonable for the Company to believe that the said strengthening, consolidating, and adoption of the said operational activities and measures shall accelerate and shorten the time to complete part B of Phase III clinical trials by 9 months after doubling the number of hospitals that concurrently perform the clinical trials and improving data collection and analysis efficiency. Also, to the best knowledge, information and belief of the Board, it is fair and reasonable for the Board to hold the view that CFDA has more experience and expertise in processing generic applications than new drug applications. Further, staffs from CFDA have regularly attended training programs provided by US FDA. Therefore it is fair and reasonable for the Board to hold the view that if a new drug already

be approved by the US FDA, the said drug will have a higher possibility of obtaining earlier approval from the CFDA, as it is expected that CFDA will consider the relevant clinical trial data and will be more receptive in evaluating the said clinical data, thus the number of queries from CFDA may be substantially reduced than the Medicine with only PRC clinical trials. Therefore it is fair and reasonable for the Board to hold the view that the approval process is able to be further shortened by 3 months.

The Company's joint chairman, Dr. Yu Wei Ping, has already provided advice to the Company concerning the process and procedures requirements for conducting clinical trials in USA.

The Company plans to initiate the clinical trial upon Completion. The Company is unable to start the clinical trials in the USA before Completion, as the Company has no right to develop the technology as the patent is not yet owned by the Company.

The Company will initiate clinical trial in the USA as soon as possible upon Completion, as expected to commence in July 2014. Further, the Company will closely monitor the progress of the clinical trials in the USA with the American CRO and use the Company's best endeavor to expedite the progress of the clinical trials.

Metolazone and Droperidol are examples of new drugs with an earlier approval from the PRC CFDA after initiating clinical trials in the USA.

Despite the fact that the Company will deploy resources to develop the USA and EU markets, at this stage, the Company has no intention to export the Medicine overseas, but will not exclude the possibility to export the Medicine to overseas, as conditional upon with favorable terms, conditions and circumstances as in the interests and for the benefits of the Company and the Shareholders as a whole.

It is a prerequisite and therefore essential to obtain approval of the Medicine from relevant authorities in the USA and EU before it is permitted to explore and develop the markets in USA and EU for the Medicine. By deploying resources in clinical trials and upon obtaining approvals in the respective countries, the Medicine can be commercialized and sold in the USA and EU unless the relevant clinical trials are conducted and approved in the respective countries. Given the above, at this stage, the Company has no intention to export the Medicine overseas but intends to keep open the long-term option of pursuing the development and exploitation of the Medicine's potential markets in the USA and EU in the future and will consider factors as including but not limited to market conditions, price, cost and selection of business partners for exporting the Medicine to overseas. Should the Medicine continue to be developed without delay, the estimated time for the Medicine to be exported to the USA would be 2019 and EU would be 2020.

Furthermore, the prestige and trust of having a PRC Medicine be marketed overseas may lead to an increase of the public awareness in the PRC. Further, introducing the Medicine to the USA and EU through clinical trials will attract international attention to the Medicine and the Company, and upgrade the status and category of the Medicine and reputation of the Company. It is expected that the researchers, evaluating the Medicine in the USA and EU, will publish related articles in international medical and scientific journals, and the Board holds the view that these benefits will also provide a strong marketing impact for the Medicine.

The Company will use its best endeavor to develop the Medicine overseas. In the coming 4-5 years, the Company will focus to complete the clinical trials and obtain approval of the Medicine from relevant authorities. If, after the Commitment Period, there is additional funding needed to further develop the Medicine overseas, the Company and the Vendor will further negotiate on how to contribute to fulfill the funding requirement.

While the Board is currently unable to quantify and qualify the funding requirements after the Commitment Period, the Company shall further carry out fundraising activities as required.

FINANCIAL INFORMATION OF THE TARGET GROUP

According to information and representation by the management of Smart Ascent, the consolidated net asset value of the Target Company was approximately HK$253,922,000 as at 31 March 2013. For the financial years ended 31 March 2013 and 31 March 2012, the consolidated net losses both before and after taxation of the Target Company amounted to approximately HK$4,597,000 and HK$6,642,000, respectively. The Target Company recorded no revenue for both financial years.

Set out below are the consolidated statements of comprehensive income of the Smart Ascent Group for the three years ended 31 March 2013 and for the eleven months ended 28 February 2014, which were prepared in accordance with Hong Kong Financial Reporting Standards and extracted from Appendix IIA to this Circular:

	For the 11 months ended		For the year ended		
	28/2/2014	**28/2/2013**	**31/3/2013**	**31/3/2012**	**31/3/2011**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
			(unaudited)		
TURNOVER	–	–	–	–	–
OTHER REVENUES	2,633,991	–	2,180	189,366	10,780
ADMINISTRATIVE EXPENSES	(1,974,045)	(2,107,150)	(2,157,674)	(2,409,918)	(2,956,050)
RESEARCH AND DEVELOPMENT EXPENSES	(3,679,248)	(2,430,724)	(2,430,724)	(4,413,580)	(8,125,644)
LOSS BEFORE TAXATION	(3,019,302)	(4,537,874)	(4,586,218)	(6,634,132)	(11,070,914)
TAXATION	–	–	(10,384)	(8,102)	(7,012)
LOSS FOR THE PERIOD/YEAR	(3,019,302)	(4,537,874)	(4,596,602)	(6,642,234)	(11,077,926)
OTHER COMPREHENSIVE INCOME	–	–	–	–	–
TOTAL COMPREHENSIVE LOSS	(3,019,302)	(4,537,874)	(4,596,602)	(6,642,234)	(11,077,926)
Loss for the period/year attributable to:					
– Equity holders of the Target Company	(292,502)	(2,343,295)	(2,382,321)	(3,364,676)	(5,680,108)
– Non-controlling interests	(2,726,800)	(2,194,579)	(2,214,281)	(3,277,558)	(5,397,818)
	(3,019,302)	(4,537,874)	(4,596,602)	(6,642,234)	(11,077,926)

The Medicine of the Target Group is still at the stage of research and development and yet to be commercialised. Therefore, the Target Group did not record any turnover for the three years ended 31 March 2013 and for the eleven months ended 28 February 2014. The major expenses incurred by the Target Group were research and development expenses and the staff costs. Research and development expenses represented the cost incurred for the research and development of the Medicine which were not qualified to be capitalised in intangible assets.

According to the information and representations by Smart Ascent, for the eleven months ended 28 February 2014, the research and development expenses, which represented costs for preparation of the drugs for clinical trial purpose and clinical trial management services charges recognised, increased by approximately HK$1.2 million, representing an increase of approximately 51.4%, in comparing with that for the eleven months ended 28 February 2013. During the financial years ended 31 March 2012 and 2013 and the period ended 28 February 2014, prepaid research and development costs amounting to an aggregate of approximately HK$7.2 million were paid to the project administrator in the PRC and recognised as prepayments. The prepayments were would be recognised as expenses in accordance with the progress of the clinical trial of the Medicine. The decrease in loss for the eleven months ended 28 February 2014 was mainly due to the incurrence of other revenue for the same period. The other revenue recorded during 2014 included HK$2 million sundry income and HK$634,000 of foreign exchange gain. The sundry income relates to a waiver of shareholder's loan by Mr. Ong to the amount of HK$2 million.

For the year ended 31 March 2013, the research and development expenses significantly decreased by approximately HK$2 million, representing a decrease of approximately 45.5%, in comparing with that for the year ended 31 March 2012. The decrease in loss for the year ended 31 March 2013 was mainly due to the decrease of research and development expenses for the same period.

For the year ended 31 March 2012, the research and development expenses of approximately HK$4.4 million were recognised during the year and had not yet been incurred for the year ended 31 March 2011. The administrative expenses for the year ended 31 March 2012 decreased by approximately HK$0.5 million, representing a decrease of approximately 18.6%, in comparing with that for the year ended 31 March 2011. The research and development expenses incurred and the decrease in administrative expenses for the year ended 31 March 2012 resulted in a significant decrease in loss of approximately HK$4.4 million for the year ended 31 March 2012.

Set out below are the consolidated statements of financial position of the Target Group as at 31 March 2011, 2012 and 2013 and as at 28 February 2014, which were prepared in accordance with Hong Kong Financial Reporting Standards and extracted from Appendix IIA to this Circular:

	As at			
	28/2/2014	**31/3/2013**	**31/3/2012**	**31/3/2011**
	HK$	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS				
Intangible assets	281,473,437	281,473,437	281,473,437	281,473,437
Amounts due from non-controlling interests	5,214,780	6,055,781	6,139,996	12,969,890
Amounts due from former non-controlling interests	1,694,552	–	–	–
Loan to a non-controlling interest	6,197,329	5,997,584	4,806,529	–
	294,580,098	293,526,802	292,419,962	294,443,327
CURRENT ASSETS				
Amount due from a Shareholder	19,780,000	–	–	–
Deposits, prepayments and other receivables	8,074,284	39,912,120	40,067,650	46,923,315
Cash and cash equivalents	87,183	88,797	116,309	12,474
	27,941,467	40,000,917	40,183,959	46,935,789
CURRENT LIABILITIES				
Accruals and other payables	2,487,551	244,657	244,657	455,479
Amount due to a fellow subsidiary	–	–	69,348	–
Amount due to a non-controlling interest	20,403,892	32,403,892	32,403,892	32,403,892
Amounts due to shareholders	–	14,563,272	14,401,965	13,821,643
Tax payable	–	–	–	5,000
	22,891,443	47,211,821	47,119,862	46,686,014
NET CURRENT (LIABILITIES)/ASSETS	5,050,024	(7,210,904)	(6,935,903)	249,775
TOTAL ASSETS LESS CURRENT LIABILITIES	299,630,122	286,315,898	285,484,059	294,693,102
NON-CURRENT LIABILITIES				
Amounts due to non-controlling interests	7,683,336	9,347,188	8,502,885	14,471,020
Amounts due to former non-controlling interests	2,517,403	–	–	–
Amounts due to shareholders	32,329,783	17,049,553	13,656,470	15,061,673
Loan from a non-controlling interest	6,197,329	5,997,584	4,806,529	–
	48,727,851	32,394,325	26,965,884	29,532,693
NET ASSETS	250,902,271	253,921,573	258,518,175	265,160,409
CAPITAL AND RESERVES				
Share capital	10,000	10,000	10,000	10,000
Reserves	128,514,251	128,806,753	131,189,074	134,553,750
Equity attributable to:				
Equity holders of the Target Company	128,524,251	128,816,753	131,199,074	134,563,750
Non-controlling interests	122,378,020	125,104,820	127,319,101	130,596,659
TOTAL EQUITY	250,902,271	253,921,573	258,518,175	265,160,409

According to the information and representations by Smart Ascent, as at 28 February 2014, the net assets value of the Target Group and equity attributable to the equity holders of Smart Ascent amounted to approximately HK$250.9 million and HK$128.5 million respectively, and the total assets and total liabilities of the Target Group amounted to approximately HK$322.5 million and HK$71.6 million respectively.

As at 28 February 2014, the Target Group had intangible assets of approximately HK$281.5 million, which represented carrying value of the technological know-how in relation to the oral insulin product. The Target Group did not have any bank borrowings or provision of corporate guarantees as at 28 February 2014.

As at 28 February 2014, the balance of the consideration for the sum of approximately HK$19.8 million being payable to Fordnew Industrial Limited, one of the existing shareholders of Fosse Bio in relation to the acquisition of 51% interests in the issued share capital of Fosse Bio in 2004 was accounted for in the Target Group's amount due to a non-controlling interest.

Shareholders' attention is drawn to the content of report prepared by the reporting accountants of the Target Group as contained in Appendix IIA to this Circular, in which the reporting accountants has highlighted an emphasis of significant matters on the uncertainty related to the recoverability of the carrying value of the intangible assets. In the event that the outcome of the results of the clinical trials and the launching of the Medicine are unfavourable, the carrying value of the intangible assets in relation to the Outstanding Amount will be written down, which would have significant adverse effect on the business and results of the Smart Ascent Group.

VALUATION OF THE TARGET GROUP

Methodology and assumptions used in the valuation

Valuation approach

In the process of appraising the equity interest of Smart Ascent, Roma considered three valuation approaches, namely the market approach, asset approach and income approach. The Company concurs with Roma that the market approach is not appropriate in the circumstances as, to the best understanding of Roma, there has been no public sale and purchase of similar business transactions that completed in Hong Kong and the PRC. The Company also concurs with Roma that the asset approach, which normally neglects the future business growth and is normally suitable for a manufacturing company, is not appropriate for valuing an innovative project such as the one which Smart Ascent is embarking on. The income approach, which measures the present worth of the net economic benefit to be received and focuses on the income-generating capability of a company, was considered by Roma (also concurred by us) the most appropriate approach for appraising the equity interest of a company like Smart Ascent.

Under the income approach, the discounted cash flow method was used by Roma, which estimated the market value of Smart Ascent by discounting the future free cash flows to be generated by Smart Ascent, including revenues and costs, at a relevant rate of return required by equity to its present value.

Discount rate

A discount rate of 21.05% was used by Roma in discounting the future free cash flows generated by Smart Ascent. The discount rate was determined using the capital asset pricing model and applying the risk-free rate of 4.4%, beta coefficient of 0.92, market risk premium of 11.82%, and firm specific risk premium of 2%. Based on the discussion with Roma about the bases used for determining the discount rate, the Company considered that such rate is justifiable.

Terminal value

Of the approximately HK$2,028 million valuation on the entire interest of Smart Ascent, approximately 35.6% is attributable to the terminal value which was calculated by discounting the forecasted cash flows as from December 2028 as by then the economic return from the oral insulin project is expected to have reached a stable level, and assumes a perpetual growth rate of 3% per annum.

The Company notices that the patent in the PRC granted to Fosse Bio and Tsinghua University, Beijing, in respect of the Relevant Technologies will expire in April 2021. In assessing the terminal value, the Company discussed with Roma about the potential impact on the Valuation in relation thereto and understood that Roma considered that there is no concrete basis to assume non-renewal of the patent registration after expiry and has assumed a perpetual stable free cashflow to the Target Group after the expiry of the patent. There is no specific provision under the laws of the PRC for the renewal of patent registration.

Assuming the Medicine being commercialised in the second half of 2015, the Company considers that even if the patent registration in the PRC cannot be renewed after April 2021, the Target Group would (i) have enjoyed the first-mover advantage by being the first entrant to gain the customers' acceptability and loyalty given that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is no other oral insulin that has commenced Phase III clinical trials in the PRC as at the Latest Practicable Date based on the public information available; (ii) have well established marketing and sales channel and brand image of the Medicine; and (iii) have achieved economies of scale to reduce cost of production, and should possess competitive advantage over the new market entrants and continue to enjoy economic return from the Medicine.

Concerning the discount for lack of marketability (the "**LOM**"), the equity interest of Smart Ascent itself is not readily marketable as a public listed company. Roma therefore applied a LOM discount of 21% to the net present value of the future free cash flows of the Target Group. The Company has discussed with Roma and understood that, in determining the LOM, Roma made reference to the previous research and studies on the average discounts for closely held companies.

Major bases and assumptions used in the Financial Projections

Based on the valuation report dated 26 June 2014 prepared by Roma, Registered Professional Surveyors and an independent professional valuer, the appraised market value of the equity interest of the Target Group (as 100% equity interest in the Target Company together with its 51% equity interests in Fosse Bio and Welly Surplus and 100% equity interest of Nation Joy) as at 28 February 2014 amounted to approximately HK$2,029,000.

Roma has appraised the equity of the Target Group on the basis of "**market value**" on the premise of going concern which assumes that the Target Group is normally viewed as continuing in operation in the foreseeable future with neither the intention nor necessity of liquidation or of curtailing materially the scale of its operation basis. Roma has also made the following assumptions in the course of its appraisal:

- Target Group will operate its business on continuous basis to the best of its ability and will allocate sufficient resources for the planned expansion;

- Fosse Bio will have no obstacle to obtain production approval of the Medicine from the CFDA after completion of the further stage of clinical trial;

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

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

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

- the management of Target Group will not make any decision, which is harmful to the revenue generation ability of Target Group's business; and

- the financial forecast of Target Group, and the assumptions on which such financial forecast is made, will be achievable. The principal assumptions on the financial forecast are:

    (i) the estimated diabetic population of the PRC in 2015 will be 101.8 million and is expected to grow at an implied Compound Annual Growth Rate ("**CAGR**") of 1.7% after 2015;

(ii) the following factors considered in the financial forecast:

	For the calendar year ending 31 December				
	2015	**2016**	**2017**	**2018**	**2019**
Number of capsules (50 IU) *('000)*	16,667	500,000	1,000,000	1,702,509	2,597,268
Unit price *(RMB)*	2.83	2.92	3.00	3.10	3.19
Revenue *(RMB '000)*	47,208	1,458,738	3,004,999	5,269,519	8,280,101
Growth rate of revenue	–	2,990%	106%	75%	57%

(iii) operating expenses, including staff costs, administrative and marketing expenses, property related expenses, are estimated by the Company's management with reference to the scale of operations; and

(iv) necessary expenditures will be funded out of internal cash flows, plus external funding if required, and has been included in the projections as a cash outflow.

Set out below is the basis of the factors considered in the financial forecast:

Timing of commercialisation

According to the information and representations by Extrawell, Fosse Bio has recently completed the multi-centered, randomised, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of type 2 diabetes (part A of the Protocol) with satisfactory results, and is currently working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct extended clinical trial, being part B of Phase III clinical trials filed with the CFDA. The progress and results of the clinical trials up-to-date indicated that the Medicine achieved positive effect, in particular, the statistical outcome of the per-protocol set (PPS) analysis relating to part A of the Protocol shows that the bio-efficacy of the Medicine in the treatment group was significantly superior to that of the control group in the effect of reducing blood glucose level in diabetics and Extrawell believes that there would be no major obstacle in completing the extended clinical trial for the Medicine and obtaining the final approval from CFDA for production and distribution of the Medicine in the PRC. Notwithstanding the history of delay to the commercialisation of the Medicine, based on the aforesaid favourable results of part A of the clinical trials contemplated in the Protocol, which is the first double-blinded, placebo-controlled clinical trial that Fosse Bio has completed, and the experience gained through the phases of clinical trials and United Gene estimates that the commencement of manufacturing of the Medicine will begin November 2015, which shall be reflected during the financial year ended 31 March 2016.

The PRC diabetic population and market share of the Medicine in the PRC diabetic market

According to the information and representations by Extrawell, in estimating the revenue to be generated from marketing the Medicine in the PRC, the whole diabetic population in the PRC is included as Extrawell's target market, including the type 1 diabetes and type 2 diabetes. As the body of type 1 diabetes cannot produce insulin by themselves, they must take insulin to restore the insulin level in their bodies and oral insulin can be effective in this respect. On the other hand, the treatment of type 2 diabetes can be a combination of continuous diet, exercises and the use of oral anti-diabetic drugs ("**OADs**"), which aim to lower glucose level in the human body. Extrawell is of the opinion that insulin is a preferred treatment to OADs for type 2 diabetes as OADs are considered to create more adverse side-effects to patients.

According to the International Diabetes Federation (the "**IDF**"), the adult (20 to 79 years old) diabetic population in the PRC amounted to approximately 98,400,000 in 2013 and the number of people who have diabetes will rise to approximately 142,700,000 by 2035, which translates into a CAGR of approximately 1.7% for the period from 2013 to 2035. Taking into account the above and relevant publicly available information gathered from various sources, including China Diabetes Society in the PRC and the World Health Organization, the Company estimates a diabetic population (including both type 1 diabetes and type 2 diabetes) of approximately 101,800,000 in the PRC when the Medicine is about to commence commercial sales in the second half of 2015, with a growth rate of 1.7% annually afterwards.

According to statistics of the World Health Organisation (reviewed October 2013), type 2 diabetes which may be caused by obesity, physical inactivity is more common than type 1 diabetes, and accounts for approximately 90% of all diabetes worldwide. Childhood and adolescent obesity numbers are serious in the PRC. According to an article "Recommendations from the EGAPP Working Group: does genomic profiling to assess type 2 diabetes risk improve health outcomes?" published by the Evaluation of Genomic Applications in Practice and Prevention Working Group launched by the Centers for Disease Control and Prevention of the USA on 14 March 2013, up to 95% of all patients with diabetes have type 2 diabetes. With reference to the above, the Company estimated that among the diabetic patients, about 10% of them belong to type 1 diabetes and 90% of them belong to type 2 diabetes. Based on the management's experience and the consideration of launching a new diabetic treatment method of oral insulin and the market price of the comparable insulin medicine and OADs and the advantages of oral insulin, the Company made the following assumptions on the percentages and subsequent growth of market share in the type 1 diabetic population and type 2 diabetic population

respectively in estimating the market share of the Medicine in the PRC diabetic population (assuming the commercialisation of the Medicine will commence in the second half of 2015):

	Market share in diabetic population Type 1	Market share in diabetic population Type 2
2015	0.06%	0.06%
2016	1.82%	1.82%
2017	3.58%	3.58%
2018	6.00%	6.00%
2019	9.00%	9.00%

In estimating the market share of the Medicine, the management of the Company considered the market shares of existing competitors in the insulin market in the PRC, the growth potential of the market share with reference to the management of Smart Ascent's knowledge of penetration of other new medicines in the PRC, and Smart Ascent's focus on marketing the Medicine to type 2 diabetic population. For details of the assumptions and estimates, please refer to Appendix III(B) to this circular.

Pricing

According to the information and representations by Smart Ascent, the management of Smart Ascent estimates a price of RMB2.75 per capsule (with 50 units of insulin) currently, with a growth rate of 3% expected. Based on the findings from the previous clinical trials, the management of Smart Ascent estimates that the suitable levels of intake of the Medicine for type 1 diabetics and type 2 diabetics per day are 200 units and 100 units of insulin intake respectively, which are equivalent to four capsules and two capsules of the Medicine respectively.

In determining the pricing of the Medicine, which is the wholesale distribution price of the Medicine, Smart Ascent considered the market acceptability of the estimated retail price of the Medicine. In the opinion of the management of Smart Ascent, distributors may accept a lower margin for an unprecedented new drug like oral insulin which is generally believed to have great market potential. In assessing the market acceptability of the estimated retail pricing, the management of Smart Ascent referred to the pricing of injected insulin and OADs currently available in the PRC market.

With reference to available retail price information from the market, subject to doctors' prescription, the costs for patients with minimum or recommended daily dosage of the injected insulin would range from about RMB4 to RMB12 (for instance, one of the representative injected insulin costs about RMB11 per day), whereas costs for patients with minimum or recommended daily dosage of OADs would range from about RMB2 to RMB22 (for instance, one of the representative OADs costs about RMB15 per day). Subject to doctors' prescription, the recommended daily dosage for the Medicine for type 2 diabetics would be two capsules (with 50 units of insulin per capsule, at estimated retail

price of RMB4.6) which would cost the patients of about RMB9.2 per day. As such, the management of Smart Ascent considers that the pricing of the Medicine is competitive amongst the injected insulin and OADs.

Cost of sales and other expenses

According to information provided by Smart Ascent, the cost of production per pill (50IU) is estimated to be RMB1.19. The costs of production are expected to grow with inflation at 3% per annum. Major cost components include the cost of insulin, which is the main component of the Medicine, labour and factory overhead.

Expense items were largely related to selling, marketing, distribution and administrative expenses. Included in selling expenses is the fee payable to Tsinghua under the Tsinghua University Collaboration Agreement, which was calculated based upon 1.5% of the annual sales of the medication. Other major expenses include the expected clinical trial costs in the USA and Europe, pre-operating expenses and income tax.

Roma has used discounted cash flow method in evaluating the business of the Target Group as at 28 February 2014. The accounting policies and calculations adopted in and the calculations of the discounted cash flow forecast underlying such valuation have been properly complied in accordance with the bases and assumptions as set out therein, and on a basis consistent with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2012. The Directors confirm that they had made the discounted cash flow forecast underlying such valuation after due and careful enquiry.

INFORMATION ON THE MEDICINE AND THE DIABETES MARKET

The information on the medicine and the diabetes market, as extracted from the 2013 Extrawell Circular, 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.

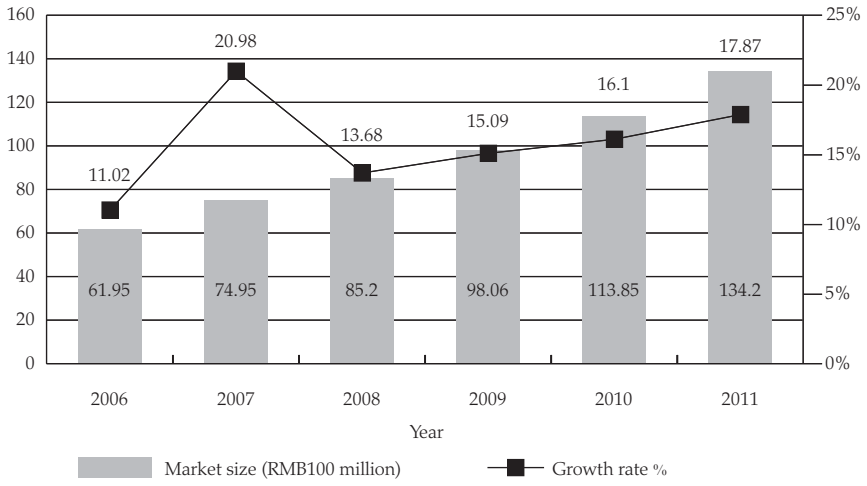
Thiazolidinediones: These help to improve insulin sensitivity.

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."

STAGE OF DEVELOPMENT OF THE MEDICINE

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

(i) Background information of the Medicine

According to the 2013 Extrawell 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 Extrawell Circular

According to the 2004 Extrawell 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 Extrawell Circular

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

(c) 2009 Extrawell Circular

According to the 2009 Extrawell Circular, Phase I and Phase II clinical trials 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, CFDA 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 Extrawell Circular

According to the 2013 Extrawell 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 Extrawell Circulars

Status of Insulin Pharmaceutical Industry in the PRC

According to the information and representations by Extrawell, over the recent years, the PRC pharmaceutical industry has witnessed rapid growth facilitated by the PRC government's continuous investment. In 2009, the PRC government announced its plans to invest RMB850,000,000,000 between 2009 and 2011 to implement a series of programmes under the healthcare reform plan, aiming at providing universal healthcare for its citizens. Under the "12th Five-Year Plan" (2011–2015), the PRC government has

identified pharmaceuticals and biotechnology as one of the seven national strategic industries and set out provisions to boost and consolidate the sector, including an investment of RMB10,000,000,000, demonstrating its support for innovation and the enhancement of pharmaceutical industry. The PRC pharmaceutical industry realised RMB1,830,000,000,000 in output value in 2012, representing a 21.7% increase over the previous year, as released by the National Development and Reform Commission.

Tremendous growth of diabetic population in the PRC has been fueled by the aging population, accelerating urbanisation coupled with unhealthy diets and sedentary lifestyles in recent years. According to the press release published on the website of the Chinese Diabetes Society on 9 April 2012, a survey on diabetes conducted by the Chinese Center for Disease Control and Prevention and other institutes in 2010 indicates that there was adult diabetic population of approximately 97,000,000 in the PRC, 9.7% of population of 18 years old or above had diabetes and 19.6% of population of 60 years old or above had such disease. According to the 5th edition of the Diabetes Atlas of IDF (issued in November 2012 and published on the website of the IDF), it was estimated that for 2012, the adult (20-79 years old) diabetic population in the PRC amounted to approximately 92,300,000 and there were approximately 371,300,000 of such population worldwide. The IDF also forecasts that the number of people who have diabetes worldwide will rise to approximately 552,000,000 by 2030, which translates into a compound annual growth rate of approximately 2% for the period from 2012 to 2030. Diabetes is often associated with several other disorders such as cardiovascular events and kidney impairment and, according to the World Health Organisation, diabetes will be among the leading causes of death by 2030. With obesity on the rise due to inactivity and taking high caloric food, diabetes is affecting more people everyday globally. The Extrawell Group estimates that the diabetic population would be about 93,000,000 in 2015, with a growth of 500,000 annually afterwards, which roughly translates to 0.5% annual growth. In the PRC, with the improvement of living standards and people's increased health awareness, more patients are being screened for and being diagnosed with diabetes. According to "China Diabetes Triples Creating $3.2 Billion Drug Market", an article published by Bloomberg on 5 November 2012, a Shanghai-based consultant with IMS Health Inc., which is an international medical statistics company, estimated that the PRC's diabetes drugs market will expand by 20% annually to reach RMB20,000,000,000 by 2016, spurred by guidelines that set higher treatment standards. The PRC's pharmaceuticals market overall will increase by 15% to 18% a year to reach as much as US$165,000,000,000 over the same period. Backed by the growing diabetic population along with the PRC government's supportive policies in the pharmaceutical and healthcare industry, the Company believes that there exists enormous demand and market for the Medicine, an innovative drug allowing oral intake of insulin, which would improve the quality of life of patients.

Business Strategy of the Target Company

According to the information and representations by Extrawell, for CFDA's assessment for granting of the certificate of new medicine for the Medicine, in 2008, Fosse Bio was required to undertake double-blinded tests where the researchers had little knowledge on which patients belong to the treatment group (where patients would be given the Medicine) or the control group (where patients would be given placebo). As Fosse Bio had not conducted double-blinded tests before, it had engaged a project

administrator, Shenyang XinTaigoler Medical Technology Co. Ltd. (瀋陽鑫泰格爾醫藥科技開發有限公司), to organise the clinical trial. In order to sustain a solid foundation for the success of the clinical trial, the Protocol, which consists of two parts, was then designed by recognised clinical trial bases and led by the Peking University People's Hospital in the PRC and filed with the CFDA.

According to 2013 Extrawell Circular, until recently, Fosse Bio has completed the multi-centered, randomised, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of type 2 diabetes with satisfactory results, and is currently working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct extended clinical trial with more extensive sampling of the Medicine contemplated in the Protocol filed with the CFDA. It is estimated that the extended clinical trial will commence in or around July 2013 and be completed with report of results thereof submitted for assessment by CFDA in or around January 2015. Subject to satisfactory assessment by the CFDA of the results of the clinical trial, the certificate of new medicine (新藥證書) is estimated to be obtained in or around June 2015, and the Extrawell Group will monitor the progress of obtaining the certificate of new medicine so that the construction of the Plant in Jiangsu, the PRC under the Cooperation Agreement will be completed in or around the time when the certificate of new medicine is obtained. Upon Completion, the Company preliminarily plans to: (i) engage relevant experienced architects and consultants for the design of the Plant and the construction plan in July 2014; and (ii) invite tender offers from the relevant construction companies for the construction of the Plant in August 2014. It is fair and reasonable for the Company to expect that the construction of the Plant may possibly be completed by April 2015 and be in full operation in June 2015. To the best knowledge, information and belief of the Board, it is fair and reasonable for the Board to hold the view that at this stage, the current timetable be feasible and the Board is not aware nor has any knowledge of any material impediment nor obstacle as expected.

The Extrawell Group estimates that the pharmaceutical manufacturing permit (藥品生產許可證) shall be approved by the CFDA about three months after the completion of construction of the Plant, and the manufacturing and distribution of the Medicine shall commence another month thereafter. The project team of Extrawell has been conducting preparatory work for the clinical trial including but not limited to manufacturing of additional testing drugs for clinical trial purpose and through the project administrator, as liaising with hospitals and selecting participating hospitals to be led by the Peking University People's Hospital, formulating standard operation procedures and technical guides for their study and finalization to enable criteria set for effective execution. Nevertheless, According to 2013 Extrawell Circular, as the time required for construction of the Plant would take about one year, the Extrawell Group considers to be more appropriate to finalize the timetable for the completion of the Plant and the extension of the longstop date of the SP Agreement in early 2014 after reviewing the then progress of the clinical trial. For details of the funding requirement of the SP Agreement, please refer to the section headed "7. Risks in Connection with the Acquisition – Funding requirement" in this letter from the Board. As at the Latest Practicable Date, the longstop date of the SP Agreement in early 2014 has not yet been extended. However, the Company will not exclude the possibility to extend the longstop date of the SP Agreement in the future if necessary and appropriate. Welly Surplus will continue to act as the

manufacturing and distribution arm of the Extrawell Group in the development of the Medicine. Therefore, the directors of Extrawell believe that the Extrawell Group will be better positioned to tap the business opportunities arising from the launch of the Medicine and other oral insulin products in the future with enlarged profit attributable to the Shareholders.

INTENTION OF UNITED GENE AFTER ACQUISITION

The Company intends to expedite the progress of the part B of Phase III clinical trials by: 1) allocating sufficient resources to the clinical trials and expanding the number of hospitals involved; 2) hiring a team of supervisors to monitor the progress of the clinical trials, ensuring compliance with the medical protocol and coordinating with the CRO and hospitals; and 3) initiate clinical trials in the United States.

To the best knowledge, information and belief of the Board, it is fair and reasonable for the Board to hold the view that CFDA has gained more substantial experience and expertise in processing generic applications than new drug applications. Further, staffs from CFDA have regularly attended training programs provided by US FDA. Therefore it is fair and reasonable for the Board to hold the view that if a new drug be approved by the US FDA, the said drug will have a higher possibility of obtaining earlier approval from the CFDA, as it is expected that CFDA will consider the relevant clinical trial data from US FDA during the processing of the new drug application.

At this stage, the Company is unable to anticipate nor ascertain whether the US FDA approval would be obtained before the CFDA approval, however, the company shall use its best endeavor to expedite both application processes.

The Company will use its best endeavor to recruit suitable candidates with the relevant experiences and expertise in the manufacturing and trading of pharmaceutical products in the United States and Europe soon after Completion.

The Company expects that the following measures will shorten the duration of the part B of Phase III clinical trials and approval by the PRC government as by 1) reducing the duration of the clinical trials by contracting more hospitals concurrently and 2) shortening the duration of the approval process by utilizing the multi-regional clinical trial pathway involving starting Phase 1 in Europe or the United States to reduce the approval time by the PRC government. The Company anticipates that commercialization of the Medicine will begin in November 2015 (second half of the year ended 31 March 2016).

Despite the fact that the Company has been deploying resources aiming at developing United States and Europe markets, at this stage, the Company has no intention to export the Medicine to overseas, but will not exclude the possibility to export the Medicine to overseas, as conditional upon with favorable terms, conditions and circumstances as in the interests and for the benefits of the Company and the Shareholders as a whole.

The Company intends to nominate additional director(s) to the board of the Target Company following completion of the Acquisition. Any changes to the board of the Target

Company will be made in compliance with the Listing Rules and the constitutional documents of the Target Company. The Company has not yet decided on the number of directors to be nominated on the board of the Target Company but the Company intends to appoint sufficient directors so as to have a majority of the voting power on the board of directors of the Target Company. The role of the directors will be to supervise the operations of the Target Company and the board of directors of the Target Company will report to the Board of the Company.

Subject to market conditions the Company will explore various opportunities to further develop and expand the businesses of the Target Company, including but not limited to the possibility of undertaking new investments and/or conducting fund raising exercises to increase capital.

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 Acquisition is set out in Appendix IV headed "Appendix IV – Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group" in this circular.

(i) Assets and Liabilities

According to the interim report for the six months ended 31 December 2013 of the Company, the unaudited consolidated total assets and liabilities of the Group as at 31 December 2013 were approximately HK$832,982,000 and HK$67,301,000 respectively. Based on the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group, assuming the completion of the Transactions having taken place on 31 December 2013, the unaudited pro forma consolidated total assets of the Enlarged Group would be approximately HK$2,696,527,000. On the other hand, the unaudited pro forma consolidated total liabilities of the Enlarged Group would be approximately HK$361,988,000.

Based on the audited consolidated accounts of Smart Ascent which have been prepared in accordance with the Hong Kong Financial Reporting Standards, the consolidated net asset value of Smart Ascent was approximately HK$254,000,000 as at 31 March 2013.

Appendix IV to this circular contains the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group which has been prepared for the purpose of illustrating the effects of the Acquisition on the assets and liabilities of the Group as if Completion had taken place on 31 December 2013. Based on the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group and the bases and assumptions as set out in Appendix IV to this circular, the net assets of the Group would have increased approximately by 204.9% from approximately HK$765,681,000 to approximately HK$2,334,539,000. The Acquisition is to be accounted for as an acquisition of the assets and liabilities as the Target Group does not constitute a business under Hong Kong Financial Reporting Standard 3: Business Combination. Accordingly, the oral insulin project is recognised an intangible asset in the amount of approximately HK$2,089,509,000 upon Completion.

The Directors consider that the carrying amount of the intangible asset is reasonable in light of the expected future profits and cash flows to be generated from the Acquisition with regards to the prospects of the Medicine in the growing market of diabetic patients in the PRC. The Directors have assessed the recoverable amount of the intangible asset and are in the opinion that there is no impairment.

The Company expects to utilize consistent parameters in the valuation of the Target Group, should such parameters remain applicable at the time of valuation. However, assumptions adopted in the valuation of the Target Group may change in subsequent reporting periods due to the change of circumstances at that time. Such assumptions and parameters that may be used to assess impairment include, but are not limited to, selling price, production costs, diabetic population size, growth rates, market share, timing of commercialization and discount rates.

At the time that an impairment assessment of the Intangible Assets arising from the Transaction is required, the Board will perform impairment assessment by using a value-in-use approach, as determined by a discounted cash flow forecast prepared by the Board, and fair value approach, which will be decided on through the determination of the valuation of equity interest in the Target Group or valuation of Intangible Assets as performed by a valuer. The Board holds the view that there is no material difference between the valuation of the Intangible Assets that arise from the Transaction and that of the Target Group's equity interest. The Directors will carry out an impairment assessment of the intangible asset at the end of each reporting period or whenever there is an indicator of impairment.

The Target Company is principally engaged in investment holding and is the holding company for Extrawell Group's oral insulin operations. The material assets of which are its interests in Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of the Target Company and Nation Joy, being a wholly-owned subsidiary of the Target Company. Based on the valuation report issued by Roma as set out in Appendix IIIA to this circular, the value of the 51% equity interest of the Target Group as at 28 February 2014 amounted to approximately HK$1,030,000,000.

The aggregate Consideration of the Sale Shares is HK$780,000,000. The Directors consider that the Acquisition will have positive effect on the assets and liabilities of the Group.

(ii) Earnings

The Transaction will have no immediate profit and loss impact on the consolidated earnings of the Group upon Completion.

BASES AND ASSUMPTIONS MADE AND ADOPTED BY UNITED GENE

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, and the 2007 Smart Ascent Acquisition Agreement and all other relevant agreements as indicated in the Extrawell Circular.

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 relevant vendor's undertakings, warranties and representations

The relevant vendor's undertakings, warranties and representations under the 2004 Smart Ascent Acquisition Agreement and the 2007 Smart Ascent 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 Extrawell Circular, the 2009 Extrawell Circular and the 2013 Extrawell Circular were appropriate, reasonable, valid and sustainable as at the respective dates corresponding to the relevant circulars of Extrawell and the valuation report contained in this circular as prepared by Roma, were appropriate, reasonable, valid and sustainable.

5. The opinion and bases and assumptions under the letters from independent financial advisers

The relevant opinion and bases and assumptions under the relevant the letters from independent financial advisers, as prepared (i) by Hantec Capital Limited, contained in the 2007 Extrawell Circular; (ii) by Somerley Limited, contained in the 2009 Extrawell Circular; (iii) by Quam Capital Limited, contained in the 2013 Extrawell Circular; and (iv) Donvex Capital Limited, contained in this circular, were appropriate, reasonable, valid and sustainable respectively.

6. Full due diligence on the Extrawell'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 Extrawell Circular, the 2007 Extrawell Circular, the 2009 Extrawell Circular, the 2013 Extrawell Circular all announcements and all relevant subsequent circular(s) of Extrawell in relation to the Acquisition.

7. Accuracy and completeness of the information and representations

All information and representations contained in the relevant announcements, 2004 Extrawell Circular, the 2007 Extrawell Circular, the 2009 Extrawell Circular, the 2013 Extrawell Circular, all subsequent circular(s) of Extrawell in relation to the Acquisition and those information and representations by Extrawell and the Target Company 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.

8. Risk factors disclosed by Extrawell

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

WARNING NOTICE

The Board wishes to emphasize that there may be possible delay of the timetable of the Medicine and possible impairment loss on intangible assets of the Target Group. Further, should the outcome of the clinical trials and the launching of the Medicine be unsuccessful, there shall be possible adverse impact on the business and financial results of the Target Group and the Group respectively.

DISCLAIMER

The Company takes no responsibility for the contents and information of the 2004 Extrawell Circular, the 2007 Extrawell Circular, the 2009 Extrawell Circular, the 2013 Extrawell Circular, all relevant subsequent circular(s) of Extrawell in relation to the Acquisition 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 Extrawell Circulars and relevant announcements.

The Company takes no responsibility for the contents and information of the information and representations by Extrawell and/or Smart Ascent, 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 information and representations by Extrawell and/or Smart Ascent.

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 the Company's ability to pay the principal of the Convertible Bonds.

(A) Risks relating to the Target Group's Medicine

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

Reference is made to the announcement of Extrawell dated 25 February 2013 in relation to the progress of clinical trials on (the Medicine). In accordance with the clinical trials filed with the CFDA, the Target Group has recently completed part A of the Phase III clinical trials 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 Phase III clinical trials are designed and led by the Peking University People's Hospital in the PRC and consists of two parts. As part A of the Phase III clinical trials 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 Target 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 CFDA approval. Alternatively, CFDA 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 Pharmaceutical and Manufacturing Permit. 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 Company 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 assumption held by the Company 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 USA from 2006 to 2007, was withdrawn from the market after it failed to gain acceptance among patients with diabetes.

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 sale 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 commercialisation, 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 information and representations by Extrawell, 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) Manufacturing and distribution

According to the information and representations by Extrawell, as at the Latest Practicable Date, the plant was still under construction. Save for a small scale production of the Medicine for clinical trials, the Extrawell Group has not yet commenced production of the Medicine. Should the manufacturing techniques prove to be faulty or a major processing reengineering be required before mass scale production, a significant delay to the timing of the launch of the Medicine would be likely.

As advised by Extrawell, the Extrawell Group expects to appoint two distributors in each of 30 major cities in the PRC for distribution of the Medicine during the initial stage. In case such appointment of distributors cannot be completed on time, or disagreement on terms of appointment arise, or the sales channels are proved to be too weak to promote sales of the Medicine, the target market share of the Medicine may not be reached. In addition, as the Target Group is expected to rely on these distributors to distribute the Medicine in the PRC, if these distributors are unsuccessful in selling and marketing the Medicine, or the Target Group fails to adequately supervise and manage these distributors in their sales and marketing of the Medicine, the Target Group's results of operations may be

materially and adversely affected. The Target Group's brand and reputation and its sales could also be adversely affected if the Target Group or the Medicine becomes the target of any negative publicity as a result of, among others, any malpractice taken by these distributors.

(vii) Fluctuation in cost of sales

According to the information and representations by Extrawell in relation to information on costs of the Medicine and the Company's due diligence exercise, the cost of the main component of the Medicine, insulin, accounts for approximately 65% of the total cost of sales. The price of insulin and other cost components are subject to a number of factors such as supply and demand, and the economic environment in the PRC by then. The gross margin of the Target Group may be adversely impacted if the purchase price of insulin or other components rises significantly.

(viii) Price control of products

Pursuant to the Opinion of the Bureau of State Planning Commission regarding Reforms on Price Administration of Pharmaceutical Products (國家計委關於改革藥品價格管理的意見) issued by the Bureau of State Planning Commission of the PRC on 20 July 2000 and the Circular of the National Development and Reform Commission on Issue of Price-controlled Pharmaceutical Products Catalogue of National Development and Reform Commission (國家發展改革委關於調整《國家發展改革委定價藥品目錄》等有關問題的通知) issued on 5 March 2010, certain pharmaceutical products that are included in either price-controlled drugs (the "**Price-controlled Drugs**") catalogues from time to time published by either the National Development and Reform Commission or the relevant pricing administration departments at provincial level, autonomous regions and directly control municipals (the "**Catalogues**") are subject to price control with respect to their ex-factory prices, wholesale prices and/or retail prices. Manufacturers may not set the selling prices of their Price-controlled Drugs above the price ceiling therefor from time to time prescribed by the National Development and Reform Commission or, as the case may be, the relevant pricing administration departments at provincial level, autonomous regions and directly control municipals. The selling prices of pharmaceutical products not included in the Catalogues may be determined by the manufacturers at their own discretion.

The Medicine is currently not included in the Catalogues. However, there is no assurance that the Medicine will not be included into the Catalogues, in which case its selling price will be regulated by the PRC government. As the nature and extent of price control may vary from time to time, the flexibility for the Group to raise or set its selling prices for the Medicine may be limited which in turn may adversely affect the profitability of the Target Group.

(ix) Failure to protect and defend the Target Group's intellectual property rights

According to the information and representations by Extrawell, the success of the business of the Target Group depends largely on legal protection for the intellectual property rights for production of the Medicine under the PRC law. Third parties may produce counterfeits, or may copy or otherwise infringe the Target Group's intellectual property rights in respect of the Medicine without obtaining authorisation from the Target Group. The Target Group's inability to protect its intellectual property may materially and adversely affect on the market value and the sales performance of the Medicine and in turn the profitability of the Target Group.

(x) Quality control by the CFDA

According to the information and representations by Extrawell, the CFDA actively and regularly takes samples of and performs quality testing on pharmaceutical products sold in the PRC market on a random basis. If the quality control on the production of the Medicine fails to ensure that the Medicine complies with its registered standard, such information will be announced on the website of the CFDA and such failure may lead to cancellation of the pharmaceutical manufacturing permit and also cause damages on the Target Group's reputation. In such event, the Smart Ascent Group's business and profitability may be adversely affected.

(xi) Conducting business in the PRC

According to the information and representations by Extrawell, since the operation of business of the Target Group is mainly conducted in the PRC, its business, financial condition, results of operations and prospects may be influenced to a significant degree by the political, economic, social conditions and legal systems in the PRC.

The PRC economy has experienced significant growth since the start of economic reforms by the PRC government in the late 1970s, which aim at transforming the PRC economy from a planned economy into a more market-oriented economy. Notwithstanding that measures implemented by the PRC government emphasises on greater utilisation of market forces in the allocation of resources and greater autonomy for enterprises in their operations, a substantial portion of productive assets in the PRC is still owned by the PRC government. By formulating the annual, five and ten year plans through setting monetary policy, allocating resources and providing preferential treatments to particular industries or companies, the PRC government also exercises significant control over the PRC's economic growth. Changes in economic policies of the PRC government may have a material adverse effect on the overall economic growth of the PRC. In such event, the Target Group's business may be materially and adversely affected.

Since the adoption of economic reforms, the PRC government has also been reforming the political system which has resulted in significant economic growth and social progress. Further measures in refinement and readjustment may be adopted by the PRC government in order to enable the development of the political system in a more sophisticated form, however, changes in the PRC political and social conditions resulting from such measures may not have a positive effect on the operations of the Target Group.

In addition, the operations of the Target Group are subject to PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions may be cited as reference only which have a limited precedential value. Since 1979, the PRC government has promulgated laws, rules and regulations relating to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with the aim to develop a comprehensive system of commercial laws. However, these laws, rules and regulations are relatively new and are still evolving. The interpretation and enforcement of these laws, rules and regulations involve a significant degree of uncertainty which may limit the legal protection to the operations of the Target Group.

The pharmaceutical industry in the PRC is subject to extensive government regulation and supervision. The sustained deepening reform of the pharmaceutical and healthcare system under the Twelfth Five-Year Plan has introduced and implemented more regulatory measures, rules and regulations including the advancing of the new Good Manufacturing Practice for Pharmaceutical Products and issuing guidelines as to Good Supply Practices for Pharmaceutical Products. These regulatory measures and future government regulations may lead to significant changes in the PRC pharmaceutical industry which may result in increased costs and lowered profit margins for pharmaceutical companies. These may in turn have a material adverse effect on the financial conditions, results of operations and prospects of Target Group.

(xii) Unavailability of Capital Commitment

Should the Company be unable to raise the necessary funds to be used for the Capital Commitment, the Company shall be unable to provide the maximum amount of the Capital Commitment that would be used by the Target Group to develop the Medicine, the clinical trials timetable would be delayed by approximately one year, and in such circumstances the Company shall have to provide funding from its internal resources for clinical trial purposes and commercialization. The internal resources available to the Company for funding the clinical trial purposes and commercialization is approximately HK$100,000,000.

(xiii) Possible delay of the Medicine timetable and impairment loss on intangible assets

There may be possible delay of the timetable of the Medicine and possible impairment loss on intangible assets of the Target Group.

(xiv) Outcome of the clinical trials and the launching of the Medicine may be unsuccessful

The outcome of the clinical trials and the launching of the Medicine may be unsuccessful which would cause an adverse impact on the business and financial results of the Target Group.

(B) The assumptions and bases made and adopted by the Company may not be realized

This circular makes estimates based on assumptions adopted by the Company, and described under the section titled "Bases and assumptions made and adopted by United Gene", that may not be realized in the future.

(C) Limitations on due diligence on the Extrawell's circulars by all professional parties

Extrawell may be unable to provide sensitive and important documents mainly related to technical information and clinical trial reports concerning the information and representation contained in the 2004 Extrawell Circular, 2007 Extrawell Circular, 2009 Extrawell Circular, 2013 Extrawell Circular, all relevant announcements and all relevant subsequent circular(s) of Extrawell in relation to the Acquisition to the relevant professional parties for filing purposes due to Extrawell's confidentiality obligations and duty of care of prevention of insider dealings owed to Extrawell. The relevant professional parties have placed much reliance on the due diligence performed by Extrawell on the Target Company and the relevant oral insulin projects in the relevant circulars and announcements of Extrawell.

(D) Assumptions, bases and opinions referred to in this Circular may contain assumptions, forecasts and anticipated events that are not realized

The information, from i) previous valuation reports done on Smart Ascent, contained in the 2007, 2009 and 2013 Extrawell Circulars as compiled by Castores Magi, and the valuation report contained in this Circular that has been prepared by Roma; ii) the letters from independent financial advisers contained in the Extrawell Circulars, as prepared by Hantec Capital in 2007, Somerley Limited in 2009 and Quam Capital in 2013, and this Circular, as has been prepared by Donvex; and iii) due diligence performed by Extrawell on the Target Group and relevant oral insulin projects as represented in the Extrawell Circulars, and including all relevant announcements, is relied upon by the Company and all professional parties and this circular contains a number of assumptions, bases and opinions that may not be realized.

(E) 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 terminates the Acquisition Agreement prior to Completion, the Group's reputation may be harmed and the Group's prospects may be materially and adversely affected.

(F) Reliance upon research data and official data that is practically difficult to verify

This circular contains information from research reports, interviews with researchers and official sources, including but not limited to the International Diabetes Federation, The Journal of the American Medical Association, China Research and Intelligence, Frost and Sullivan, IMS Health, National Bureau of Statistics of China, IMF, and Bloomberg, that may be impractical and difficult for the Company to independently verify. The Company has no reason to believe that such information is false or misleading or that any facts were omitted that would render such information false or misleading. The Company and all professional parties have not verified such data.

The Directors believe that the sources of the information are appropriate sources of such information and have taken reasonable care in extracting and reproducing such information.

LISTING RULES IMPLICATIONS

Major Transaction for United Gene

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction under Rule 14.06 of the Listing Rules.

The Specific Mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds

The issue of 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 approved by the Independent Shareholders at the SGM.

Continuing Connected Transaction for United Gene

Upon Completion, the Target Company will be owned as to 51% by United Gene and become an indirect non wholly-owned subsidiary of United Gene. As such, Extrawell shall become a connected person of United Gene as indirectly and beneficially owns 49% of Target Company.

As a term of the Acquisition Agreement, the transactions contemplated under the heading "The Purchaser's Undertaking for Capital Commitment for the Commitment Period" constitutes a continuing connected transaction for United Gene and is subject to the reporting, announcement, annual review and approval of Independent Shareholders of United Gene requirements under Chapter 14A of the Listing Rules.

In view of the foregoing, the Company will convene a SGM to seek the approval of the Independent Shareholders the Company on the Continuing Connected Transaction and the transactions contemplated thereby. The Company will establish the Independent Board Committee to advise the Independent Shareholders in connection with the Continuing Connected Transaction and the transactions contemplated thereby, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Advisers.

Abstain from voting for the Company's SGM

As a director of Extrawell BVI, Dr. Mao Yumin was also a director of Extrawell until he resigned on 5 December 2013, and is hence a connected person of Extrawell. Dr. Mao Yumin is also a controlling shareholder of the Company, as he holds directly and indirectly a total of approximately 32.04% equity interest of the Company, as at the Latest Practicable Date.

Dr. Mao Yumin is considered to be materially interested in the Acquisition, the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares by the Company and the Continuing Connected Transaction and the transactions contemplated under the Acquisition Agreement, so he and his associates are therefore required to abstain from voting on the resolution(s) proposed to be passed at the relevant SGM of the Company for ratifying and approving the Acquisition, the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares by the Company and the Continuing Connected Transaction and the transactions contemplated under the Acquisition Agreement.

As Dr. Xie Yi, as chairman, chief executive officer and executive director of Extrawell, who is interested in approximately 21.11% of shareholding in the Company through corporations controlled by him and Dr. Mao Yumin, is therefore considered to be materially interested in the Acquisition, the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares by the Company, the Continuing Connected Transaction and the transactions contemplated under the Acquisition Agreement, Dr. Xie Yi and his associates are also required to abstain from voting on the resolution(s) proposed to be passed at the relevant SGM of the Company for ratifying and approving the Acquisition, the issue of the Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares by the Company, the Continuing Connected Transaction and the transactions contemplated under the Acquisition Agreement.

SGM

The SGM will be held and convened for the purpose of considering and, if thought fit, approving the Acquisition Agreement, the Continuing Connected Transaction 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.

A notice convening the SGM to be held at Victoria Room I, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong on 16 July 2014 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 Hong Kong branch share registrar and transfer agent of United Gene, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 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 the Acquisition Agreement, the Continuing Connected Transaction 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 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 the Continuing Connected Transaction and the transactions contemplated thereunder.

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 71 to 72 of this circular which contains the recommendation of the Independent board Committee to the Independent Shareholders concerning whether the Continuing Connected Transaction and the transactions contemplated thereunder, are on normal commercial terms, ordinary and usual course 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 as set out on pages 73 to 101 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders on whether the Continuing Connected Transaction and the transactions contemplated thereunder, are on normal commercial terms, ordinary and usual course of business of the Company, fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole;

(3) Financial Information of the Group as set out on pages IA-1 to IA-3 of this circular;

(4) Management Discussion and Analysis of the Group as set out on pages IB-1 to IB-2 of this circular;

(5) Financial Information of the Target Group as set out on pages IIA-1 to IIA-28 of this circular;

(6) Management Discussion and Analysis of the Target Group as set out on pages IIB-1 to IIB-25 of this circular;

(7) Valuation Report of the Target Group, the relevant Assumptions and Estimates and Reports on Forecasts Underlying the Valuation of the Target Group by the Company's auditor and Financial Adviser respectively as set out on pages IIIA-1 to IIIA-27 of this circular; and

(8) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group as set out on pages IV-1 to IV-7 of this circular.

The Board (including the independent non-executive Directors) holds the view that the entering into the Acquisition Agreement, the Continuing Connected Transaction and the transactions contemplated thereunder are on normal commercial terms and ordinary and usual course of business of the Company, and the terms and conditions of the Acquisition Agreement, the Continuing Connected Transaction and the transactions contemplated thereunder 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 the Acquisition Agreement, the Continuing Connected Transaction and the transaction 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.

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)

26 June 2014

To the Independent Shareholders

Dear Sir or Madam,

(A) CONTINUING CONNECTED TRANSACTION CONCERNING THE ACQUISITION OF 51% SHAREHOLDING INTEREST IN SMART ASCENT LIMITED

We refer to the Circular of the Company to the Shareholders dated 26 June 2014 (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 the Continuing Connected Transaction and the transactions contemplated thereunder (including the Caps), (the "**Continuing Connected Transaction**") entered into between the Purchaser and the Vendor 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 Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transaction.

We wish to draw your attention to the letter from the Board set out on pages 8 to 70 of the Circular which contains, among others, information on the Continuing Connected Transaction as well as the letter from Independent Financial Adviser set out on pages 73 to 101 of the Circular which contains its advice in respect of the Continuing Connected Transaction.

Having considered the principal factors and reasons and the advice of the Independent Financial Adviser, we consider that the Continuing Connected Transaction (including the Caps) is 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 Continuing Connected Transaction 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 Capital Limited
富域資本有限公司

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

26 June 2014

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTION CONCERNING THE ACQUISITION OF 51% SHAREHOLDING INTEREST IN SMART ASCENT LIMITED

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 Continuing Connected Transaction, details of which are set out in the letter from the Board contained in the circular of United Gene dated 26 June 2014 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 17 March 2014, the Purchaser and the Vendor entered into the Acquisition Agreement in relation to the sale and purchase of 51% interest in the share capital of Target Company, the holding company engaged in the research and development of the oral insulin product. As a term of the Acquisition Agreement, the Purchaser has undertaken to the Vendor, on a best endeavor basis, that for a period of 3 years from the Completion Date of the Acquisition Agreement, the Purchaser shall solely assume the total future capital and operational expenditures of the Target Company by way of unsecured interest-free shareholder's loans, with an aggregate amount not exceeding HK$600 million, for the Target Company's future development of its oral insulin product.

Upon Completion, the Target Company will be owned as to 51% by United Gene and become an indirect non wholly-owned subsidiary of United Gene. As such, Extrawell shall become a connected person of United Gene, as Extrawell will then indirectly and beneficially own 49% of the Target Company.

The transaction contemplated under such Capital Commitment constitutes a continuing connected transaction for United Gene and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As a director of Extrawell BVI, Dr. Mao Yumin was also a director of Extrawell but resigned on 5 December 2013, and is hence a connected person of Extrawell. Dr. Mao Yumin is also a controlling shareholder of United Gene, as he holds directly and indirectly a total of approximately 32.04% equity interest of United Gene, as at the Latest Practicable Date.

Dr. Mao Yumin is considered to be materially interested in the Continuing Connected Transaction, so he and his associates are therefore required to abstain from voting on the resolutions proposed to be passed at the relevant SGM of United Gene for ratifying and approving the Continuing Connected Transaction.

As Dr. Xie Yi, as chairman, chief executive officer and executive director of Extrawell, who is interested in approximately 21.11% of shareholding in United Gene through corporations controlled by him and Dr. Mao Yumin.

Dr. Xie Yi is considered to be materially interested in the Continuing Connected Transaction, so he and his associates are therefore required to abstain from voting on the resolutions proposed to be passed at the relevant SGM of United Gene for ratifying and approving the Continuing Connected Transaction.

In view of the foregoing, United Gene will convene a SGM to seek the approval of the Independent Shareholders of United Gene on the Continuing Connected Transaction and the transactions contemplated thereby. 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 Continuing Connected Transaction. 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 United Gene that no material facts have been omitted from the information provided and referred to in this circular.

United Gene 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 United Gene, 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 United Gene 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 United Gene, 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 United Gene Group

United Gene Group is engaged in the provision of genetic testing services, distribution of bio-industrial products and trading of beauty products. Set out below is a summary of United Gene Group's segment operating results and financial position extracted from United Gene's latest published interim and annual reports:

Comparison between the year ended 30 June 2013 and 2012

	For the year ended	
	30 June 2012	**30 June 2013**
	HK$'000 (Audited)	*HK$'000* (Audited)
Turnover		
Provision of genetic testing services	22,607	4,563
Distribution of bio-industrial products	1,025	–
Provision of health care management services	1,843	2,303
Trading of beauty products	–	3,184
Securities investment	–	–
	25,475	10,050
Segment (loss)/profit for the year		
Provision of genetic testing services	(85,385)	(26,898)
Distribution of bio-industrial products	(17,354)	(3,485)
Provision of health care management services	(22,875)	(41,485)
Trading of beauty products	–	42
Securities investment	4,623	4,590
	(120,991)	(67,236)

As shown in the table above, turnover decreased from approximately HK$25.48 million for the year ended 30 June 2012 to approximately HK$10.05 million for the year ended 30 June 2013, representing a decrease of approximately 60.56% as a result of adjusting its operating direction by dedicating its sales efforts towards professional channels, mainly hospital and health centers, in lieu of the general public as stated in the 2013 annual report of United Gene ("**2013 United Gene Annual Report**"). Despite of that, loss attributable to the owners of United Gene for the year ended 30 June 2013 was approximately HK$72.84 million, representing a reduction of loss as compared to the loss of approximately HK$123.88 million for the year ended 30 June 2012.

Comparison between the six months ended 31 December 2013 and 2012

	For the six months ended	
	31 December 2012	**31 December 2013**
	HK$ '000 (Unaudited)	*HK$ '000* (Unaudited)
Turnover		
Provision of genetic testing services	73	19
Distribution of bio-industrial products	–	–
Trading of beauty products	–	21,442
Securities investment	–	–
	73	21,461
Segment (loss)/profit for the period		
Provision of genetic testing services	(6,850)	(11,532)
Distribution of bio-industrial products	(1,712)	(1,257)
Trading of beauty products	–	532
Securities investment	2,230	1,775
	(6,332)	(10,482)

As shown in the above table, turnover increased from approximately HK$0.07 million for the six months ended 31 December 2012 to approximately HK$21.46 million for the six months ended 31 December 2013, representing an increase of approximately 29,300%. The increase in turnover during the six months ended 31 December 2013 as compared with the corresponding period in 2012 was mainly due to the commencement of trading of beauty products in 2013. Loss from provision of genetic testing services increased from HK$6.85 million for the six months ended 31 December 2012 to HK$11.53 million for the six months ended 31 December 2013 as the new sales and marketing strategy, by shifting the sales focus onto professional channels, had not met the expectations of the management. In addition, there was no turnover arising from the distribution of bio-industrial products for the six months ended 31 December 2013 and 31 December 2012 as a result of the cessation of the operation temporarily upon the occurrence of a civil litigation in the PRC. Detail of the civil litigation is stated below:

Date	Description
8 October 2010	A construction contracting services agreement (the "**Construction Agreement**") was entered into between Jiangsu Ruifeng Construction Group Co., Limited (the "**Jiangsu Ruifeng**") and CNL (Pinghu) Biotech Co. Ltd. (the "**CNL (Pinghu)**") in the PRC, an indirect non-wholly owned subsidiary of United Gene.
8 March 2011	A supplement agreement in relation to the construction contracting services agreement (the "**Supplement Agreement**") dated 8 October 2010 was entered into between Jiangsu Ruifeng and CNL (Pinghu).
17 April 2012	A writ summons was issued by Jiangsu Ruifeng in the PRC as the plaintiff against CNL (Pinghu) as the defendant in relation to the disputes arising from the consideration and completion of the Construction Agreement and Supplement Agreement to claim the outstanding construction cost of RMB13.15 million, the related interests and litigations cost of the case. Pursuant to the Construction Agreement and Supplement Agreement, the total construction cost was RMB16.68 million. Jiangsu Ruifeng had issued invoices amounting to RMB29.13 million in relation to the construction work they performed.

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 RMB15.10 million and RMB 18.77 million. According to the relevant legal opinion, the possibility for Pinghu District Court for adopting the construction cost of RMB 18.77 million is higher.
20 December 2013	The People's Court of Pinghu City, Zhejiang Province, delivered a further civil ruling to CNL (Pinghu). Pursuant to the civil ruling, CNL (Pinghu) shall, after the said civil ruling came into force, pay to Jiangsu Ruifeng a fee of RMB3.31 million for the construction service rendered. CNL (Pinghu) planned to file an application to appeal to the Intermediate People's Court of Jiaxing City, Zhejiang Province.
31 December 2013	The total amount paid by the United Gene Group was RMB 16.60 million and a provision of RMB5.2 million has been made.
25 April 2014	The Intermediate People's Court of Jiaxing City delivered a civil judgement in relation to the appeal, pursuant to which the appeal was rejected and the original judgement of the People's Court of Pinghu City, Zhejiang Province, was upheld.

Based on the discussion with the management of United Gene, except for the segment of bio-industrial products, the abovementioned civil litigation would have no impact on the existing business segments and oral insulin product.

The table below summarizes the consolidated financial position of United Gene Group as at 30 June 2012 and 2013 and as at 31 December 2013.

	As at 30 June 2012 *HK$'000* (Audited)	30 June 2013 *HK$'000* (Audited)	As at 31 December 2013 *HK$'000* (Unaudited)
Non-current assets	69,879	143,038	611,828
Current assets	286,119	365,000	221,154
– Cash and cash equivalents	169,815	235,253	203,415
Total assets	355,998	508,038	832,982
Non-current liabilities	7,253	16,548	51,614
Current liabilities	18,178	47,128	15,687
Total liabilities	25,431	63,676	67,301

As set out in the table above, as at 31 December 2013, United Gene Group's unaudited consolidated net assets were approximately HK$765.68 million. The cash and cash equivalents as at 31 December 2013 would be less than HK$200 million after the cash consideration of HK$65 million upon the acquisition. Therefore, United Gene Group would not have sufficient cash to satisfy the cash consideration of HK$200 million for the Capital Commitment under the Continuing Connected Transaction for the year ended 31 March 2015. As such, the Capital Commitment under the Continuing Connected Transaction will be funded by other means with reference to the section headed "Fund raising capability of United Gene Group" below.

2. Capital Commitment

Introduction

On 17 March 2014, the Purchaser and the Vendor entered into the Acquisition Agreement in relation to the sale and purchase of 51% interest in the share capital of Target Company, the holding company for oral insulin operations. As a term of the Acquisition Agreement, the Purchaser, on a best endeavor basis, solely assume the future capital and operational expenditures of the Target Company by way of unsecured interest-fee shareholder's loans, with an aggregate amount not exceeding HK$600 million, for the Target Company's future development, conditional upon and subject to, amongst others:

(i) the availability of funding of the Purchaser;

(ii) the Capital Commitment provided for each year ended 31 March, as set out in the Acquisition Agreement, subject to variations as may be agreed between the Purchaser and the Vendor in writing;

(iii) the Capital Commitment shall be provided to the Target Company only on a needed and necessary basis;

(iv) the relevant approval of Independent Shareholders of United Gene at the relevant SGM;

(v) the relevant approval of independent shareholders of Extrawell at the relevant special general meeting (if applicable);

(vi) the relevant necessary approval, authorizations or consent from relevant regulatory organization(s) and/or governmental department(s), such as the Stock Exchange and/or the SFC (if applicable);

(vii) the Capital Commitment received by the Target Company shall only be used to pay for the relevant expenditure incurred for the purpose to further the research, development and commercialization of the Target Group's oral insulin technology, such expenses, including but not limited to cover completion of clinical trials, marketing, selling and distribution of the oral insulin products and other administrative and general expenses and related expenditures; and

(viii) the Capital Commitment shall not be applied nor used in any event, without the written consent of the Purchaser, for the repayment of any liability, debt and/or loan of the Target Group whether such liability or loan are actual or contingent, primary or collateral and several or joint.

Other terms of the Capital Commitment

The Purchaser shall not demand any repayment of the Capital Commitment from the Target Company either in full or in part, until the Target Group has registered net profits and the maximum amount that the Purchaser may request or demand the Target Group for repayment of the Capital Commitment in each year shall not exceed 30% of the net profit of the Target Group. Repayment of the Capital Commitment will be made until it is fully repaid.

Our view on the fairness and reasonableness of the terms of the Capital Commitment

In assessing the fairness and reasonableness of the terms of the Capital Commitment, we have taken into account the following factors:

a. Information of the Target Group

According to the information and representations by Extrawell, the Target Company is a private company incorporated in Hong Kong with limited liability, having an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1 each, all of which have been issued and are fully paid.

The Target Company is principally engaged in investment holding and is the holding company for the Extrawell Group's oral insulin product. The material assets of the Target Company are Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of the Target Company, and Nation Joy, being a wholly-owned subsidiary of the Target Company.

The consolidated net asset value of the Target Company was approximately HK$254 million as at 31 March 2013. For the financial years ended 31 March 2013 and 31 March 2012, the consolidated net losses both before and after taxation of the Target Company amounted to approximately HK$4.6 million and HK$6.6 million, respectively. The Target Company recorded no revenue for either financial year.

Upon Completion, the Target Company will be owned as to 51% by United Gene and become an indirect non wholly-owned subsidiary of United Gene. The financial results of the Target Group will be consolidated into the financial statements of United Gene Group and, at the same time, the Target Company will cease to be a subsidiary of the Extrawell Group.

b. Reasons for and benefits of the Capital Commitment

(i) Current business segments

United Gene Group is engaged in the provision of genetic testing services, distribution of bio-industrial products and trading of beauty products. We noted that United Gene Group has recorded continuous loss in the previous financial years. In particular, losses of United Gene Group were approximately HK$89.66 million and HK$129.70 million for the year ended 30 June 2013 and 30 June 2012 respectively.

United Gene Group commenced trading of beauty products in 2013. Turnover from trading of beauty products was approximately HK$21.4 million with an operating margin of approximately 2.48% for the six months ended 31 December 2013. Although United Gene Group recorded profit of HK$1.8 million from segment of securities investment, returns from the said segment is unstable due to volatile investment markets.

Despite of the low return from the said segment, we have reviewed the profit and cash flow forecast for the coming 12 months of United Gene as at 31 May 2014 and discussed the bases and assumptions with the management of United Gene. In relation to the assumption related to the profit and cash flow forecast, we understand that United Gene has estimated the profit and cash flow forecast mainly based on (i) the historical average of trading of beauty products and operating expenses, including but not limited to selling expenses, administrative expenses and other expenses; (ii) internal resources available to United Gene without any fund raising activity; and (iii) research and development expense and capital expenditure of approximately HK$100 million relating to the Capital Commitment. In light of the above, United Gene would have sufficient fund to operate their existing business in the next 12 months.

Having considered (i) the losses on the businesses relating to provision of genetic testing services and distribution of bio-industrial products in recent years; (ii) low profit margin recorded from the trading of beauty products; and (iii) unstable returns in securities investment due to volatile investment markets, United Gene Group would improve its profitability by exploring other potential business opportunity which can be funded by equity financing and debt financing as discussed in the paragraph headed "Fund raising capability of United Gene Group" below.

(ii) Potential of pharmaceutical industry

Twelfth Five-Year Plan

According to the annual report of Extrawell for the year ended 31 March 2013, 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 Oral Insulin Product

Reference is made to the voluntary announcement of the Extrawell dated 25 February 2013, in accordance with the Phase III clinical trial protocol (the "**Protocol**") filed with the China Food and Drug Administration of the PRC (the "**CFDA**"), 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 the oral insulin product 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 oral insulin product into blood circulation of human body, the statistical outcome of the per-protocol set (PPS) analysis shows that the bio-efficacy of the oral insulin product in the treatment group (where patients were given the oral insulin product) 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 oral insulin product in more diabetic testees, the Extrawell 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 Protocol, among others, in larger scale of participating cases.

Extrawell believes that there would be no major obstacle in completing the extended clinical trial for the oral insulin product and obtaining the final approval from the CFDA for production and distribution of the oral insulin product in the PRC. Notwithstanding the history of delay to the commercialization of the oral insulin product, based on the aforesaid favourable results of part A of the Protocol, which is the first double-blinded, placebo-controlled clinical trial that Fosse Bio has completed, and the experience gained through the phases of clinical trials and United Gene estimates that the commencement of manufacturing of the oral insulin product will begin in November 2015.

According to the International Diabetes Federation (the "**IDF**"), in 2013, the PRC has the world's largest diabetic population of approximately 98.41 million representing approximately 25.77% of the world's diabetic population. The PRC diabetic population in 2013 of 98.41 million represents approximately 9.62% of the PRC total population and had grown by approximately 6.6% from 2012. The IDF had estimated that the PRC diabetic population will grow to approximately 142.70 million by 2035, a compound annual growth rate of approximately 1.7%. These results indicate that diabetes has become 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 2014, the PRC will increase its healthcare expenditure by approximately 15.1% year-on-year in 2014.

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

(iii) High entry barrier in pharmaceutical industry with potential significant growth

Entry barrier in pharmaceutical industry is high due to (i) intensive capital requirements for product research and development; (ii) expertise required for product research and development; and (iii) strict regulatory policies in relation to the process of manufacturing, distribution and selling. Despite of that, the management of United Gene believes the profitability of United Gene can be improved by developing high-skill products such as the oral insulin product with less market competition and higher profit margin.

In view of the information stated in the section headed "Potential of pharmaceutical industry" above, the increase in number of people with diabetes globally due to, among others, population aging and growth, and increasingly obesity, unhealthy diets and sedentary lifestyles, the diabetes drug market is expected to have a significant growth in future.

As both United Gene and the Target Group are principally engaged in businesses relating to the health care, pharmaceutical and biotechnology industries, the Directors expect that the acquisition of the Target Company represents a good expansion opportunity for United Gene to engage in developing, manufacturing and distribution of the oral insulin products and it will start generating profit after commercialization of the oral insulin product in November 2015.

(iv) No track record of the Target Company and uncertainties of the project

Based on our discussion with the management of the Company, the Directors hold the views that the Target Group's nil track record and net current liabilities in 31 March 2012 and 31 March 2013 were not for fundamental consideration because it is usual and normal for a pharmaceutical company engaging in research and development of new drug and medicine to have no track record and net current liabilities until the said new drug or medicine being successfully commercialized.

The oral insulin product of the Target Company has yet to complete all clinical trials in the PRC and the completion of these trials is necessary before commercialization approval can be granted in PRC. As a result, United Gene was able to negotiate for a favourable price than would otherwise have been negotiated for a medicine that has completed all clinical trials.

Furthermore, it is fair and reasonable for United Gene holds the view that the positive results of part A of the Protocol of the oral insulin product is an important milestone and indicator of possibility of success for the remaining part B of the Protocol which is an enlarged version of the successfully completed part A of the Protocol of the oral insulin product. Thus, the acquisition at current stage is fair and reasonable and in the interest of United Gene and its shareholders.

On the assumption that the oral insulin product is successfully launched and commercialized, it is fair and reasonable for the Board to hold the view that it would bring more positive impact to United Gene Group's financial performance comparing with other segments such as trading of beauty products and securities investment.

c. Financing alternatives available to the Target Group

The Target Group has considered debt financing to be the other possible fund raising alternatives available to the Target Group. The Target Group was unable to generate positive operating cash flow from its operating activities and loss was incurred for the year ended 31 March 2013.

Debt financing will create interest payment obligations to the Target Group and increase the gearing ratio and debt-serving costs, incur further and immediate interest burden to the Target Group and require repayment from United Gene Group if the Target Group fails to repay on time.

In addition, debt financing may be subject to lengthy due diligence and negotiations with banks or other lenders. Therefore, the Directors consider debt financing to be relatively uncertain and time-consuming as compared to shareholder's loan which will hinder the development of the Target Group.

d. Fund raising capability of United Gene Group

According to the terms of the Acquisition Agreement, the Purchaser is required to provide Target Company the Capital Commitment amounting to HK$200 million, HK$300 million and HK$100 million for the year ending 31 March 2015, 31 March 2016 and 31 March 2017 respectively, where the provision of capital commitment by means of shareholder's loan is subject to the availability of funding of the Purchaser. In view of the existing financial resources, cash and cash equivalents as at 31 December 2013 of HK$203 million, United Gene Group is inadequate to finance the Capital Commitment for the year ending 31 March 2015, 31 March 2016 and 31 March 2017.

It is expected United Gene Group will seek financing in order to provide shareholder's loan to the Target Company to sustain the oral insulin operation before the operation can be self-sustained. As at the 30 May 2014, United Gene Group had cash and bank balances of approximately HK$300 million which is insufficient to satisfy the entirety of the Capital Commitment. United Gene would use its best endeavor to raise the funds that are necessary to ensure that the oral insulin product's timetable can be met. The preliminary fund raising size is up to HK$500 million on or before 31 March 2015. United Gene will not consider pure debt financing at this stage as (i) United Gene is unable to obtain favourable financing agreement terms due to United Gene's recent business performance; and (ii) equity financing can be carried out based on the prospects of the oral insulin product with a growing market of diabetic patients in the PRC. While United Gene has no concrete fundraising plans at present, United Gene does not exclude the possibility of fundraising via placing of shares or convertible bonds, subject to negotiations with investors and the favourability of market conditions. United Gene also will not exclude the possibility to raise funds through rights issue or open offer, subject to market conditions. As such, we have analyzed the fairness and reasonableness of the abovementioned equity financing options of United Gene below:

(i) Placing of new shares

The placing of new shares represents an opportunity for United Gene to raise additional capital but will not create interest burden. However, underwriting fees will be incurred and it will cause immediate dilution effect on the interest of existing shareholders of United Gene. We have identified, to the best of our knowledge and we have conducted a search on all placing of equity shares, regardless of the amount raised from the placing exercises, by companies listed on the Stock Exchange from March 2014 up to the Latest Practical Date, which we consider to be an exhaustive sample. The cost of placing of new shares ranges from

0.6% to 4.1% of the gross proceeds. In the event that United Gene finances the first year of Capital Commitment amounting to HK$200 million by placing of new shares, the underwriting fee would be less than HK$8.2 million. As such, we are of the view that United Gene will have positive cash inflow after the placement.

(ii) Placing of convertible bonds

The issuance of convertible bonds represents an opportunity for United Gene to further enlarge and strengthen its capital base and will not create immediate dilution effect to the existing shareholder of United Gene. However, it would impose interest burden to United Gene and increase the gearing ratio of United Gene. As at 31 December 2013, the gearing ratio of United Gene is approximately 0.09 calculated based on the total liabilities divided by total equity. In the event that United Gene finances the first year of Capital Commitment amounting to HK$200 million by placing of convertible bonds, the gearing ratio would increase from approximately 0.09 to 0.35. As such, we are of the view that United Gene has a financial flexibility to carry out placing of convertible bonds.

(iii) Rights issue

Rights issue provides all shareholders an equal opportunity to participate in the enlargement of the capital base of United Gene and at the same time allow them to maintain their proportionate interest in United Gene. However, low liquidity of shares of United Gene would deter United Gene in securing an underwriting for the rights issue and thus take a longer time to complete a rights issue. Since the Capital Commitment would be required for the year ended 31 March 2015, 31 March 2016 and 31 March 2017, the possible lengthy time to complete a right issue will have minimal impact on United Gene.

(iv) Open offer

Open offer provides all shareholders an equal opportunity to participate in the enlargement of the capital base of United Gene and at the same time allow them to maintain their proportionate interest in United Gene. However, as open offer does not allow shareholder to dispose the rights of subscription of shares, it is considered that shareholder has less flexibility under open offer as compared to rights issue. Furthermore, low liquidity of shares of United Gene would deter United Gene in securing an underwriting for the open offer and thus take a longer time to complete an open offer. Since the Capital Commitment would be

required for the year ended 31 March 2015, 31 March 2016 and 31 March 2017, the possible lengthy time to complete an open offer will have minimal impact on United Gene.

Although United Gene Group has not yet commenced the process of fund raising as at the Latest Practicable Date, the Board has confidence to raise the amount of Capital Commitment after the completion of the Acquisition in view of the positive view on the market of oral insulin and financial position of United Gene Group as mentioned above.

In the event that United Gene Group is unable to finance the Capital Commitment, it does not constitute a breach of undertaking of the Acquisition Agreement as the Capital Commitment is subject to the availability of the funding of the Purchaser pursuant to the Acquisition Agreement. However, the progress of the oral insulin project will be delayed and commercialization of the oral insulin product will be deferred by approximately one year without the Capital Commitment. In such case, the intangible assets and interest in associate may be subject to impairment. Further, there shall be no material impact on United Gene's existing business segments and operations but possible adverse impact on the operations and financial results of the Target Group.

e. Reason for the provision of the unsecured interest-free shareholder's loan on a non pro-rata basis

According to the latest published annual report of Extrawell for the year ended 31 March 2013, Extrawell would allocate its best resources to accelerate progress of the oral insulin project to capture the enormous market opportunities arising from the growing numbers of diabetics in the PRC.

With reference to the 2013 United Gene Annual Report, United Gene will continue to proactively explore attractive investments in the PRC and globally. According to the management of United Gene, instead of launching the clinical trial of the oral insulin product in PRC, United Gene will extend the clinical trial of the Target Group by having clinical trial in USA and Europe in order to accelerate and shorten the approval process in order to commercialize the oral insulin product in November 2015. Such business plan with the requirement of more immediate funding in the research and development of the oral insulin product is the main reason for the provision of the unsecured interest-free loan on a non pro-rata basis while the extended business plan can then enhance United Gene's profit potential and strategic development.

As a term of the Acquisition Agreement, future research and development, clinical trial and capital expenditure will be funded by the unsecured interest-free shareholder's loan with an aggregate amount not exceeding HK$600 million, for the Target Group's future development of its oral insulin technology to speed up the project phase. With the availability of the Capital Commitment, United Gene can provide sufficient resources for strengthening, consolidating and adopting the following operational activities and measures: (i) to enable multiple clinical trials to be operated in a greater number of hospitals at the same time; (ii) to employ additional supervisors to coordinate and operate the clinical trials in conjunction with the CRO and hospitals; and (iii) to utilize the multi-regional clinical trial pathway to reduce approval time by the CFDA.

It is fair and reasonable for United Gene to believe that the said strengthening, consolidating, and adoption of the said operational activities and measures shall accelerate and shorten the time to complete part B of the Protocol by 9 months after doubling the number of hospitals that concurrently perform the clinical trials and improving data collection and analysis efficiency. To the best knowledge, information and belief of the Board, the Board holds the view that CFDA has more experience and expertise in processing generic applications than new drug applications. Further, staff from CFDA has regularly attended training programs provided by USA Food and Drug Administration (the "**FDA**"). As such, it is reasonable for the Board to hold the view that the said drug will have a higher possibility of obtaining earlier approval from CFDA if a new drug has been approved by the USA FDA, due to the fact that CFDA will consider the relevant clinical trial data from USA FDA and more receptive in evaluating the said clinical data during the process of the new drug application. As such, the number of queries from CFDA may be substantially reduced than a medicine which only conducts clinical trials in the PRC. Therefore, it is fair and reasonable for the Board to hold the view that the approval process is able to be shortened.

United Gene may request or demand the Target Group for repayment of the Capital Commitment not exceeding 30% of the net profit of the Target Group. The Capital Commitment will be repaid after a net profit was achieved by the Target Group while the share of profit will be claimed after the repayment for the year was settled.

f. Provision of unsecured interest-free shareholder's loan as an incentive plan

According to the circular of the Extrawell dated 18 June 2013, the Target Group owned total current assets of HK$40.15 million as at 28 February 2013. Since the Target Group cannot generate any profit, it is expected the Target Group cannot repay the outstanding unsecured interest-free shareholder's loan until commencement of the sale of oral

insulin products in November 2015. By providing the unsecured interest-free shareholder's loan, the management of United Gene intended to provide incentive to the Target Company which will only repay the Capital Commitment instead of the repayment of any interest being accumulated. The management of United Gene is of the view that the benefit from the success of the oral insulin operations at an earlier time would outweigh the provision of the interest-free shareholder's loan to the Target Group.

Through our research via the website of the Stock Exchange, we, on best efforts basis, have not been able to identify any companies listed on the Stock Exchange that used interest-free shareholder's loan as an incentive plan. Despite of that, we considered if United Gene would like to speed up the progress of the project phase of the oral insulin product without the Capital Commitment amounting to HK$600 million, such sum would be financed by bank borrowings raised by the Target Group. The cost of borrowing for the Target Group is expected to be high since it will not be able to generate revenue before the commercialization of the oral insulin product. Upon Completion, the Target Company will become an indirect non wholly-owned subsidiary of United Gene. By acquiring the 51% interest in the Target Company, United Gene Group will be able to exercise control over the management of, and financial benefits from the Target Group. The interest expense is expected to be consolidated into the financial results of United Gene Group and would bring negative impact to the financial performance of United Gene Group. Furthermore, it is expected the profit margin is high as discussed in the section headed "High entry barrier in pharmaceutical industry with potential significant growth" above and is able to compensate for the cost of borrowings. Therefore, we concur with the management of United Gene that the benefit from the early success of the oral insulin operations would outweigh the provision of the interest-free shareholder's loan to the Target Group if the commercialization of the oral insulin product can be realized in 2015.

3. Valuation of Smart Ascent

United Gene has engaged Roma as the independent valuer for the valuation of the market value of 51% equity interest in Smart Ascent. We have reviewed and enquired with the Independent Valuer in relation to their experiences and independency, including their participations in valuing business enterprises in the PRC. The Independent Valuer has extensive experiences in business valuation and is independent from United Gene and other parties involved in the Continuing Connected Transaction. We have also reviewed the terms of the Independent 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 Independent Valuer (the "**Valuation Report**") dated 26 June 2014, and discussed with the Independent Valuer, regarding, among other things, the bases, assumptions and the methodology adopted in conducting the valuation of 51% equity interest in Smart Ascent.

Methodologies

We understand that the Independent Valuer has considered three generally accepted valuation approaches, namely market-based approach, income-based approach and asset-based approach in deriving the valuation of 51% equity interest in Smart Ascent. The Independent Valuer considers that (i) market approach is inappropriate because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were hidden; and (ii) asset-based approach was not adopted as it could not capture the future earnings potential and thus the market value of Smart Ascent. As advised by the Independent Valuer, they have adopted discounted cash flow method under income-based approach which focuses on the future economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the income-based approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Discount rate

When applying the discounted cash flow method to estimate the present value of Smart Ascent, it is necessary to determine an appropriate discount rate for the assets under review. We note that the Independent Valuer has used weighted average cost of capital (the "WACC") to estimate the required rate of return on equity of the Smart Ascent. We understand from the Independent Valuer that the WACC technique is widely accepted in the investment and financial analysis communities for the purpose of estimating a company's required rate of return on equity. In deriving the discount rate, the Independent Valuer has taken into account a number of factors including (i) expected borrowing rate of Smart Ascent; (ii) risk free rate; (iii) market return; (iv) company specific risk; and (v) beta of a number of comparable companies. Such comparables are either Chinese pharmaceutical companies or global insulin or diabetic care product companies as no listed companies in China are specifically engaged in the research, development and manufacturing of insulin or diabetic care products and most of them have diversified product portfolios. As such, we are of the view that it is fair and reasonable to derive discount rate from these peer companies. Moreover, in view of the fact that Smart Ascent is a small size company, the Independent Valuer applied size premium for micro-cap companies with reference to size premium study conducted by Ibbotson Associates, Inc. as extracted from "2013 Ibbotson SBBI Valuation Book".

Timetable

Base on the Valuation Report, we noted that the Independent Valuer adopted a timeline based on the plans provided by United Gene to speed up the clinical trial process and commence commercialization in November 2015, which is subject to the availability of the funding of the Capital Commitment as discussed in the section headed "Fund raising capability of United Gene Group" above.

Revenue based on diabetic population and other expenses

In deriving the revenue of the Smart Ascent in the Valuation Report, the Independent Valuer estimated the revenue based on selling price per pill times number of pills intake and market share of the diabetic population. We noted that the Independent Valuer has considered and relied to (i) a considerable extent on the diabetic population obtained from the IDF Diabetes Atlas, 6th Edition published in 2013 by IDF; and (ii) selling price of the pills and market share based on the estimation of the management of United Gene. The Independent Valuer believed that the forecast of those data are reasonable. We have interviewed the Independent Valuer regarding the basis of projecting the diabetic population.

We have also obtained and reviewed the work papers prepared by the Independent Valuer and discussed the key assumptions (including cost of goods sold, selling expense, research and development expense and operating expense) used in the Valuation Report. Based on the work performed, we are not aware of any factors that would cause us to doubt the fairness and reasonableness of the assumptions used in the valuation of the 51% of equity interest in Smart Ascent.

4. Annual Caps of the Continuing Connected Transaction

Accordingly, the proposed Capital Commitment to be assumed by Clear Rich during the Commitment Period is as follows:

Period	**Aggregate Annual Caps** *HK$* (Approximate)
For the year ending 31 March 2015	200,000,000
For the year ending 31 March 2016	500,000,000
For the year ending 31 March 2017	600,000,000

The Purchaser undertakes and acknowledges that Extrawell will not be required to contribute capital to the Target Group until the time that the Purchaser has fully paid the Maximum Capital Commitment. In the event that further contribution of capital to the Target Company is required, such further contribution of capital to the Target Company will be subject to further negotiations between the Purchaser and the Vendor at the relevant time.

With reference to the budget from the management of United Gene, the capital and operational expenditure for the three years are as follows:

	2015 *HK$*	2016 *HK$*	2017 *HK$*
Research and development costs			
Remaining PRC research and developments costs	65,000,000	–	–
USA administrative costs	–	10,750,000	10,000,000
USA research and development costs	32,400,000	74,650,000	15,000,000
EU administrative costs	–	7,600,000	11,500,000
EU research and development costs	–	7,000,000	13,500,000
Anticipated annual research and development costs	97,400,000	100,000,000	50,000,000
Capital expenditure			
Factory 1	20,000,000	–	–
Machinery for Factory 1	30,000,000	–	–
Factory 2	20,000,000	–	–
Machinery for Factory 2	30,000,000	–	–
Anticipated annual capital expenditure	100,000,000	–	–
Working capital			
Inventory working capital	2,600,000	200,000,000	50,000,000
Total aggregated anticipated spending	200,000,000	500,000,000	600,000,000

The key milestones of the oral insulin project with proposed Capital Commitment are set out below:

Commencement of phase 1 of clinical trial in USA	July 2014
Commencement of Part B of the Protocol in PRC	July 2014
Engage architects and consultants for designing the manufacturing plants and construction plan	July 2014
Invite tender offers for the construction of manufacturing plants	August 2014
Complete part B of the Protocol	March 2015
Submission of part B of the Protocol to CFDA for assessment	March 2015
Completion of construction of manufacturing plants	June 2015
Approval of CFDA expected to be obtained	June 2015
Clinical trials to commence in Europe	July 2015
Manufacturing permit will be obtained	September 2015
Sales to first hospital in PRC	November 2015
Results of clinical trials will be submitted to USA	June 2018
Results of clinical trials will be submitted to Europe	June 2019

In assessing the reasonableness of the proposed annual caps concerning the Purchaser's undertaking, we have considered the following factors:

Research and Development Expense

Save for the remaining clinical trial cost in the PRC and clinical trial phases listed in the above milestones of the oral insulin project, the remaining procedures of clinical trial in the USA and in Europe will be subject to further negotiations between the Purchaser and the Vendor at the relevant time. Based on the discussion with the management of United Gene, United Gene will use its best endeavor to recruit most suitable candidates with relevant experiences and expertise in the manufacturing and trading of pharmaceutical products in USA and Europe soon after the Completion in order to ensure the plan can be implemented effectively so that the approval of the oral insulin product can be obtained in June 2015.

As set out in the section headed "Financial Information of the Target Group" in Appendix IIA to this circular, the sum of administrative expense and research and development expense were HK$6.82 million and HK$4.59 million for the year ended 31 March 2012 and 31 March 2013. The budgeted research and development expenses, including the expense for supporting unit, for the year ended 31 March 2015, 31 March 2016 and 31 March 2017 are approximately HK$97.4 million, HK$100 million and HK$50 million respectively. We noted that there is a difference between the historical administrative expense and research and development expense and the budgeted expense provided by the management of United Gene. Based on the discussion with the management of United Gene, Extrawell has a budget of approximately HK$34 million for the remaining PRC research and

development process. Without foreseeing any major obstacles as at the Latest Practicable Date, United Gene is expected to spend HK$65 million as United Gene plans to speed up the clinical trial process and reduce risk of deferral by (i) increasing number of hospitals engaged to 16; (ii) recruiting patients with a compressed recruitment schedule; and (iii) hiring an additional of 4 to 6 clinical research supervisors and doctors to monitor the clinical trial process and analyze the data collected. Regarding the difference between research and development cost in the PRC and overseas, this is mainly due to the higher labour cost to recruit scientists and operating expense, such as the supporting unit, of laboratories in the USA and Europe comparing with that in PRC.

Based on our discussion with the management of United Gene, the site conducting clinical research of the oral insulin product in Europe is yet to be confirmed. However, according to an article titled, "Factors influencing clinical trial site selection in Europe: the Survey of Attitudes towards Trial sites in Europe", published by SAT-EU Study Group, an independent non-profit collaborative initiative, in the British Medical Journal's BMJ Open on 15 November 2013, Germany, United Kingdom (the "U.K.") and Netherlands (the "Comparable in Europe") are rated as the most desirable countries of running clinical trials across European Union countries by professionals within the pharmaceutical industry who directly involved in decision making of clinical trial site selection process. On this basis, we consider that the Comparable in Europe is an appropriate selection in assessing the fairness and reasonableness of the research and development expense in Europe. With reference to most updated data available on the website of the World Bank Group, the gross national income per capita based on purchasing power parity (the "GNI per capita") of PRC, USA and Comparable in Europe for the three years from 2010 to 2012 are as the followings:

	2010	**2011**	**2012**
	US$	*US$*	*US$*
Germany	39,150	41,910	43,720
Netherlands	40,940	43,290	43,750
PRC	9,010	9,940	10,900
USA	48,880	50,860	52,610
U.K	34,520	35,260	35,620
Germany as multiple of PRC	4.35	4.22	4.01
Netherlands as multiple of PRC	4.54	4.36	4.01
USA as multiple of PRC	5.43	5.12	4.83
U.K. as multiple of PRC	3.83	3.55	3.27

Based on the statistics shown above, the GNI per capita in USA is 4.83 times of GNI per capita of PRC in 2012 while the GNI per capita of the Comparable in Europe ranged from 3.27 times to 4.01 times of GNI per capita of PRC in the same year. This indicates the income per person can vary widely among the countries mentioned above under different economic statuses. The higher of income level in USA and Comparable in Europe would lead to higher of research and development expense during the Commitment Period which is mainly contributed by labour cost to recruit scientists for clinical trial and administrative staff to support the laboratories in the USA and Comparable in Europe. Thus, we concur with the management of United Gene that the budgeted research and development expense for clinical trial in USA and Europe is fair and reasonable.

Capital Expenditure

According to our discussion with the management of United Gene, the Target Group only operates the research and development of the oral insulin product, the commencement of manufacturing and sales of the oral insulin product in November 2015 requires the Target Group to expand its operations by constructing new manufacturing facilities at the proposed sites in Jiangsu and Nanjing, PRC, with production capacity of 6 billion pills per year. The construction of the foundation and the surrounding walls of and the roads for access to a manufacturing plant, have been completed, and United Gene expects the construction of the manufacturing plants will be completed in June 2015. The budgeted capital expenditure of HK$100 million will be allocated to (i) acquire a land use right in the PRC amounting to HK$20 million; and (ii) design, construction of buildings and installation of machineries of two manufacturing plants including four production lines amounting to HK$80 million. Thus, a large amount of capital expenditure is noted.

Therefore, in forming our opinion, we have considered factors not reflected on the historical financial information, such as, among others, United Gene's business development plan and the difference in geographical locations for the clinical trial held. It is considered such analysis to be fair and reasonable for determining the Annual Caps of the Continuing Connected Transaction.

Financial Control on the Continuing Connected Transaction

An audit committee, comprising of 3 members, with 2 board members including 1 independent non-executive director with accounting qualification, will be formed as advise, monitor and review on the fairness and reasonableness of the expenditures of the Target Company during and after the Commitment Period as to ascertain whether the capital expenditure is in the interests of United Gene and the Shareholders as a whole. The audit committee will be formed soon after Completion with appointment of members with relevant qualification and experience in oral insulin or relevant businesses. A bimonthly report regarding the fairness and reasonableness of the capital expenditure of the Target Company will be issued to the Board for consideration and scrutiny purposes.

The project manager of the Target Company will submit a budget to the said audit committee bi-monthly for examination and approval of the items of the budget before approval. Any over-budget event must be reported promptly to the said audit committee for approval and review before any payment be made for the said event.

To prevent the Target Company from misusing the Capital Commitment, all budgets are subjected to pre-approval and review procedure by the audit committee. Management accounts will be monitored by the financial controller of United Gene and the accounts of the Target Company are subject to interim review and annual audit conducted by the United Gene's auditor at the discretion of the Company.

The Company will appoint sufficient directors to the board of the Target Group so as to gain a majority and control over the Target Group's decision making and this will allow United Gene to monitor the usage of the Capital Commitment after Completion. Therefore, we concurred with the management that the abovementioned procedures and arrangements in place to monitor the use of Capital Commitment and prevent from misusage of Capital Commitment by the Target Company are fair and reasonable.

5. Financial Effect of the Transactions

Assets

As at 31 December 2013, the unaudited consolidated total assets of United Gene Group were approximately HK$832.98 million. As set out in the section headed "Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group" in Appendix IV to this circular, assuming the acquisition of the Target Company was completed on 31 December 2013, the unaudited pro forma consolidated total assets of the Enlarged Group would have been increased by approximately HK$1,843.77 million to approximately HK$2,676.75 million.

Liabilities

As at 31 December 2013, the unaudited consolidated total liabilities of United Gene Group were approximately HK$67.30 million. As set out in the section titled "Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group" in Appendix IV to this circular, assuming acquisition of the Target Company was completed on 31 December 2013, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have been increased by approximately HK$274.91 million to approximately HK$342.21 million.

Earnings

After taking into account the positive prospects and other benefits of the oral insulin project that is expected to result from the Continuing Connected Transaction as mentioned in the paragraph headed "Reasons for and benefits of the Capital Commitment" above, and taking into consideration that there will have no immediate profit or loss impact on the consolidated earnings of United Gene Group upon Completion, the Directors consider it is a fair expectation that the Acquisition will have a positive impact on the earnings of United Gene Group after commercialization of the oral insulin product.

RECOMMENDATION

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

- United Gene Group would consider to improve its profitability by exploring other potential investment opportunity;

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

- the oral insulin product, if successfully launched and commercialized, would bring positive impact to United Gene Group's financial performance;

- the extended business plan can enhance United Gene's profit potential and strategic development; and

- that the terms under the Capital Commitment are fair and reasonable so far as the Independent Shareholders are concerned.

We consider that the terms and conditions of the Capital Commitment has been entered into within the ordinary and usual course of the business of United Gene Group based on the normal commercial terms so far as the Independent Shareholders are concerned and 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 Continuing Connected Transaction.

Yours faithfully,
For and on behalf of
Doris Sy
Director

Note of the responsible officer:

Doris Sy is the responsible officer in charge of this letter to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transaction. She has extensive experience as an independent financial adviser to advice on continuing connected transaction and was also the independent financial adviser of the very substantial acquisition and connected transaction of United Gene with reference to the circular dated 27 September 2013.

A. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated results and financial position of the Group for each of the three years ended 30 June 2011, 2012 and 2013 and the unaudited consolidated results and financial position for the six months ended 31 December 2013 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		
	2013	2013	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Revenue	21,461	10,050	25,475	90,193
(Loss)/profit before tax	(462,069)	(89,717)	(131,757)	8,856
Income tax credit/(expense)	–	60	2,060	(3,250)
Owners of the Company	(455,406)	(72,839)	(123,882)	5,247
Non-controlling interests	(6,523)	(16,818)	(5,815)	359
	(461,929)	(89,657)	(129,697)	5,606

Assets and liabilities

	As at 31 December	As at 30 June		
	2013	2013	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Non-current assets	611,828	143,038	69,879	134,305
Current assets	221,154	365,000	286,119	332,946
Current liabilities	(15,687)	(47,128)	(18,178)	(10,442)
Non-current liabilities	(51,614)	(16,548)	(7,253)	(2,972)
Net assets	765,681	444,362	330,567	453,837
Equity attributable to Owners of the Company	755,504	453,337	319,248	436,524
Non-controlling interests	10,177	(8,975)	11,319	17,313
	765,681	444,362	330,567	453,837

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 2013, together with the accompanying notes (the "**2013/2014 Interim Financial Statements**") are included on pages 21 to 84 in the interim report for the six months ended 31 December 2013 of the Group (the "**2013/2014 Interim Report**") published on 10 March 2014.

The audited consolidated financial statements of the Group prepared in accordance with HKFRSs for the year ended 30 June 2013, together with the accompanying notes (the "**2013 Financial Statements**"), are included on pages 48 to 127 in the annual report for the year ended 30 June 2013 of the Group (the "**2013 Annual Report**") published on 23 October 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.

Each of the 2013/2014 Interim Financial Statements, the 2013 Financial Statements, the 2012 Financial Statements and the 2011 Financial Statements (but not any other part of the 2013/2014 Interim Report, the 2013 Annual Report, the 2012 Annual Report and the 2011 Annual Report) are incorporated by reference into this circular and form part of this circular. The 2013/2014 Interim Report, the 2013 Annual Report, the 2012 Annual Report and the 2011 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 the 30 April 2014, being Latest Practicable Date prior to the printing of this circular, the statement of indebtedness of the Enlarged Group is set out as below:

The Enlarged Group

As at 30 April 2014, the Enlarged Group had (i) outstanding convertible bonds of an aggregate principal amount of HK$546,800,000, (ii) amounts due to non-controlling shareholders of HK$28,087,000; (iii) amounts due to shareholders of

HK$12,550,000; (iv) amounts due to former non-controlling shareholders of HK$2,518,000; and (v) loan from a non-controlling shareholder of HK$6,179,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 30 April 2014 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.

D. WORKING CAPITAL SUFFICIENCY

The Directors are of the opinion that, after taking into account the financial resources available to the Company, including internally generated funds and cash flows for the Acquisition but excluding the potential HK$500 million cash inflow from the Company's fundraising target, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular.

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 2013, 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 20 February 2014.

FINANCIAL AND TRADING PROSPECTS

Trading of beauty equipment and products segment

Trading contributes the majority of the Group's revenues. The major trading products of the Group are beauty equipment and beauty products. With rising GDP and average income in many of the developing countries in Asia, it is expected to create greater demand for the products. As revenues and profit margins from trading have been relatively stable, the Group intends to develop the business further as market conditions permit and explore higher profit margin products.

Securities investment segment

Despite volatility in the global investment market is expected, the Group holds the view that the global and Asian economic outlook continues to improve. The management of the Group continues to actively review the performance of the Group's portfolio and source new investment products.

The Group anticipates that after the Acquisition of the Target Group, the Group is likely to reduce the assets in its securities investments to fund the research and development requirement of the Target Group.

Provision of genetic testing segment

The Group disposed of a portion of its genetic testing assets in order to reduce the Group's operating costs and future commitments and liabilities. The Group retains the exclusive distribution rights of genetic testing and the already franchised distribution rights to two related parties, which will operate the segment.

The Group holds the view that the challenging regulatory environment in the PRC, as reflected in the circular issued on 9 February 2014 by the China Food and Drug Administration, will cause adverse impact on this business segment and its prospects.

The Group's proposed diagnostic centre continues to wait for further approval from the PRC government. The Group holds the view that the establishment of a PRC government recognized diagnostic centre will improve the Group's reputation and attracts business partners and franchisees.

Distribution of bio-industrial products segment

As the construction facilities of the bio-industrial products have been unlawfully occupied by contractors, the distribution of bio-industrial products has not yet contributed to the revenue of the Group. On 25 April 2014, 浙江省嘉興市中級人民法院 delivered a civil judgement in relation to the appeal, pursuant to which, the appeal was rejected and remained the original judgement of 浙江省平湖市人民法院. As at 31 March 2014, the total amount of construction costs paid by the Group was RMB15,976,000 (equivalent to approximately HK$20,176,000) and a total provision of RMB6,740,000 (equivalent to approximately HK$8,512,000) has been made.

Provision of health care management services

As the Health Care centre and its management was restructured, the Company discontinued the operation of this business segment.

The management discussion and analysis of the Group for the six months ended 31 December 2013, and together with the audited financial information of the Group for the three year ended 30 June 2010, 2011 and 2012 respectively. The aforementioned annual reports have been published on both the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.unitedgenegroup.com as follows:

(i) In respect of the six months ended 31 December 2013 (Pages 6 to 15):

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0310/LTN20140310600.pdf

http://file.irasia.com/listco/hk/unitedgene/interim/2014/intrep.pdf

(ii) In respect of the annual report of the Company for the year ended 30 June 2013 (Pages 6 to 16):

http://www.hkexnews.hk/listedco/listconews/SEHK/2013/1023/LTN20131023387.pdf

http://file.irasia.com/listco/hk/unitedgene/annual/2013/ar2013.pdf

(iii) In respect of the annual report of the Company for the year ended 30 June 2012 (Pages 6 to 13):

http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1029/LTN20121029135.pdf

http://202.66.146.82/listco/hk/unitedgene/annual/2012/ar2012.pdf

(iv) In respect of the annual report of the Company for the year ended 30 June 2011 (Pages 5 to 10):

http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0929/LTN20110929247.pdf

http://202.66.146.82/listco/hk/unitedgene/annual/2011/ar2011.pdf

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26 June 2014

The Board of Directors
United Gene High-Tech Group Limited
Unit No. 2111, 21/F.,
West Tower Shun Tak Centre,
168–200 Connaught Road Central,
Sheung Wan, Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "**Consolidated Financial Information**") regarding Smart Ascent Limited (the "**Target Company**") and its subsidiaries (hereinafter collectively referred to as the "**Target Group**") which comprises the consolidated statements of financial position of the Target Group as at 31 March 2011, 2012, 2013 and at 28 February 2014, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the years ended 31 March 2011, 2012 and 2013 and the eleven months ended 28 February 2014 (hereinafter collectively referred to as the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory notes. The Consolidated Financial Information is prepared for inclusion in the circular of United Gene High-Tech Group Limited (the "**Company**") dated 26 June 2014 (the "**Circular**") in connection with the acquisition of the 51% shareholding interests in the Target Company.

The Target Company was incorporated in Hong Kong with limited liability on 1 December 2000. The principal activity of the Target Company is investment holding. As at the date of this report, the particulars of the Target Company's subsidiaries are set out below:

Name	Place of incorporation/ registration and operations	Issued and paid up capital	Effective interest directly held by the Target Company	Principal activities
Fosse Bio-Engineering Development Limited ("**Fosse Bio**")	Hong Kong/ The People's Republic of China ("**PRC**")	10,000 ordinary shares	51%	Development and commercialisation of oral insulin products
Welly Surplus Development Limited ("**Welly Surplus**")	Hong Kong	100 ordinary shares	51%	Inactive
Nation Joy Industries Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100%	Not yet commence business

For the purpose of this report, the directors of the Target Company have prepared the consolidated financial statements (the "**Underlying Financial Statements**") of the Target Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). No adjustments were considered as necessary to the Underlying Financial Statements of the Target Group in preparing our report for inclusion in the Circular.

The Consolidated Financial Information for the Relevant Periods as set out in this report has been prepared by the directors of the Target Company based on the Underlying Financial Statements of the Target Group.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Target Company are responsible for the preparation of the Consolidated Financial Information and the Underlying Financial Statements which give a true and fair view in accordance with HKFRSs issued by the HKICPA. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Consolidated Financial Information and the Underlying Financial Statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently and making accounting estimates that are reasonable in the circumstances.

For the comparative financial information (the "**Comparative Financial Information**") for the eleven months ended 28 February 2013 (the "**Comparative Period**"), the directors of the Target Company are responsible for the preparation and the presentation of the Comparative Financial Information in accordance with the accounting policies which are in conformity with HKFRSs.

It is our responsibility to form an independent opinion, based on our examination, on the Consolidated Financial Information and to report our opinion to you. We have, for the purpose of this report, examined the Underlying Financial Statements used in preparing the Consolidated Financial Information and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the Comparative Financial Information for the eleven months ended 28 February 2013, our responsibility is to express a conclusion on the Comparative Financial Information based on our review and to report our conclusion to you. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. This Standard requires us to conclude whether anything has come to our attention that causes us to believe that the Comparative Financial Information, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements. A review is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained. The procedures performed are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

EMPHASIS OF SIGNIFICANT MATTER

We draw attention to notes 4(b) and 11 to the consolidated financial statements which describe the uncertainty related to the recoverability of the carrying value of Intangible Assets as at 31 March 2011, 2012, 2013 and 28 February 2014. Our opinion is not qualified in respect of this matter.

OPINION AND REVIEW CONCLUSION

In our opinion, the Consolidated Financial Information, for the purpose of the Circular, gives a true and fair view of the state of affairs of the Target Group as at 31 March 2011, 2012 and 2013, and at 28 February 2014 and of the results and cash flows of the Target Group for each of the Relevant Periods then ended.

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that caused us to believe that the Comparative Financial Information, for the purpose of this report, is not prepared in accordance with the accounting policies which are in conformity with HKFRSs.

Yours faithfully,
East Asia Sentinel Limited
Certified Public Accountants
Hong Kong

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the 11 months ended		For the year ended		
		28/2/2014	28/2/2013	31/3/2013	31/3/2012	31/3/2011
	NOTE	*HK$*	*HK$* (unaudited)	*HK$*	*HK$*	*HK$*
TURNOVER	*6*	–	–	–	–	–
OTHER REVENUES	*7*	2,633,991	–	2,180	189,366	10,780
ADMINISTRATIVE EXPENSES		(1,974,045)	(2,107,150)	(2,157,674)	(2,409,918)	(2,956,050)
RESEARCH AND DEVELOPMENT EXPENSES	*8*	(3,679,248)	(2,430,724)	(2,430,724)	(4,413,580)	(8,125,644)
LOSS BEFORE TAXATION	*8*	(3,019,302)	(4,537,874)	(4,586,218)	(6,634,132)	(11,070,914)
TAXATION	*9(a)*	–	–	(10,384)	(8,102)	(7,012)
LOSS FOR THE PERIOD/YEAR		(3,019,302)	(4,537,874)	(4,596,602)	(6,642,234)	(11,077,926)
OTHER COMPREHENSIVE INCOME		–	–	–	–	–
TOTAL COMPREHENSIVE LOSS		(3,019,302)	(4,537,874)	(4,596,602)	(6,642,234)	(11,077,926)
Loss for the period/year attributable to:						
– Equity holders of the Target Company		(292,502)	(2,343,295)	(2,382,321)	(3,364,676)	(5,680,108)
– Non-controlling interests		(2,726,800)	(2,194,579)	(2,214,281)	(3,277,558)	(5,397,818)
		(3,019,302)	(4,537,874)	(4,596,602)	(6,642,234)	(11,077,926)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at			
		28/2/2014	31/3/2013	31/3/2012	31/3/2011
	NOTE	*HK$*	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS					
Intangible assets	*11*	281,473,437	281,473,437	281,473,437	281,473,437
Amounts due from non-controlling interests	*12*	5,214,780	6,055,781	6,139,996	12,969,890
Amounts due from former non-controlling interests	*12*	1,694,552	–	–	–
Loan to a non-controlling interest	*12*	6,197,329	5,997,584	4,806,529	–
		294,580,098	293,526,802	292,419,962	294,443,327
CURRENT ASSETS					
Amount due from a shareholder	*12*	19,780,000	–	–	–
Deposits, prepayments and other receivables	*13*	8,074,284	39,912,120	40,067,650	46,923,315
Cash and cash equivalents	*14*	87,183	88,797	116,309	12,474
		27,941,467	40,000,917	40,183,959	46,935,789
CURRENT LIABILITIES					
Accruals and other payables	*15*	2,487,551	244,657	244,657	455,479
Amount due to a fellow subsidiary	*16*	–	–	69,348	–
Amount due to a non-controlling interest	*17*	20,403,892	32,403,892	32,403,892	32,403,892
Amounts due to shareholders	*17*	–	14,563,272	14,401,965	13,821,643
Tax payable	*9(b)*	–	–	–	5,000
		22,891,443	47,211,821	47,119,862	46,686,014
NET CURRENT (LIABILITIES)/ASSETS		5,050,024	(7,210,904)	(6,935,903)	249,775
TOTAL ASSETS LESS CURRENT LIABILITIES		299,630,122	286,315,898	285,484,059	294,693,102
NON-CURRENT LIABILITIES					
Amounts due to non-controlling interests	*17*	7,683,336	9,347,188	8,502,885	14,471,020
Amounts due to former non-controlling interests	*17*	2,517,403	–	–	–
Amounts due to shareholders	*17*	32,329,783	17,049,553	13,656,470	15,061,673
Loan from a non-controlling interest	*17*	6,197,329	5,997,584	4,806,529	–
		48,727,851	32,394,325	26,965,884	29,532,693
NET ASSETS		250,902,271	253,921,573	258,518,175	265,160,409
CAPITAL AND RESERVES					
Share capital	*19*	10,000	10,000	10,000	10,000
Reserves		128,514,251	128,806,753	131,189,074	134,553,750
Equity attributable to:					
Equity holders of the Target Company		128,524,251	128,816,753	131,199,074	134,563,750
Non-controlling interests		122,378,020	125,104,820	127,319,101	130,596,659
TOTAL EQUITY		250,902,271	253,921,573	258,518,175	265,160,409

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holders of the Target Company				
	Share capital *HK$*	Retained earnings *HK$*	Total *HK$*	Non-controlling interests of the Target Company's subsidiaries *HK$*	Total equity *HK$*
FOR THE YEAR ENDED 31 MARCH 2011					
At 1 April 2010	10,000	140,233,858	140,243,858	135,994,477	276,238,335
Loss for the year	–	(5,680,108)	(5,680,108)	(5,397,818)	(11,077,926)
Total comprehensive loss	–	(5,680,108)	(5,680,108)	(5,397,818)	(11,077,926)
At 31 March 2011	10,000	134,553,750	134,563,750	130,596,659	265,160,409
FOR THE YEAR ENDED 31 MARCH 2012					
At 1 April 2011	10,000	134,553,750	134,563,750	130,596,659	265,160,409
Loss for the year	–	(3,364,676)	(3,364,676)	(3,277,558)	(6,642,234)
Total comprehensive loss	–	(3,364,676)	(3,364,676)	(3,277,558)	(6,642,234)
At 31 March 2012	10,000	131,189,074	131,199,074	127,319,101	258,518,175
FOR THE YEAR ENDED 31 MARCH 2013					
At 1 April 2012	10,000	131,189,074	131,199,074	127,319,101	258,518,175
Loss for the year	–	(2,382,321)	(2,382,321)	(2,214,281)	(4,596,602)
Total comprehensive loss	–	(2,382,321)	(2,382,321)	(2,214,281)	(4,596,602)
At 31 March 2013	10,000	128,806,753	128,816,753	125,104,820	253,921,573
FOR THE ELEVEN MONTHS ENDED 28 FEBRUARY 2014					
At 1 April 2013	10,000	128,806,753	128,816,753	125,104,820	253,921,573
Loss for the period	–	(292,502)	(292,502)	(2,726,800)	(3,019,302)
Total comprehensive loss	–	(292,502)	(292,502)	(2,726,800)	(3,019,302)
At 28 February 2014	10,000	128,514,251	128,524,251	122,378,020	250,902,271

CONSOLIDATED STATEMENTS OF CASH FLOWS

	11 months ended 28/2/2014 *HK$*	11 months ended 28/2/2013 *HK$* (unaudited)	Year ended 31/3/2013 *HK$*	Year ended 31/3/2012 *HK$*	Year ended 31/3/2011 *HK$*
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before taxation	(3,019,302)	(4,537,874)	(4,596,602)	(6,634,132)	(11,070,914)
Adjustments for:					
Impairment on other receivables	–	–	–	–	987,154
Operating loss before changes in working capital	(3,019,302)	(4,537,874)	(4,596,602)	(6,634,132)	(10,083,760)
Decrease/(increase) in deposits, prepayments and other receivables	31,837,836	2,892	155,530	6,855,662	(4,669,198)
Increase/(decrease) in accrual and other payables	2,242,894	96,751	–	(210,821)	(901,121)
(Decrease)/increase in amounts due to shareholders	(14,563,272)	162,487	161,307	580,322	9,075,892
(Decrease)/increase in amount due to a fellow subsidiary	–	(69,348)	(69,348)	69,348	–
Net cash generated from/(used in) operations	16,498,156	(4,345,092)	(4,349,113)	660,379	(6,578,187)
Income tax (paid)	–	–	–	(13,102)	(8,012)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	16,498,156	(4,345,092)	(4,349,113)	647,277	(6,586,199)
CASH FLOWS FROM FINANCING ACTIVITIES					
(Decrease)/increase in amounts due to non-controlling interests	(853,551)	924,150	84,215	861,760	1,501,130
(Decrease)/increase in amounts due to shareholders	(15,646,219)	3,393,430	4,237,386	(1,405,202)	5,071,810
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	(16,499,770)	4,317,580	4,321,601	(543,442)	6,572,940
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,614)	(27,512)	(27,512)	103,835	(13,259)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR	88,797	116,309	116,309	12,474	25,733
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	87,183	88,797	88,797	116,309	12,474
ANALYSIS OF THE CASH AND CASH EQUIVALENTS					
Cash and banks balances	87,183	88,797	88,797	116,309	12,474

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Smart Ascent Limited (the "**Target Company**") is a limited liability company incorporated in Hong Kong under the Hong Kong Companies Ordinance. The address of its registered office of the Target Company is Suites 2206–08, 22/F., Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The principal activity of the Target Company is investment holding. Particulars of the Target Company's principal subsidiaries are set out in note 21 to the Consolidated Financial Information.

2. BASIS OF PREPARATION

The Consolidated Financial Information of the Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which in collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("**HKAS**") and Interpretations ("**Ints**") issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The Consolidated Financial Information has been prepared under the historical cost convention.

The Consolidated Financial Information is presented in Hong Kong dollars, unless otherwise stated. The preparation of Consolidated Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Information are disclosed in note 4.

(a) Revised standards and amendments to standards relevant to and adopted by the Target Group

In the current year, the Target Group has applied HKFRS that were issued by the HKICPA. The following standards are mandatory and relevant to the Group for the financial year beginning on 1 April 2013.

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 27 (Revised 2011)	Separate financial statements
HKFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated financial statements, joint arrangement and disclosure of interests in other entities: transition guidance

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Target Group

Up to the date of issue of these consolidated financial statements, the HKICPA have issued a number of new standards, amendment to standards and interpretation which are effective for annual periods beginning after 1 March 2014, and which have not been adopted in preparing these consolidated financial statements. These include the following which may be relevant to the Target Group.

	Effective of accounting periods beginning on or after
HKAS 9 "Financial instruments"	1 January 2015
HKAS 32 (Amendment), "Financial instruments: Presentation – Offsetting financial assets and financial liabilities"	1 January 2014
HKAS 36 (Amendment), "Impairment of assets"	1 January 2014
HKAS 7 and HKFRS 9 (Amendments), "Mandatory effective date and transition disclosures"	1 January 2015

The Target Group is in the process of assessing the impact of these new and revised standards, amendments to standards and interpretations to existing standards and does not expect that there will be a material impact on the consolidated financial statements of the Target Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of this Consolidated Financial Information are set out below. These policies have been consistently applied to all the periods/years presented, unless otherwise stated.

(a) Consolidation

Subsidiaries are all entities (including controlled special purpose entities) over which the Target Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Target Company. They are de-consolidated from the date that control ceases.

The Target Company applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Target Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Target Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains or losses on transactions between group companies are eliminated.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the Consolidated Financial Information of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The Consolidated Financial Information is presented in Hong Kong dollars, which is the Target Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(c) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Target Group's products development is recognised only if all of the following conditions are met:

– an asset is created that can be identified (such as software and new processes);

– it is probable that the asset created will generate future economic benefits; and

– the development cost of the asset can be measured reliably.

(d) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(e) Receivables

Receivables including accounts and other receivables, amount due from related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated statement of comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(g) Accounts and other payables

Accounts and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of revenue can be measured reliably.

Interest income is recognised on a time-proportion basis using the effective interest method.

(i) Employee benefits

(i) Pension obligations

In accordance with the PRC regulations, the Target Group is required to pay social security contributions for its PRC staff based on certain percentage of their salaries to the social security plan organised by related governmental bodies (the "**PRC plan**").

The Target Group has no further payment obligations once the contributions have been paid to the retirement schemes and PRC plan. The Group's contributions to these retirement schemes and PRC plan are recognised as employee benefit expense in the consolidated statement of comprehensive income when they are due.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Target Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(j) Income tax

The tax expense for the period/year comprises current income tax and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Target Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except where the timing of the reverse of the temporary differences is controlled by the Target Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(k) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are charged in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

(l) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided regularly to the Target Group's chief operating decision-makers for the purpose of allocation resources to, and assessing performance of, the Target Group's various lines of business and geographical locations.

(m) Related parties

For the purpose of this Consolidated Financial Information, related party includes a person and entity as defined below:

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

(ii) has control or joint control over the Target Group; or

(iii) has significant influence over the Target Group.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) the entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third entity.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity, or is a member of key management personnel of the entity (or of a parent of the entity).

(n) Events after the reporting period

Events after the reporting period provide additional information about the Target Group's position at the reporting period end or those that indicate the going concern assumption is not

appropriate are adjusting events and are reflected in the Consolidated Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Consolidated Financial Information when material.

4. CRITICAL JUDGMENT IN APPLYING POLICIES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within twelve months after the Relevant Periods are discussed below.

(a) Income taxes and deferred taxation

The Target Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Valuation and estimation on impairment of intangible assets

The intangible assets represent the technological know-how of approximately HK$281,473,437 (the "**Know-how**") of an oral insulin product (the "**Product**") and the exclusive right for commercialization of the Product as at 31 March 2011, 2012, 2013 and 28 February 2014 which is not yet available for use. The recoverable amounts of the Product are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations. Where the actual outcome in future is different from the original estimates, such difference will impact the carrying value of the intangible assets and the impairment on intangible assets in the year in which such estimate has been changed.

The Target Group performs annual tests of impairment on intangible asset as at 31 March 2011, 2012, 2013 and 28 February 2014. In an appraisal conducted by an independent professional valuer, the Know-how is valued at an amount that is not less than HK$281,473,437 as at 31 March 2011, 2012, 2013 and 28 February 2014. Notwithstanding this valuation, the recoverability of the carrying value of the Know-how is still uncertain as it depends upon the result of the clinical trial and the successful launching of the Product. Should the outcome of the clinical trial and the launching of the Product be unsuccessful, material adjustments may have adverse effect on the business and results of the Target Group

(c) Impairment loss for bad and doubtful debts

The Target Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of other receivables and amount due from related parties, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of other receivables and amount due from related parties and doubtful debt expenses in the year in which such estimate has been changed.

5. FINANCIAL RISKS MANAGEMENT

The Target Group's major financial instruments include deposits, prepayments and other receivables, cash and cash equivalents, amounts due from/(to) non-controlling interests, accruals and other payables. Details of these financial instruments are disclosed in respective notes.

The Target Group's activities expose it to a variety of financial risks such as foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. The management monitors and manages the financial risks through internal risk assessment which analyses exposures by degree and magnitude of risks.

(a) Foreign exchange risk

Foreign exchange risk arises when commercial transactions, assets or liabilities are denominated in a currency that is not the functional currency of the Target Group's entities. The Target Group operates mainly in Hong Kong and the PRC and is exposed to foreign exchange rate risk arising from various foreign currency exposures, primarily with respect to United States dollars.

The directors are of the opinion that the Hong Kong dollars are reasonably stable with the United States dollars under the Linked Exchange Rate System, and accordingly, no sensitivity analysis of United States dollars with respect to Hong Kong dollars is performed.

(b) Credit risk

The Target Group's credit risk is primarily attributable to other receivables, amounts due from related parties and bank balances.

The Target Group has no significant credit risk on accounts and other receivables because the Target Group has policies in place for the control and monitoring of its credit risk.

The credit risk on liquid funds in banks is limited because the counterparties are reputable and creditworthy banks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset at the end of reporting period.

(c) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Accordingly, the directors of the Target Group are of the opinion that the Target Group does not have significant liquidity risk.

The table below analyses the Target Group's financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	At 28/2/2014 HK$	At 31/3/2013 HK$	At 31/3/2012 HK$	At 31/3/2011 HK$
Less than 1 year				
– Accruals and other payables	2,487,551	244,657	244,657	455,479
– Amount due to a fellow subsidiary	–	–	69,348	–
– Amount due to a non-controlling interest	20,403,892	32,403,892	32,403,892	32,403,892
– Amounts due to shareholders	–	14,563,272	14,401,965	13,821,643
	22,891,443	47,211,821	47,119,862	46,681,014
Between 1 and 2 years				
– Amounts due to non-controlling interests	7,683,336	9,347,188	8,502,885	14,471,020
– Amounts due to former non-controlling interest	2,517,403	–	–	–
– Amounts due to shareholders	32,329,783	17,049,553	13,656,470	15,061,673
– Loan from a non-controlling interest	6,197,329	5,997,584	4,806,529	–
	48,727,851	32,394,325	26,965,884	29,532,693

(d) Interest rate risk

Other than bank balances which carry interest at effective interest rate, the Target Group has no other significant interest-bearing assets and liabilities. Due to the insignificance of bank interest income and expense, the Target Group's income, expenses and operating cash flows are substantially independent of changes in market interest rates. The directors are of the opinion that the Target Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed.

6. TURNOVER

The Target Group did not generate any turnover during the period/year.

7. OTHER REVENUES

	11 months ended 28/2/2014 HK$	11 months ended 28/2/2013 HK$ (unaudited)	Year ended 31/3/2013 HK$	Year ended 31/3/2012 HK$	Year ended 31/3/2011 HK$
Sundry income	2,000,000	–	–	–	–
Exchange gain	633,991	–	2,180	189,366	10,780
	2,633,991	–	2,180	189,366	10,780

8. PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation has been arrived at after charging:

	11 months ended 28/2/2014 HK$	11 months ended 28/2/2013 HK$ (unaudited)	Year ended 31/3/2013 HK$	Year ended 31/3/2012 HK$	Year ended 31/3/2011 HK$
Auditors' remuneration	50,000	50,000	101,852	100,000	100,000
Consultancy fee	–	–	–	24,706	21,176
Operating lease payment	134,000	132,000	185,309	104,471	70,588
Impairment on other receivables	–	–	–	–	987,154
Research and development expenses *(Note a)*	3,679,248	2,430,724	2,430,724	4,413,580	8,125,644
Staff cost (excluding directors' emoluments) – Salaries and allowances	1,238,000	1,232,000	1,365,125	1,223,084	1,199,299

Note:

(a) The research and development expenses are expenditure incurred on oral insulin project of Fosse Bio.

9. TAXATION

(a) Taxation in the consolidated statements of comprehensive income represents:

	11 months ended 28/2/2014 HK$	11 months ended 28/2/2013 HK$ (unaudited)	Year ended 31/3/2013 HK$	Year ended 31/3/2012 HK$	Year ended 31/3/2011 HK$
Current tax – Provision for the period/year – PRC Enterprise Income tax	–	–	10,384	8,102	7,012
Income tax charge	–	–	10,384	8,102	7,012

No provision for Hong Kong profits tax has been made for the three years ended 31 March 2011, 2012 and 2013 and the eleven months ended 28 February 2014 as the Target Group did not generate assessable profits in Hong Kong during the period/year.

Under the Enterprise Income Tax Law, the PRC enterprise income tax was standardised at the rate of 25%.

(b) Tax payable in the consolidated statements of financial position presents:

	At 28/2/2014 HK$	At 28/2/2013 HK$	At 31/3/2012 HK$	At 31/3/2011 HK$
At the beginning of the period/year	–	–	5,000	6,000
Provision for the period/year	–	10,384	8,102	7,012
Tax paid for the period/year	–	(10,384)	(13,102)	(8,012)
At the end of the period/year	–	–	–	5,000

(c) Reconciliation between tax expenses/(credit) and accounting loss at applicable tax rates:

	11 months ended 28/2/2014 HK$	11 months ended 28/2/2013 HK$ (unaudited)	Year ended 31/3/2013 HK$	Year ended 31/3/2012 HK$	Year ended 31/3/2011 HK$
Loss before taxation	(3,019,302)	(4,537,874)	(4,586,218)	(6,634,132)	(11,070,914)
Tax on loss before taxation at applicable tax rates	(498,185)	(748,749)	(756,726)	(1,094,632)	(1,826,701)
Tax effect of non-deductible expenses	498,185	748,749	767,110	1,102,734	1,833,713
Tax expenses	–	–	10,384	8,102	7,012

10. DIRECTORS' REMUNERATION

The directors did not receive and will not receive any emoluments in respect of their services to the Target Group for the three years ended 31 March 2011, 2012 and 2013 and the eleven months ended 28 February 2014.

11. INTANGIBLE ASSETS

The Target Group:

	HK$
Technological know-how, at cost at 1 April 2010, 31 March 2011, 31 March 2012, 31 March 2013 and 28 February 2014	281,473,437

The intangible assets represent the Know-how in relation to an oral insulin product (the "**Product**") and the exclusive right for the commercialisation of the Product. The Product was co-developed by Fosse Bio-Engineering Development Limited ("**Fosse Bio**"), a subsidiary acquired by the Target Company during the year ended 31 March 2004, and Tsinghua University, Beijing ("**THU**"). Fosse Bio and THU jointly applied for a patent registration (the "**Patent**") in respect of the Know-how in the PRC and the United States of America (the "**USA**"). The Patent was granted by State Intellectual Property Office of the PRC and United States Patent and Trademark Office of the USA on 4 August 2004 and 28 March 2006 respectively.

The carrying value of the Know-how is determined based on value-in-use calculations by reference to the valuation report issued by an independent professional valuer. The calculation uses the future after-tax royalties attributable to the Know-how and a discount rate. According to the valuation report provided by the independent professional valuer, the carrying amount of the Know-how as of 31 March 2011, 2012, 2013 and 28 February 2014 is no less than HK$281,473,437. The directors are, therefore, in the opinion that no impairment on the Know-how should be recognised. Should the approval of results of the clinical trial fail, the certificate of new medicine cannot be obtained from the China Food and Drug Administration ("**CFDA**") of the PRC or the launching of the Product is unsuccessful, adjustments would have to be made against the carrying value of the Know-how.

12. AMOUNT DUE FROM A SHAREHOLDER, AMOUNTS DUE FROM NON-CONTROLLING INTERESTS, AMOUNTS DUE FROM FORMER NON-CONTROLLING INTERESTS AND LOAN TO A NON-CONTROLLING INTEREST

	At 28/2/2014	At 31/3/2013	At 31/3/2012	At 31/3/2011
	HK$	*HK$*	*HK$*	*HK$*
Amounts due from non-controlling interests				
Non-current portion:				
Fordnew Industrial Limited *(notes a, b and d)*	4,077,154	3,584,034	3,633,875	7,676,057
Zheng Chang Xue *(notes a, b and d)*	–	1,029,483	1,043,799	2,204,881
Hou Shi Chang *(notes a, b, c and d)*	–	181,673	184,200	389,097
Groupmark Investment Group Limited *(notes a, b and d)*	1,137,626	957,802	971,122	2,051,360
Feel So Good Limited *(notes a, b and d)*	–	302,789	307,000	648,495
	5,214,780	6,055,781	6,139,996	12,969,890
Amounts due from former non-controlling interests				
Zheng Chang Xue *(notes a, b, e and h)*	1,152,295	–	–	–
Hou Shi Chang *(notes a, b e and h)*	203,347	–	–	–
Feel So Good Limited *(notes a, b, e and h)*	338,910	–	–	–
	1,694,552	–	–	–
Loan to a non-controlling interest				
Non-current portion:				
Fordnew Industrial Limited *(notes f and g)*	6,197,329	5,997,584	4,806,529	–
Amount due from a shareholder				
Extrawell (BVI) Limited *(notes f and i)*	19,780,000	–	–	–

Notes:

(a) The amounts due were unsecured, interest-free and had no fixed terms of repayment.

(b) The amounts represent outstanding contributions' receivable from non-controlling interests of Fosse Bio which made calls to its shareholders for contributions based on their respective equity interests in Fosse Bio in respect of working capital and operation fund requirements for the further clinical trials of the oral insulin project. The aggregate contribution calls in relation thereof are recorded as amounts due to non-controlling interests in note 17.

(c) Hou Shi Chang is a shareholder of Fosse Bio.

(d) The amounts due were denominated in the following currencies:

	At 28/2/2014	At 31/3/2013	At 31/3/2012	At 31/3/2011
	HK$	*HK$*	*HK$*	*HK$*
Hong Kong dollars	45,048	60,063	–	–
Renminbi	5,169,732	5,995,718	6,139,996	12,969,890
	5,214,780	6,055,781	6,139,996	12,969,890

(e) The amount due were denominated in the following currencies:

	At 28/2/2014	At 31/3/2013	At 31/3/2012	At 31/3/2011
	HK$	*HK$*	*HK$*	*HK$*
Hong Kong dollars	15,015	–	–	–
Renminbi	1,679,537	–	–	–
	1,694,552	–	–	–

(f) The amount due is denominated in Hong Kong dollars.

(g) This represents a loan made by the Target Company to Fordnew Industrial Limited ("**Fordnew**") pursuant to the loan agreement dated 25 May 2011. The loan is denominated in Hong Kong dollars, which is unsecured and non-interest bearing. The repayment terms of the loan are that Fordnew shall be at liberty to repay the loan in whole or in part at any time before the due dates set out below, provided that Fordnew shall repay the loan in full on or before the earlier of:

(i) the date falling three years after the date of notification of rejection of the application for new medicine for the Product by the relevant authority; or

(ii) in the event that Fosse Bio resolves to abandon the research and development project ("**the Project**") in respect of the Product, the date falling 3 years after the date of passing of the relevant documented resolution of the shareholders of Fosse Bio abandoning the Project; or

(iii) the date falling 8 years after the first drawdown of all or any part of the loan.

or such later date as may be agreed between the Target Company and Fordnew hereto in writing and subject to compliance with the relevant requirements of the Listing Rules.

Further details of the loan are disclosed in note 17 and note 25 to the Consolidated Financial Information.

(h) During the reporting period, Zheng Chang Xue, Hou Shi Chang and Feel So Good Limited disposed all their shareholdings in Fosse Bio and therefore were no longer the shareholders of Fosse Bio as at 28 February 2014.

(i) The amount due is unsecured, interest-free and repayable on demand.

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 28/2/2014 HK$	At 31/3/2013 HK$	At 31/3/2012 HK$	At 31/3/2011 HK$
Deposits	1,918,586	–	–	5,305,882
Other receivables	3,365,845	2,066,561	2,226,190	9,837,433
Other receivables due from connected persons *(note a)*	–	31,780,000	31,780,000	31,780,000
Maximum exposure to credit risk	5,284,431	33,846,561	34,006,190	46,923,315
Prepayments	2,789,853	6,065,559	6,061,460	–
	8,074,284	39,912,120	40,067,650	46,923,315

The carrying amounts of deposits, prepayments and other receivables approximated their fair values as at 31 March 2011, 2012, 2013 and at 28 February 2014. The Target Group does not hold any collateral over these balances, except the other receivables due from connected persons as disclosed in note (a) below.

The carrying amounts of the deposits, prepayments and other receivables were denominated in the following currencies:

	At 28/2/2014 HK$	At 31/3/2013 HK$	At 31/3/2012 HK$	At 31/3/2011 HK$
Renminbi	7,895,251	8,107,968	8,107,968	14,972,633
Hong Kong dollars	179,033	31,804,152	31,959,682	31,950,682
	8,074,284	39,912,120	40,067,650	46,923,315

Note: In connection with the acquisition of 51% interest in Fosse Bio in the year ended 31 March 2004, the Target Company owed the vendor of the 51% interest in Fosse Bio ("**Fosse Bio Vendor**") HK$31,780,000 being the third and fourth installment payments for the acquisition in accordance with the agreement for sale and purchase of shares. When Extrawell (BVI) Limited ("**EBVI**"), a subsidiary of Extrawell Pharmaceutical Holdings Limited ("**Extrawell**"), acquired 51% interest in the Target Company in the year ended 31 March 2004, the balance remained outstanding in the books of the Target Company. The vendors of the 51% interest of the Target Company (the "**Smart Ascent Vendors**") undertook that they would pay this balance of HK$31,780,000 in full. As security for this undertaking, Smart Ascent Vendors pledged to the Group the remaining 49% interest in the Target Company owned by them. Upon completion of the acquisition of the remaining 49% interest in the Target Company by EBVI in July 2013, the amounts of HK$31,780,000 had been settled by way of (i) offsetting certain amount due to Smart Ascent Vendors; (ii) offsetting certain amounts due by EBVI; and (iii) the remaining balance of HK$2,000,000 due to Smart Ascent Vendors was waived by Smart Ascent Vendors and recognised as sundry income in the statement of comprehensive income during the period ended 28 February 2014.

14. CASH AND CASH EQUIVALENTS

	At 28/2/2014	At 31/3/2013	At 31/3/2012	At 31/3/2011
	HK$	*HK$*	*HK$*	*HK$*
Cash and bank balances	87,183	88,797	116,309	12,474
Maximum exposure to credit risk	84,730	85,379	113,426	10,077

The carrying amounts of the cash and cash equivalents were denominated in Hong Kong dollars.

15. ACCRUALS AND OTHER PAYABLES

	At 28/2/2014	At 31/3/2013	At 31/3/2012	At 31/3/2011
	HK$	*HK$*	*HK$*	*HK$*
Accruals and other payables	2,487,551	244,657	244,657	455,479

The carrying amounts of the accruals and other payables approximated their fair values and were denominated in the following currencies:

	At 28/2/2014	At 31/3/2013	At 31/3/2012	At 31/3/2011
	HK$	*HK$*	*HK$*	*HK$*
Renminbi	–	–	–	48,769
Hong Kong dollars	2,487,551	244,657	244,657	406,710
	2,487,551	244,657	244,657	455,479

16. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due was unsecured, interest-free, repayable on demand and was denominated in Hong Kong dollars.

The carrying amount of the amount due to a fellow subsidiary approximated its fair value as at 31 March 2012.

17. AMOUNTS DUE TO NON-CONTROLLING INTERESTS, AMOUNTS DUE TO FORMER NON-CONTROLLING INTERESTS, AMOUNTS DUE TO SHAREHOLDERS, AMOUNT DUE TO A NON-CONTROLLING INTEREST AND LOAN FROM A NON-CONTROLLING INTEREST

	At 28/2/2014	At 31/3/2013	At 31/3/2012	At 31/3/2011
	HK$	*HK$*	*HK$*	*HK$*
Amounts due to non-controlling interests				
Non-current portion:				
Fordnew Industrial Limited *(notes b, c and e)*	6,025,130	5,532,009	5,032,320	8,564,481
Zheng Chang Xue *(notes b, c and e)*	–	1,589,022	1,445,490	2,460,073
Groupmark Investment Group Limited *(notes b, c and e)*	1,658,206	1,478,381	1,344,844	2,288,784
Feel So Good Limited *(notes b, c and e)*	–	467,360	425,144	723,551
Hou Shi Chang *(notes b, c, and e)*	–	280,415	255,087	434,131
	7,683,336	9,347,187	8,502,885	14,471,020
Amounts due to former non-controlling interests				
Non-current portion:				
Zheng Chang Xue *(notes b, c, e and i)*	1,711,834	–	–	–
Feel So Good Limited *(notes b, c, e and i)*	503,481	–	–	–
Hou Shi Chang *(notes b, c, e and i)*	302,088	–	–	–
	2,517,403	–	–	–
Amounts due to shareholders				
Non-current portion:				
Ong Cheng Heang *(notes b, d and g)*	–	8,354,281	6,691,670	7,380,220
Extrawell (BVI) Limited *(notes b and d)*	32,329,783	8,695,272	6,964,800	7,681,453
	32,329,783	17,049,553	13,656,470	15,061,673
Current portion:				
Ong Cheng Heang *(notes a and f)*	–	7,066,427	6,985,362	4,973,929
Extrawell (BVI) Limited *(notes a and f)*	–	7,496,845	7,416,603	8,847,714
	–	14,563,272	14,401,965	13,821,643
Amount due to a non-controlling interest				
Current portion:				
Fordnew Industrial Limited *(notes a and d)*	20,403,892	32,403,892	32,403,892	32,403,892
Loan from a non-controlling interest				
Non-current portion:				
Fordnew Industrial Limited *(note h)*	6,197,329	5,997,584	4,806,529	–

Notes:

(a) The amounts due were unsecured, interest-free and repayable on demand.

(b) The amounts due were unsecured, interest-free and have no fixed terms of repayment.

(c) The amounts represent contributions made by non-controlling interests of Fosse Bio in respect of working capital and operation funds for the further clinical trial of the oral insulin project, and the corresponding outstanding contributions receivable from them are recorded as amounts due from non-controlling interests in note 12.

(d) The amounts due were denominated in the following currencies:

	At 28/2/2014 *HK$*	**At 31/3/2013** *HK$*	**At 31/3/2012** *HK$*	**At 31/3/2011** *HK$*
Amounts due to shareholders – non-current portions:				
Renminbi	6,352,454	11,051,969	8,849,941	–
Hong Kong dollars	25,977,329	5,997,584	4,806,529	15,061,673
	32,329,783	17,049,553	13,656,470	15,061,673
Amount due to a non-controlling interest – current portion:				
Hong Kong dollars	20,403,892	32,403,892	32,403,892	32,403,892

(e) The amounts due were denominated in following currencies:

	At 28/2/2014 *HK$*	**At 31/3/2013** *HK$*	**At 31/3/2012** *HK$*	**At 31/3/2011** *HK$*
Amounts due to non-controlling interests				
Hong Kong dollars	62,695	83,593	–	–
Renminbi	7,620,641	9,263,595	8,502,885	14,471,020
	7,683,336	9,347,188	8,502,885	14,471,020
Amounts due to former non-controlling interests				
Hong Kong dollars	20,899	–	–	–
Renminbi	2,496,504	–	–	–
	2,517,403	–	–	–

(f) The amounts due were denominated in Renminbi.

(g) Ong Cheng Heang is a shareholder of Target Company which owns 51% equity interest in Fosse Bio as at 31 March 2011, 2012 and 2013. Upon the completion of acquisition of 49% equity interest of the Target Company by EBVI, EBVI become the sole shareholder of the Target Company in July 2013.

(h) This represents a loan made by Fordnew Industrial Limited ("**Fordnew**") to Fosse Bio pursuant to the loan agreement entered into between the Target Company and Fordnew on 25 May 2011. The loan is denominated in Hong Kong dollars, which is unsecured and non-interest bearing. Details of the loan are disclosed in note 12 and note 25 to this Consolidated Financial Information.

(i) During the reporting period Zheng Chang Xue, Hou Shi Chang and Feel So Good Limited disposed all their shareholdings in Fosse Bio, and therefore are no longer the shareholders of Fosse Bio as at 28 February 2014.

18. DEFERRED TAX ASSETS

No provision for deferred taxation has been made in the Consolidated Financial Information as the tax effect of taxable temporary differences is immaterial to the Target Group.

19. SHARE CAPITAL

	At 28/2/2014	**At 31/3/2013**	**At 31/3/2012**	**At 31/3/2011**
	HK$	*HK$*	*HK$*	*HK$*
Authorised, issued and fully paid:				
10,000 ordinary shares	10,000	10,000	10,000	10,000

20. CAPITAL RISK MANAGEMENT

The Target Group's objectives on managing capital are to safeguard the Target Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services commensurate with the level of risk.

The Target Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Target Group is not subject to any externally imposed capital requirement.

21. DETAILS OF SUBSIDIARIES

Particulars of the Target Company's principal subsidiaries as at 31 March 2011, 2012, 2013 and 28 February 2014 are as follows:

Name	**Place of incorporation/ registration and operations**	**Issued and paid-up capital/ registered capital**	**Effective interest directly held by the Target Company**	**Principal activities**
Fosse Bio-Engineering Development Limited ("**Fosse Bio**") *(note a)*	Hong Kong/ The PRC	10,000 ordinary shares	51%	Development and commercialisation of oral insulin products
Welly Surplus Development Limited ("**Welly Surplus**")	Hong Kong	100 ordinary shares	51%	Inactive

Name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Effective interest directly held by the Target Company	Principal activities
Nation Joy Industries Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100%	Net yet commence business

Note:

(a) The interest in Fosse Bio was acquired by the Target Company in the year ended 31 March 2004. In connection to the acquisition, the Target Company owed the vendor of the 51% interest in Fosse Bio ("**Fosse Bio Vendor**") in amount of HK$31,780,000 being the third and fourth installment payments for the acquisition and according to the agreement for sale and purchase of shares in relation thereon, the repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trials and of the Product by the CFDA.

When EBVI acquired the 51% interest in the Target Company in the year ended 31 March 2004, the balance in the amount of HK$31,780,000 remained outstanding in the books of the Target Company and remained outstanding as at 31 March 2011, 2012 and 2013. The vendors of the 51% interest of the Target Company (the "**Smart Ascent Vendors**") undertook that they would pay this balance of HK$31,780,000 in full as and when the amount becomes due and payable. As the security for this undertaking, Smart Ascent Vendors pledged to the Group the remaining 49% interest in the Target Company still owned by them. As at 28 February 2014, the balance in the amount of HK$19,780,000 remained outstanding.

Upon the completion of the acquisition of the remaining 49% equity interest in the Target Group by EBVI in July 2013, the security of the undertaking has been released and the Smart Ascent Vendors has provided cash deposit of HK$31,780,000 to EBVI for the undertaking of the amount due to Fosse Bio Vendor.

22. SEGMENT INFORMATION

The Target Group is principally engaged in development and commercialisation of oral insulin products. The directors consider that there is only one business segment significant enough for disclosure. Information reported to the Target Group's chief operating decision maker, for the purpose of resources allocation and assessment performance is focused on the operating results of the Target Group as a whole as the Target Group's resources are integrated and no discrete financial information is available. Accordingly, no segment analysis is presented.

The Target Group's operations are principally located in Hong Kong. Accordingly, no geographical segment information is presented.

23. FINANCIAL INSTRUMENT BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting periods are as follows:

Financial assets – Loan and receivables

	At 28/2/2014 HK$	At 31/3/2013 HK$	At 31/3/2012 HK$	At 31/3/2011 HK$
Amounts due from a shareholder	19,780,000	–	–	–
Amounts due from former non-controlling interests	1,694,552	–	–	–
Amounts due from non-controlling interests	5,214,780	6,055,781	6,139,996	12,969,890
Loan to a non-controlling interest	6,197,329	5,997,584	4,806,529	–
Deposits and other receivables	5,284,431	33,846,561	34,006,190	46,923,315
Cash and cash equivalents	87,183	88,797	116,309	12,474
	38,258,275	45,988,723	45,069,024	59,905,679

Financial liabilities – Other liabilities

	At 28/2/2014 HK$	At 31/3/2013 HK$	At 31/3/2012 HK$	At 31/3/2011 HK$
Accruals and other payables	2,487,551	244,657	244,657	455,479
Amount due to a fellow subsidiary	–	–	69,348	–
Amounts due to shareholders	32,329,783	31,612,825	28,058,435	28,883,316
Loan from a non-controlling interest	6,197,329	5,997,584	4,806,529	–
Amounts due to former non-controlling interests	2,517,403	–	–	–
Amounts due to non-controlling interests	28,087,228	41,751,080	40,906,777	46,874,912
	71,619,294	79,606,146	74,085,746	76,213,707

24. COMMITMENTS

(i) In connection with the acquisition of the interest in Fosse Bio as disclosed in this Consolidated Financial Information, the Target Company had a commitment to advance an interest-free loan to Fosse Bio Vendor and/or other shareholders of Fosse Bio to cover expenses relating to clinical trials of the Product.

On 25 May 2011, the Target Company has conditionally agreed to grant an unsecured, non-interest bearing loan in the aggregate amount of up to HK$30,000,000 to Fordnew Industrial Limited ("**Fordnew**") for its onward lending to Fosse Bio, for payment of expenses relating to the clinical trial of the Product.

As Fordnew owns 29% interest in the issued share capital of Fosse Bio and is a substantial shareholder of Fosse Bio, the grant of the loan by the Target Company to Fordnew constitutes a connected transaction for Extrawell, which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further details regarding the transaction are set out in Extrawell's announcement and circular dated 25 May 2011 and 30 June 2011 respectively.

Independent shareholders' approval for the provision of financial assistance to Fordnew had been obtained at the special general meeting of the Company held on 19 July 2011.

On 22 July 2011, 6 August 2012 and 29 October 2013, Fordnew drew down approximately HK$4,807,000, HK$1,191,000 and HK$199,745 respectively, and as such the remaining unutilised balance available for Fordnew is HK$23,802,255 as at 28 February 2014.

(ii) On 19 October 2006, Sea Ascent Investment Limited ("**Sea Ascent**"), Welly Surplus, and Fosse Bio, entered into a cooperation agreement (the "**Cooperation Agreement**") in connection with the cooperation (the "**Cooperation**") between Sea Ascent and Welly Surplus in respect of the following:

(1) Sea Ascent shall procure its wholly owned subsidiary, Joy Kingdom Industrial Limited ("**Joy Kingdom**"), to establish a wholly foreign owned enterprise in the PRC in the name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("**Jiangsu Prevalence**");

(2) Sea Ascent shall advance a sum equivalent to RMB40 million to Joy Kingdom by way of an unsecured, non-interest bearing shareholder's loan ("**Shareholder's Loan**") for the payment of the registered capital of Jiangsu Prevalence and the acquisition of land and construction of a factory (the "**Plant**") at Pi Zhou City, Jiangsu, the PRC for the production of the Group's Oral Insulin Enteric-Coated Soft Capsules (the "**Medicine**");

(3) Subject to Sea Ascent's performance of its obligations as aforesaid and completion of the acquisition of Joy Kingdom by Welly Surplus as mentioned below, Welly Surplus shall procure Joy Kingdom or Jiangsu Prevalence, if so agreed, to pay to Sea Ascent, during a period of six years from the date on which the Medicine is launched for sales in open market (the "**Initial Operating Period**"), a fee at RMB6 cents for each capsule of the Medicine produced (subject to a maximum fee of RMB180 million for each year and deduction as specified in the Cooperation Agreement); and

(4) Unless the New Medicine Certificate in respect of the Medicine has not been granted by the relevant PRC authorities, Welly Surplus shall procure Fosse Bio to allow the manufacturing of the Medicine by Jiangsu Prevalence and to assist Jiangsu Prevalence to obtain the relevant Pharmaceutical Manufacturing Permit (藥品生產許可證) for the manufacture of the Medicine during the Initial Operating Period.

Under the Cooperation Agreement, Fosse Bio has agreed to guarantee the due performance by Welly Surplus of its obligations and liabilities ("**Secured Liabilities**") as mentioned in the above paragraphs, provided that the maximum liability of Fosse Bio under such guarantee shall not exceed 51% of the Secured Liabilities. The Cooperation Agreement became effective upon the shareholders' approval in the special general meeting of the Company held on 3 January 2007, until the expiry of the Initial Operating Period.

On 19 October 2006, Sea Ascent and Welly Surplus also entered into a sale and purchase agreement (the "**SP Agreement**") pursuant to which Sea Ascent agreed to sell and Welly Surplus agreed to acquire (i) the entire share capital (the "**Sale Share**") in Joy Kingdom and (ii) the Shareholder's Loan at considerations of RMB40 million and HK$1 respectively (the "**Consideration**"). The completion of the SP Agreement was subject to, among other conditions, approval of the SP Agreement by the Extrawell's shareholders, the Cooperation Agreement becoming effective and the completion of the construction of the Plant by Jiangsu Prevalence in accordance with the terms of the Cooperation Agreement. The SP Agreement was approved in the special general meeting of Extrawell held on 3 January 2007. The original longstop date of the SP Agreement was on at before 12:00 noon on 30 November 2007 or such later date and time as the parties may mutually agree. On 8 April 2009, Welly Surplus and Sea Ascent signed a confirmation whereby both parties agreed to extend the longstop date of the SP Agreement to 30 June 2010. It is noted that the extended longstop date has lapsed and as at the Latest Practicable Date, Welly Surplus and Sea Ascent have not further extended the longstop date of the SP Agreement. In light of the progress of the further clinical trial, Welly Surplus and Sea Ascent have not yet concluded the revised completion timetable in relation to the construction of the Plant by 30 June 2010, and therefore the extension of the long stop date of SP Agreement is yet to be concluded. The SP Agreement has not yet become unconditional and the Consideration has not yet been due and paid up to the date of approval of this Consolidated Financial Information.

As at the date of this report, Welly Surplus and Sea Ascent have not extended the long stop date of the SP Agreement. Based on the progress of the clinical trial and approval process of the Medicine by the CFDA, Welly Surplus would decide the date for extension of the SP Agreement and completion of the construction of the Plant. In the case that the construction is not completed as scheduled, there could be adverse impact on the commencement of production and commercialisation of the Medicine.

(iii) Pursuant to clinical trial of the oral insulin project, Fosse Bio has entered into service contracts with 瀋陽鑫泰格爾醫藥科技開發有限公司 (the "**Project Administrator**") dated 16 December 2009 with value in total of RMB12,080,000 for provision of clinical trial management services and the related clinical studies.

The amounts paid to the Project Administrator and the aggregate authorised contract values not provided for in this Consolidated Financial Information are as follows:

	Amount paid *RMB*	**Contract value not provided** *RMB*
As at 28 February 2014	9,475,000	2,605,000
As at 31 March 2013	9,475,000	2,605,000
As at 31 March 2012	9,475,000	2,605,000
As at 31 March 2011	5,500,000	6,580,000

25. RELATED PARTY TRANSACTIONS

In addition to those already disclosed in the notes to the Consolidated Financial Information, the Target Group had the following related party transactions during the three years ended 31 March 2011, 2012, 2013 and the eleven months ended 28 February 2014:

On 25 May 2011, the Target Company has conditionally agreed to grant an unsecured, non-interest-bearing loan in the aggregate amount of up to HK$30 million to Fordnew for its onward lending to Fosse Bio, a 51% owned subsidiary of the Target Company, for payment of expenses relating to clinical trial of the Product. As Fordnew owns 29% interest in the issued share capital of Fosse Bio and is a substantial shareholder of Fosse Bio, the grant of the loan by the Target Company to Fordnew constitutes a connected transaction for Extrawell. Details regarding the transaction are set out respectively in Extrawell's announcement and circular dated 25 May 2011 and 30 June 2011, and the approval of which by Extrawell's independent shareholders at the special general meeting is disclosed in Extrawell's announcement dated 19 July 2011.

On 22 July 2011, 6 August 2012 and 29 October 2013, Fordnew drew down approximately HK$4,807,000, HK$1,191,000 and 199,745 respectively so that it could on-lend these amounts to Fosse Bio for making progress payment to the Project Administrator in connection with the service contracts for the clinical trial. The aforesaid amounts of the loan to Fordnew were contributed by the shareholders of the Target Company.

26. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any of the companies now comprising the Target Group in respect of any period subsequent to 28 February 2014. No dividends or distributions have been declared, made or paid by the companies now comprising the Target Group in respect of any period subsequent to 28 February 2014.

INFORMATION ON TARGET GROUP

According to the information and representations by Extrawell, the Target Group primarily aims to manufacture, market and distribute the Medicine through distributors who then resell the Medicine on a nationwide basis. The key distribution target includes hospitals (including clinics) and drug stores, and through their distribution network it can be extended to pharmacies and other retail outlets for easier access and be purchased by patients with doctor's prescription. Further information of each company within the Target Group are set out below.

The Target Company

According to the information and representations by Extrawell, the Target Company is a private company incorporated in Hong Kong with limited liability, and an indirect wholly-owned subsidiary of Extrawell, having an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1 each, all of which have been issued and are fully paid and beneficially owned by the Vendor as at the date of this circular. The original acquisition cost of the Sale Shares paid by the Extrawell Group was approximately HK$374 million.

The Target Company is principally engaged in investment holding and is the holding company for the Extrawell Group's oral insulin operations. The material assets of the Target Company are Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of the Target Company, and Nation Joy, being a wholly-owned subsidiary of the Target Company.

The consolidated net asset value of the Target Company was approximately HK$254,000,000 as at 31 March 2013. For the financial years ended 31 March 2013 and 31 March 2012, the consolidated net losses both before and after taxation of the Target Company amounted to approximately HK$4,600,000 and HK$6,600,000, respectively. The Target Company recorded no revenue for either financial year.

As the Target Group is engaged in the research, development and commercialization of their oral insulin medication and this product has yet to be commercialized, it is not abnormal that the Target Group has incurred consistent losses commencing from its incorporation and the Target Group's income is derived from exchange gains and waiver of debt by shareholders.

The Company notes that the administrative expenses of the Target Group have been relatively stable, and the research and development expenses as incurred are in line with the progress of the Target Group's development of the oral insulin product.

Consequently, the balance in the statement of financial position of the Target Group has had insignificant fluctuations since 31 March 2011 with most of the change coming in the form of shareholders' loans from its shareholders which has been used to prepay expenses related to the development of the Medicine.

The Target Group has limited financial resources and derives its funding from its shareholders, including those holding a non-controlling interest in the Target Group. The majority of the amounts owed to the creditors have no fixed repayment dates as the creditors are also the shareholders of the Target Group with the intent to continue the going concern status of the Target Group.

The operations of the Target Group largely involve amounts in RMB and HK$ and there is limited foreign exchange risk. The Target Group does not engage in hedging and does not hold investments.

Upon Completion, the Target Company will be owned as to 51% by the Company and become an indirect non wholly-owned subsidiary of the Company. The financial results of the Target Group will become consolidated into the financial statements of the Group and, at the same time, the Target Company will cease to be a subsidiary of the Extrawell Group.

Fosse Bio

According to the information and representations by Extrawell, Fosse Bio is principally engaged in the research and development and commercialisation of oral insulin products since its establishment in 1998. Fosse Bio and Tsinghua University, Beijing entered into the agreements in 1998 (the "**THU Collaboration Arrangement**") in connection with the research and development of the oral insulin products, including the Medicine. Pursuant to the THU Collaboration Arrangement, Fosse Bio will be entitled to commercialise the relevant technologies of the oral insulin products and to manufacture and sell the oral insulin products on an exclusive basis, and Tsinghua University, Beijing, is entitled to 1.5% of Fosse Bio's annual sales upon commercialisation of the oral insulin products. Under the joint research and development by Fosse Bio and Tsinghua University, Beijing under the THU Collaboration Arrangement, an invention "一種製備口服胰島素油相製劑的方法" (a method of production of oil-phase preparation of oral insulin) (the "**Relevant Technologies**") was patented in the PRC in 2004 and in the United States in 2006, which will be expired in April 2021 and April 2022 respectively.

Information on the Medicine

According to the information and representations by Extrawell, 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 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.

The Relevant Technologies are 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 US7,018,980 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.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Unless the context requires, terms used herein shall have the same meanings as those defined in the accountants' report of the Target Group as set out in this appendix.

Set out below is the management discussion and analysis of the Target Group's business, financial results and position for the Relevant Periods.

1. Business Review

As the clinical trial for the Product is still in progress, no revenue was generated in the Target Group during the Relevant Periods. Losses incurred during the Relevant Periods were mainly related to expenses for research and development, staff costs, travelling and other expenses incurred for the purpose of clinical trial.

During the year ended 31 March 2010, the Group had engaged XinTaigoler Medical Technology Co. Ltd. (瀋陽鑫泰格爾醫藥科技開發有限公司), a professional institute in the PRC (the ''Project Administrator'') for provision of services in relation to clinical trial management and related clinical studies.

2. Financial Review

(a) Analysis by business segment

The Target Group represents the primary business segment engaged in the development and commercialisation of the Product, and therefore no further geographical segment information is presented.

(b) Turnover

The Target Group did not generate any turnover in the Relevant Periods.

(c) Administrative expenses and research and development expenses

For the year ended 31 March 2011

Administrative expenses increased by about HK$1,756,000 to HK$2,956,000 when compared to the year ended 31 March 2010, which was mainly attributable to the increase in travelling expenses and staff cost in progressing the clinical trial and the impairment provision for other receivable.

Research and development expenses of about HK$8,126,000 as a result of clinical trial were recognised in the year under review.

For the year ended 31 March 2012

Administrative expenses decreased by about HK$546,000 to HK$2,410,000 when compared to the year ended 31 March 2011.

Research and development expenses of about HK$4,414,000 in accordance with the progress of clinical trial were recognised in the year under review, representing a decrease of about HK$3,712,000 when compared to the year ended 31 March 2011.

For the year ended 31 March 2013

Administrative expenses decreased by about HK$254,000 to HK$2,156,000 when compared to the year ended 31 March 2012.

Research and development expenses of about HK$2,431,000 in accordance with the progress of clinical trial were recognised in the period under review, representing a decrease of about HK$1,983,000 when compared to the corresponding period ended 31 March 2012.

For the eleven months ended 28 February 2014

Administrative expenses decreased by about HK$133,000 to HK$1,974,000 when compared to the corresponding period ended 28 February 2013.

Research and development expenses of about HK$3,679,000 in accordance with the progress of clinical trial were recognised in the period under review, representing an increase of about HK$1,248,000 when compared to the corresponding period ended 28 February 2013.

(d) Deposits, prepayments and other receivables

The aggregate balances of deposits, prepayments and other receivables were about HK$46,920,000, HK$40,070,000, HK$39,910,000 and HK$8,070,000 as at 31 March 2011, 31 March 2012, 31 March 2013 and 28 February 2014 respectively, and as at the respective dates, 31 March 2013, 31 March 2012 and 31 March 2011, these balances included other receivables of HK$31,780,000 due from Smart Ascent Vendors for which the shares representing the 49% interest in the Target Company were pledged to the Group as security.

The Group had deposits of about HK$5,306,000 as at 31 March 2011 and HK$1,919,000 as at 28 February 2014, and had prepayments of about HK$6,061,000, HK$6,066,000 and HK$2,790,000 as at 31 March 2012, 31 March 2013 and 28 February 2014, respectively. These balances represented payments made to the Project Administrator for clinical trial purpose and would be recognised as research and development expenses in accordance with the progress of clinical trial.

The Group had other receivables of about HK$9,837,000, HK$2,226,000, HK$2,067,000 and HK$3,366,000 as at 31 March 2011, 31 March 2012, 31 March 2013 and 28 February 2014 respectively. The decrease in the year ended 31 March 2012 of about HK$7,611,000 related to the return of funds originally designated for costs of clinical trial, which was no longer required after the engagement with the Project Administrator and in light of the progress of clinical trial.

Save as disclosed above, there was no impairment provision made in respect of the aggregate balances of deposits, prepayments and other receivables during the Relevant Periods.

(e) Liquidity and financial resources

The Target Group generally finances its operations by shareholders' contributions.

The total amounts of liabilities due to shareholders, non-controlling interests and former non-controlling interests of the Target Group were about HK$75,758,000, HK$73,772,000, HK$79,361,000 and HK$69,132,000 as at 31 March 2011, 2012 and 2013, and 28 February 2014 respectively. These amounts were unsecured and interest-free.

The Target Group had total cash and bank balances of about HK$12,000, HK$116,000, HK$89,000 and HK$87,000 as at 31 March 2011, 2012 and 2013, and 28 February 2014 respectively.

The Target Group did not have any banking facilities and borrowings and provision of corporate guarantees as at 31 March 2011, 2012, 2013 and 28 February 2014.

(f) Capital structure

The authorised, issued and fully paid share capital of the Target Company was 10,000 ordinary shares of HK$1.00 each as at 31 March 2011, 2012 and 2013 and 28 February 2014 respectively. There was no movement during the Relevant Periods.

The Target Company's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services commensurate with the level of risk.

The Target Group monitors capital using a gearing ratio, which is the Target Group's total liabilities over its total assets, and its policy is to keep the gearing ratio at a reasonable level. The ratio was 0.22, 0.22, 0.24 and 0.22 as at 31 March 2011, 2012 and 2013, and 28 February 2014 respectively.

(g) Significant investment held

The Target Group had intangible assets of HK$281,473,000 as at 31 March 2011, 2012 and 2013 and 28 February 2014, which represents the technological know-how in relation to the Medicine and the exclusive right for the commercialisation of the Medicine.

The Product is still at the stage of further clinical trial in the PRC.

(h) Material acquisitions and disposals

During the Relevant Periods, the Target Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

(i) Contingent liabilities and charged assets

The Target Group did not have contingent liabilities and charged assets as at 31 March 2011, 2012 and 2013, and 28 February 2014.

(j) Employees and remuneration policy

The Target Group had 8, 7, 7 and 7 employees as at 31 March 2011, 2012 and 2013, and 28 February 2014 respectively. Staff cost was about HK$1,199,000, HK$1,223,000, HK$1,365,000 and HK$1,238,000 in the years ended 31 March 2011, 2012 and 2013, and the eleven months ended 28 February 2014, respectively.

Employees are remunerated based on industry practices and are determined with reference to individual performance.

(k) Foreign exchange risk

The Target Group operates mainly in Hong Kong and the PRC, and is exposed to foreign currency exchange rate risk arising from foreign currency exposures, primarily with respect to United States dollars.

The Target Group considers that the Hong Kong dollars are reasonably stable with the United States dollars under the Linked Exchange Rate System, and accordingly did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the Relevant Periods.

(l) Future plans on material investment

As at 31 March 2011, 2012 and 2013, and 28 February 2014, the Target Group had no plans on material investment or capital assets.

HISTORY OF 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 Extrawell Circular, 2007 Extrawell Circular, 2009 Extrawell Circular and 2013 Extrawell Circular for illustration purposes only:-

A. 2004 Extrawell Company Circular

The following information is extracted from the 2004 Extrawell 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 Extrawell 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 Extrawell 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 Extrawell, 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 Extrawell Circular.

B. 2007 Extrawell Circular

The following information is extracted from the 2007 Extrawell 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 Extrawell allotting and issuing, credited as fully paid, the shares of Extrawell at the issue price of HK$2.563 per share of Extrawell in the following manner:-

(i) 273 million shares of Extrawell 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 Extrawell 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 20 August 2007, being the latest practicable date prior to the printing of the 2007 Extrawell Circular for ascertaining certain information contained therein.

Smart Ascent is principally engaged in investment holding and is the holding company for Extrawell'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 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 Target 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 the Target Group;

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

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

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

(5) the risks facing by the Target 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 Target Group will operate its business on continuous basis;

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

(3) the financial forecasts of the Target Group are achievable;

(4) there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which the Target 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 Target 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 Target 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 Target Group will not make any decision, which is harmful to the revenue generation ability of the Target Group's business; and

(8) the Target 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 Extrawell were concerned and in the interest of Extrawell 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 Extrawell Circular.

C. 2009 Extrawell Circular

The following information is abstracted from the 2009 Extrawell Circular:-

(i) Background information

Mr. Ong was the son in-law of Mr. Ho Chin Hou ("**Mr. Ho**"), a former director of Extrawell 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, Extrawell took ratification actions to seek approval from independent shareholder of Extrawell for the 2004 Smart Ascent Acquisition.

According to the announcement of Extrawell 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 Extrawell at the special general meeting of Extrawell 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 Mr. Ong as on 18 May 2009, being the latest practicable date prior to the printing of the 2009 Extrawell 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 Extrawell 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 Target 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 Target 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 Target Group and the bases and assumptions for such results;

(5) the net assets and financial position of Target 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 Target Group in implementing the oral insulin project.

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

(1) Target 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 CFDA after completion of the further stage of clinical trial, which is expected to take approximately 2 years;

(3) the financial forecasts of Target Group are achievable;

(4) there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which Target 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 Target 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 Target 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 Target Group will not make any decision, which is harmful to the revenue generation ability of Target 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 Extrawell 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 Extrawell and in the interests of Extrawell and its shareholders as a whole.

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

D. 2013 Extrawell Circular

The following information is extracted from the 2013 Extrawell 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 Extrawell issuing the convertible bonds of Extrawell in the following manner:

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

(b) as to the principal amount of HK$320,650,000 to Dr. Mao Yumin (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 Dr. Mao Yumin (at the direction of 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 Mr. Ong as at 13 June 2013, being the latest practicable date prior to the printing of the 2013 Extrawell Circular for ascertaining certain information contained therein.

Smart Ascent is principally engaged in investment holding and is the holding company for Extrawell 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 Extrawell in the development of the Medicine.

According to the announcement of Extrawell dated 16 July 2013 concerning completion of supplemental agreement in relation to acquisition of minority interest in Smart Ascent, the board of directors of Extrawell 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 Extrawell.

(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 Target 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 Target 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 Target 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 Target Group and the bases and assumptions for such results;

(5) the net assets and financial position of Target 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 Target Group in implementing the oral insulin project.

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

(1) Target 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 CFDA after completion of the further stage of clinical trial, which is expected to take approximately 3 years;

(3) the financial forecasts of Target Group are achievable;

(4) there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which Target 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 Target 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 Target 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 Target Group will not make any decision, which is harmful to the revenue generation ability of Target 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 Extrawell and the entering into of the Acquisition Agreement was in the interests of Extrawell 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 Extrawell were concerned and in the interests of Extrawell and its shareholders as a whole.

For more details and information, please refer to the 2013 Extrawell 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 Extrawell Circular, 2007 Extrawell Circular, 2009 Extrawell Circular and 2013 Extrawell Circular respectively, for illustration purposes only:-

	2004 Extrawell Circular	2007 Extrawell Circular	2009 Extrawell Circular	2013 Extrawell 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 Target 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 Extrawell Circular	2007 Extrawell Circular	2009 Extrawell Circular	2013 Extrawell 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)*	–	–	–

Extrawell 2013 Annual Result on Smart Ascent

*(a) Acquisition of 49% minority interest in Smart Ascent Limited ("**Smart Ascent**")*

According to the Extrawell 2013 Annual Result, Extrawell Group via its wholly owned subsidiary Extrawell (BVI) Limited ("**Extrawell BVI**") owns 51% interest in Smart Ascent which is the holding company of Extrawell Group's oral insulin operations, and the remaining 49% of which is owned by Mr. Ong.

In connection with the proposed acquisition of the 4,900 ordinary shares in Smart Ascent (the "**Acquisition**") and pursuant to a conditional sale and purchase agreement entered into between Extrawell BVI as purchaser and Mr. Ong as vendor on 27 July 2007 (the "**2007 Agreement**"), at the consideration of HK$768,900,000, 300,000,000 new shares of Extrawell would be allotted and issued to Mr. Ong upon completion of the 2007 Agreement.

On 23 February 2013, Extrawell BVI and Mr. Ong entered into a supplemental agreement (the "**Supplemental Agreement**") to amend certain terms and conditions of the 2007 Agreement, in particular, the consideration has been revised to HK$660,000,000 which will be satisfied by (i) cash payment of HK$18,700,000 and (ii) Extrawell issuing zero coupon convertible bonds as to the principal amount of HK$641,300,000, at the conversion price of HK$0.6413 each, if fully converted, 1,000,000,000 new shares of Extrawell will be issued.

The Acquisition constitutes a major transaction of Extrawell under Chapter 14 of the Listing Rules, and as Mr. Ong is a substantial shareholder of a subsidiary of Extrawell by virtue of his interest in Smart Ascent, and Dr. Mao is also interested in the Acquisition by virtue of his transaction under the Sub-sale Agreement with Mr. Ong, the Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further details regarding the Acquisition are disclosed in Extrawell's announcement dated 27 February 2013, and the circular dated 18 June 2013. The special general meeting to approve the Acquisition has not been held at the date of approval of these consolidated financial statements.

(b) Advances made to Smart Ascent

Extrawell BVI has made advances to Smart Ascent since its acquisition of 51% equity interest in March 2004. The advances are unsecured, non-interest-bearing and repayable on demand. As at 31 March 2013, the outstanding balance of these advances was approximately HK$16,194,000 (31 March 2012: approximately HK$14,381,000).

*(c) Provision of financial assistance to Fordnew Industrial Limited ("***Fordnew***")*

On 25 May 2011, Smart Ascent has conditionally agreed to grant an unsecured, non-interest-bearing loan in the aggregate amount of up to HK$30 million to Fordnew for its onward lending to Fosse Bio-Engineering Development Limited ("**Fosse Bio**"), a 51% owned subsidiary of Smart Ascent, for payment of expenses relating to clinical trial of oral insulin products. The provision of a loan by Smart Ascent to Fordnew constitutes a connected transaction under the Listing Rules as Fordnew is a substantial shareholder holding 29% equity interest in Fosse Bio. Pursuant to a special general meeting of Extrawell held on 19 July 2011, an ordinary resolution was passed by independent shareholders of Extrawell to approve the loan.

On 6 August 2012, Fordnew made a drawdown notice for the sum of approximately HK$1,191,000 to Smart Ascent so that it could on-lend the sum to Fosse Bio for making progress payment to the project administrator in connection with the service contract for the clinical trial. The drawdown of HK$1,191,000 was funded by shareholders of Extrawell BVI and Mr. Ong based on their respective equity interests of 51% and 49% in Smart Ascent.

Extrawell 2013 Interim Result on Smart Ascent

(i) Prospect

According to the Notes to the Condensed Consolidated Financial Information of the 2013/14 Interim Report of Extrawell, on 16 July 2013, the Target Company, formerly a 51% owned subsidiary of Extrawell and the immediate holding company of Extrawell's oral insulin operations, has become a wholly-owned subsidiary of Extrawell upon completion of Extrawell's acquisition for the 49% non-controlling interest in the Target Company. The results of Extrawell's special general meeting approving the said acquisition as held on 4 July 2013 are disclosed in Extrawell's announcement on the even date, and details regarding the said acquisition are disclosed in Extrawell's announcement dated 27 February 2013 and the circular dated 18 June 2013.

(ii) Emphasis of significant matters

In the 2013 Extrawell Circular, there were two significant matters highlighted in the Accountants' Report on Smart Asent Group in relation to:

(i) the amount of technological know-how of approximately HK$281,473,437 as at 31 March 2010, 2011, 2012 and 28 February 2013 as included in "Intangible assets", and

(ii) an amount of about HK$31,780,000 as at 31 March 2010, 2011, 2012 and 28 February 2013 included in "Other receivables due from connected persons" as current asset.

The emphasis of the aforesaid significant matters as stated in the Accountants' Report is indicated as below:

(i) Technological know-how of approximately HK$281,473,000

"(a) Included in Intangible Assets as at 31 March 2010, 2011, 2012 and 28 February 2013 is a technological know-how with the carrying value of HK$281,473,437 (the ''**Know-how**'') in relation to an oral insulin product (the ''**Product**'') and the exclusive right for the commercialisation of the Product. The Know-how is held by Fosse Bio, a 51% owned subsidiary acquired by the Target Company during the year ended 31 March 2004. In an appraisal conducted by an independent professional valuer, the Know-how is valued at an amount that is not less than HK$281,473,437 as at 31 March 2010, 2011, 2012 and 28 February 2013. Notwithstanding this valuation, the recoverability of the carrying value of the Know-how is still uncertain as it depends on the result of the clinical trials and the successful launching of the Product. Should the outcome of the clinical trials and the launching of the Product be unsuccessful, material adjustments to the carrying value of the Know-how may be required which would have an adverse effect on the business and results of the Target Group."

(ii) Amount of approximately HK$31,780,000

"(b) In connection with the acquisition of the 51% interest in Fosse Bio in the year ended 31 March 2004 as referred to in the above paragraph, the Target Company owed the vendor of the 51% interest in Fosse Bio (''**Fosse Bio Vendor**'') in amount of HK$31,780,000 being the third and fourth installment payments for the acquisition and according to the agreement for sale and purchase of shares in relation thereon, the repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trials and of the Product by the State Food and Drug Administration of the PRC. When the Company acquired the 51% interest in the Target Company in the year ended 31 March 2004, the balance remained outstanding in the books of the Target Company and remained outstanding as at 31 March 2010, 2011, 2012 and 28 February 2013. The vendors of the 51% interest of the

Target Company (the ''**Smart Ascent Vendors**'') undertook that they would pay this balance of HK$31,780,000 in full as and when the amount becomes due and payable. As the security for this undertaking, Smart Ascent Vendors pledged to the Group the remaining 49% interest in the Target Company still owned by them. There is no assurance that the Smart Ascent Vendors are capable of repaying the HK$31,780,000 in full. While this risk of recoverability is mitigated by the shares representing the 49% interest in the Target Company pledged to the Company, the risk continues to exist in the event that the outcome of the clinical trials and the launching of the Product are unsuccessful. The Target Group may suffer a further loss, in addition to any adjustments to the carrying value of the Know-how mentioned above, in respect of this balance of HK$31,780,000 undertaken to be paid by Smart Ascent Vendors."

"Having considered the appraisal report issued by the independent professional valuer on the carrying value of the Know-how and the relevant disclosure in the notes to the Consolidated Financial Information, we consider the uncertainty as to the risks associated with the assets as mentioned in the above two paragraphs have been adequately disclosed in the Consolidated Financial Information and do not find it necessary to make further qualifications in this report in respect of the carrying value of the Know-how or the receivables."

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26 June 2014

United Gene High-Tech Group Limited
Unit No. 2111, 21/F.,
West Tower Shun Tak Centre,
Nos. 168–200 Connaught Road,
Central, Hong Kong

Dear Sir/Madam,

Re: Valuation of 51% Equity Interest in Smart Ascent Limited

In accordance with the instructions from United Gene High-Tech Group Limited (hereinafter referred to as the "**Company**") to us to conduct a business valuation on 51% equity interest in Smart Ascent Limited (hereinafter referred to as the "**Business Enterprise**"), 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 market value of 51% equity interest in the Business Enterprise as at 28 February 2014 (hereinafter referred to as the "**Date of Valuation**").

This report states the purpose of valuation, scope of work, an overview of the Business Enterprise, economic and industry overviews, basis of valuation, investigation and analysis, valuation methodology, cash flow projection, major assumptions, information reviewed, limiting conditions, remarks and opinion of value. Assumptions and estimates employed in this valuation are included in appendix IIIB of the circular. Photos of the site visit for this valuation project are included in appendix I of this report.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Roma Appraisals Limited (hereinafter referred to as "**Roma Appraisals**") acknowledges that this report may be made available to the Company for public documentation purpose only.

Roma Appraisals 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 the information provided by the management of the Company and/or its representative(s) (together referred to as the "**Management**").

In preparing this report, we have had discussions with the Management in relation to the development and prospect of the diabetes pharmaceutical industry, and the development, operations and other relevant information of the Business Enterprise. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable 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.

We do not express an opinion as to whether the actual results of the business operation of the Business Enterprise will approximate those projected because assumptions regarding future events by their nature are not capable of independent substantiation.

In applying these projections to the valuation of the Business Enterprise, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

3. BACKGROUND OF THE BUSINESS ENTERPRISE

The Business Enterprise is a limited company incorporated in Hong Kong, with authorized share capital of HK$10,000 divided into 10,000 shares of HK$1 each. As at the Date of Valuation, it is 100% owned by Extrawell (BVI) Limited, a wholly-owned subsidiary of Extrawell Pharmaceutical Holdings Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited.

The Business Enterprise is principally engaged in investment holding and is the holding company for the oral insulin project (hereinafter referred to as the "**Project**"). The material assets of the Business Enterprise are 100% equity interest in Nation Joy Industries Limited ("**Nation Joy**"), 51% equity interest in Fosse Bio-Engineering Limited ("**Fosse Bio**") and 51% equity interest in Welly Surplus Development Limited ("**Welly Surplus**"). Nation Joy is an investment holding company and is a wholly-owned subsidiary of the Business Enterprise. Fosse Bio is principally engaged in oral insulin product development and its oral insulin products are currently under part B of the Phase III clinical trials in the PRC. Welly Surplus is principally engaged in manufacture and distribution of the oral insulin products.

The Project researches and develops oral insulin pills. As at the Date of Valuation, there is no oral insulin product in the market. The Project has already completed phases I, II and part A of Phase III of the clinical trials under the China Food and Drug Administration of the People's Republic of China ("**CFDA**"). The result of part B of Phase III clinical trials is expected to be submitted to the CFDA in 2015. The oral insulin will be sold as a prescription drug in the PRC and its target customers include both type I and type II diabetic patients.

An invention, namely "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), has been registered as 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 People's Republic of China 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.

4. ECONOMIC OVERVIEW

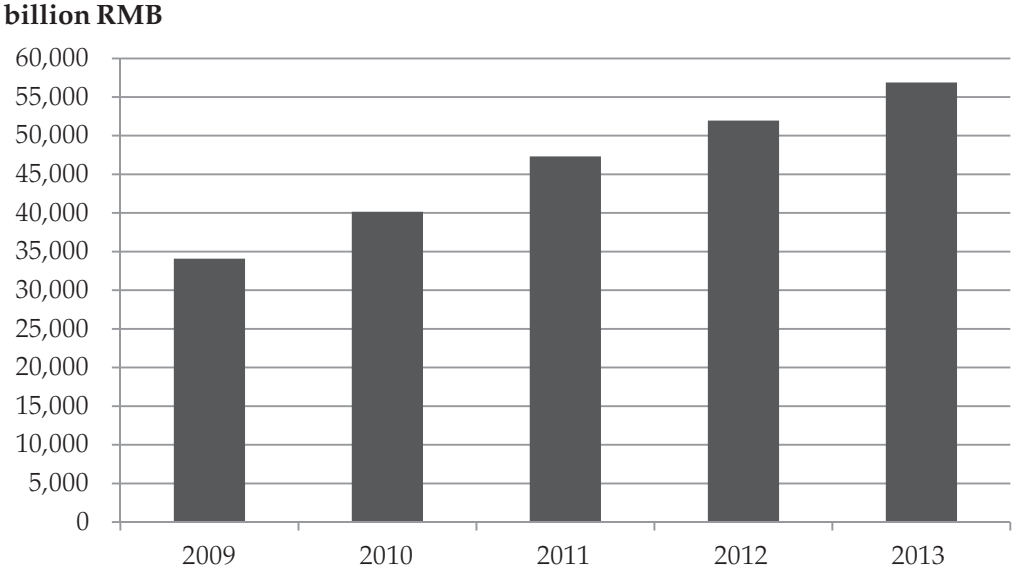
4.1 Overview of the Economy in the PRC

According to the National Bureau of Statistics of China, the nominal gross domestic product ("**GDP**") of the PRC in the full year of 2013 was RMB56,884.5 billion, an increase of 9.5% over last year. The PRC was the third largest economy in the world, ranked after the European Union and the United States, in terms of nominal GDP measured by the International Monetary Fund ("**IMF**") in 2012. Despite the global financial crisis in late 2008, the PRC economy continued to be supported by the Chinese government through spending in infrastructure and real estates.

Throughout 2009, the global economic downturn reduced foreign demand for PRC exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make the PRC less dependent on foreign exports. The PRC economy rebounded quickly in 2010, outperforming all other major economies with robust GDP growth and the economy remained in strong growth in 2011 and 2012.

Over the past decade from 2004 to 2013, compound annual growth rate of PRC's nominal GDP was 15.4% and in the government's latest plan, it is targeted to grow at 7% for the period from 2011 to 2015. Figure 1 further illustrates the nominal GDP of PRC from 2009 to 2013.

Figure 1 – PRC's Nominal Gross Domestic Product from 2009 to 2013

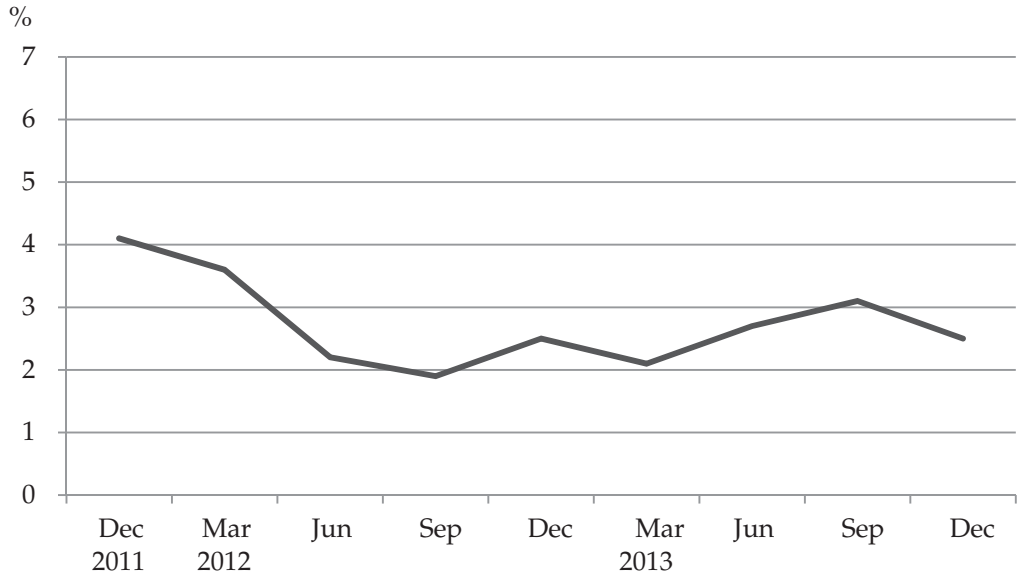


Source: National Bureau of Statistics of China

4.2 Inflation in the PRC

Tackling inflation problem has long been the top priority of the PRC government as high prices are considered as one of the causes of social unrest. For such a fast-growing economy, the middle-class' demand for food and commodities has been rising continuously. Inflation in the PRC has been driven mainly by food prices, which have been stayed high in 2011. According to the National Bureau of Statistics of the PRC, the consumer price index demonstrated an uptrend in the first half of 2011. Thanks to the government's policies in suppressing commodity prices, the inflation slowed in the second half of 2011 and first half of 2012 and maintained at around 2% to 3% during 2013. Figure 2 shows the year-over-year change in consumer price index of the PRC from December 2011 to December 2013.

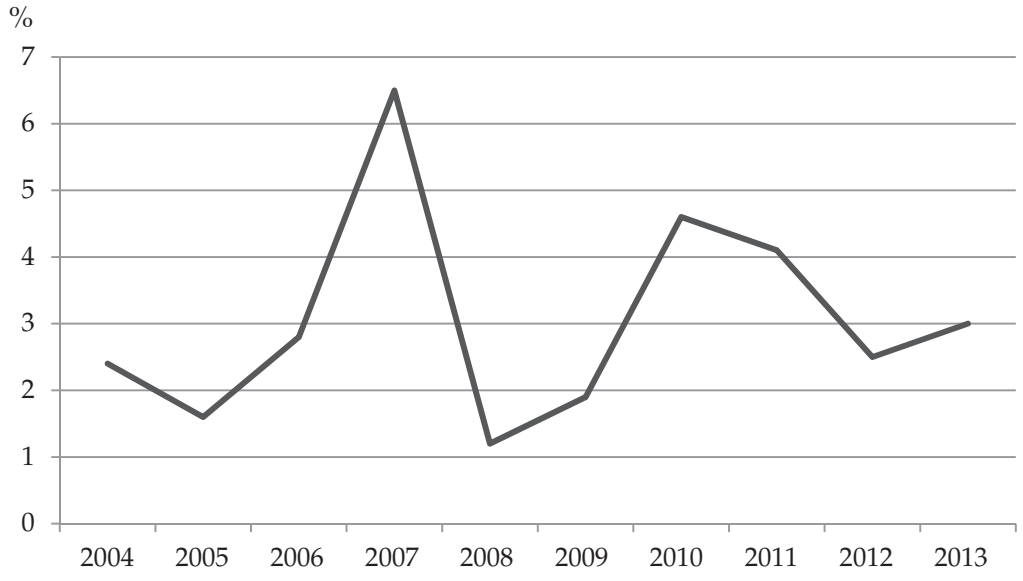
Figure 2 – Year-over-year Change in the PRC's Consumer Price Index from December 2011 to December 2013



Source: *National Bureau of Statistics of China*

The PRC's inflation rate was volatile during the past decade. According to the IMF, the average inflation rate in the PRC increased sharply from 2.8% in 2006 to 6.5% in 2007, and then dropped drastically to 1.2% and 1.9% in 2008 and 2009 respectively. The inflation rate rebounded and increased to 4.6% in 2010 and maintained at a similar level of 4.1% in 2011. The inflation dropped again in 2012 to 2.5% and rose slightly to 3.0% in 2013. According to the forecast by the IMF, the long-term inflation rate of the PRC is expected to be around 3.0%. Figure 3 shows the historical trend of the PRC's inflation rate from 2004 to 2013.

Figure 3 – the PRC's Inflation Rate from 2004 to 2013



Source: International Monetary Fund

5. INDUSTRY OVERVIEW

5.1 Background of Diabetes

Diabetes is a disease in which the body cannot control the level of glucose in blood which results in a high level of blood glucose. There are two types of diabetes, where type I diabetes is caused by the failure to produce insulin in the body and type II diabetes is due to insulin resistance or insufficient insulin production in the body. According to World Health Organization, 85% to 95% of diabetic patients are classified as type II diabetes. Gestational diabetes may also be developed during pregnancy in which the mother develops resistance to insulin and hence develop into high blood pressure. Gestational diabetes would normally recover after the birth of baby, but both the mother and baby would have higher risk of becoming type II diabetes. Apart from gestational diabetes, people with impaired glucose tolerance and impaired fasting glucose, for example having a high blood glucose level which is lower than a typical diabetes patient, have higher risk to suffer from type II diabetes.

Diabetic patients need to control their level of blood glucose by medications and adjusting life style and diet. Improper control of the level of blood glucose may lead to serious complications of diabetes, such as cardiovascular disease, kidney disease, nerve disease and eye disease. Cardiovascular diseases like heart attack and stroke are the most common causes of death and disability of diabetic patients. Diabetic patients have a higher chance of developing into kidney diseases due to damage of small blood vessels, and eye diseases that may damage vision or cause blindness. Nerve damage may cause problems with digestion and urination, erectile dysfunction and other functions. Due to the damage of the nerves and blood vessel, diabetic patients are prone to various foot problems, increasing the risk of amputation.

5.2 Diabetic Population

According to IDF Diabetes Atlas, 6th Edition published in 2013 by International Diabetes Federation, an umbrella organization of over 230 national diabetes associations in 170 countries and territories, the global diabetic population in 2013 is estimated to be 382 million, which is 8.3% of total adult population with 175 million being diagnosed. 80% of the world diabetic population lives in low and middle income countries and majority of the diabetic population are aged from 40 to 59. It is expected that the diabetic population would increase by 55% to 592 million in 25 years, which would account for 10.1% of world adult population at that time.

According to IDF Diabetes Atlas, 6th edition, the diabetic population in the PRC is estimated to be 98.4 million in 2013, representing 9.6% of the adult population of China, surpassing India to become the country with the largest diabetic population worldwide. PRC alone had 1.3 million deaths due to diabetes in 2013, while the worldwide number was 5.1 million. In 2035, the diabetic population in the PRC is forecasted to become 142.7 million. Such a growth can be attributable to ageing population and rising obesity rate. Figure 4 indicates the top ten countries/territories with the largest number of diabetic population in 2013.

Figure 4 – Top Ten Countries/Territories of the Number of Diabetic Population in 2013

Countries/Territories	**Number of People with Diabetes (20–79 years old)** *(million)*
PRC	98.4
India	65.1
USA	24.4
Brazil	11.9
Russian Federation	10.9
Mexico	8.7
Indonesia	8.5
Germany	7.6
Egypt	7.5
Japan	7.2

Source: International Diabetes Federation

On the other hand, according to the research paper "Prevalence and Control of Diabetes in Chinese Adults" published in The Journal of the American Medical Association, a weekly peer-reviewed medical journal, dated September 2013, the prevalence of diabetes among Chinese adults was 11.6% based on a sample of 98,658 Chinese adults, in which 3.5% of the diabetic population was diagnosed, implying a total diabetic population of 113.9 million in the PRC. Out of the total diabetic population in the PRC, 25.8% received proper treatment. The results of the two aforementioned researches suggest that the PRC is suffering from an epidemic of diabetes and its complications.

5.3 Insulin Market

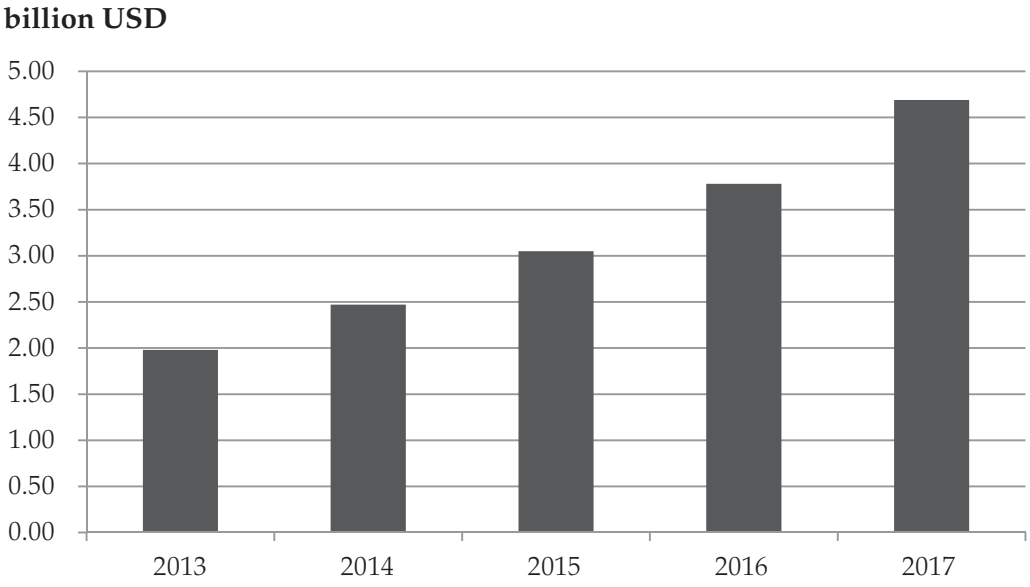
Insulin is a pancreatic hormone that regulates the level of glucose in blood. Type I diabetes must receive insulin injections in order to regular the level of glucose in blood, while type II diabetes could regulate the level of glucose in blood through diet and exercise, or through intake of oral anti-diabetic drugs and insulin injections. According to Research Report on the PRC's Diabetes Drug Market, 2013–2017, published by China Research and Intelligence, a market research and consulting company in Shanghai, 30% to 40% of type II diabetes would eventually adopt insulin injections.

Currently, patients can only intake insulin through injection. Insulin can be injected through insulin syringes and insulin pens, with insulin pens being more widely used. Apart from insulin injection, oral anti-diabetic drugs can be medically used by some of the type II diabetes. However, oral anti-diabetic drugs may lead to various unfavorable side effects, such as hypoglycemia and functional impairment of liver and kidney.

With reference to the IDF Diabetes Atlas, 6th Edition, the global total healthcare spending of diabetes patients was around USD548 billion in 2013. The total spending on diabetic healthcare in the United States spending was USD239 billion, implying an average of USD9,800 diabetic healthcare spending per patient. In the PRC, the spending on diabetic healthcare was USD38 billion, which only accounts for less than 7% of the world total spending, implying an average expenditure of USD333 per diabetic patient per year.

According to the Analysis of the Global Type 2 Diabetes Therapeutics Market issued in September 2013 by Frost and Sullivan, a global business consulting firm, the revenue generated from the insulin market in the PRC was estimated to increase from USD1.98 billion in 2013 to USD4.69 billion in 2017 at a compound annual growth rate of 24%. Figure 5 illustrates the revenue forecast of the PRC's insulin market from 2013 to 2017 by Frost and Sullivan.

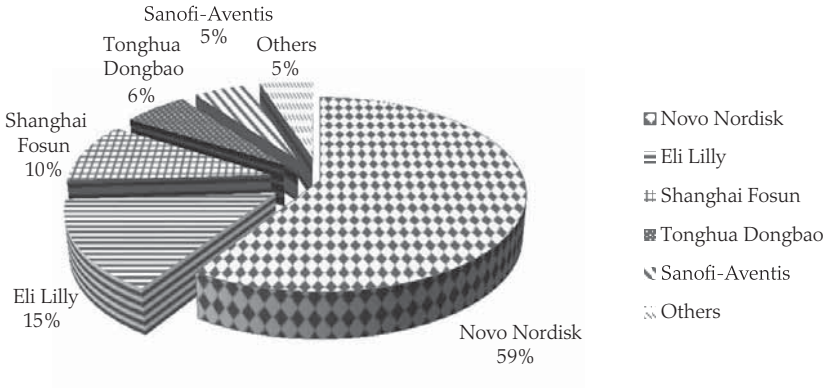
Figure 5 – PRC Insulin Market Revenue Forecast from 2013 to 2017



Source: Frost and Sullivan

According to Monthly Moving Annual Total (MAT) volume figures provided by IMS Health, a world's leading information, services and technology company, around 80% of the market share of the PRC's insulin market in November 2013 was captured by renowned international pharmaceutical companies like Novo Nordisk A/S, a pharmaceutical research and manufacture company that captures the biggest market share in the PRC insulin market, Eli Lilly and Company, and Sanofi-Aventis, while the largest PRC player, Shanghai Fosun (Group) Pharmaceutical Co., Ltd., accounts for 10% market share in November 2013. Figure 6 shows the major players in the PRC's insulin market in November 2013.

Figure 6 – PRC Insulin Market Share by Player in November 2013



Source: *IMS Health*

6. BASIS OF VALUATION

Our valuation is based on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2011, **market value** is defined as "the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

7. INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Business Enterprise. In addition, we have made relevant inquiries and obtained further information and statistical figures regarding the diabetes pharmaceutical industry as we considered necessary for the purpose of the valuation.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable. We have also consulted other sources of financial and business information. We have undertaken a site visit for this valuation project and had interviews with the Management on 27 March 2014.

The valuation of the Business Enterprise requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Business Enterprise;
- The financial condition of the Business Enterprise;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- Relevant licenses and agreements;
- The business risks of the Business Enterprise such as the ability in maintaining competent technical and professional personnel; and
- Investment returns and market transactions of entities engaged in similar lines of business.

8. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the market value of the Business Enterprise, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

8.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

8.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business

entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

8.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("**equity and long term debt**"). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity ("**equity**") and investors who lend money to the business entity ("**debt**"). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

8.4 Business Valuation

In the process of valuing the Business Enterprise, we have taken into account of the uniqueness of its operation and the nature of the diabetes pharmaceutical industry it is participating.

The Market-Based Approach was not adopted in this case because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were hidden. The Asset-Based Approach was also not adopted because it could not capture the future earning potential and thus the market value of the Business Enterprise. We have therefore considered the adoption of the Income-Based Approach in arriving at the market value of the Business Enterprise.

8.4.1 Discounted Cash Flow

Under the Income-Based Approach, we have adopted the discounted cash flow ("**DCF**") method, which is based on a simple reversal calculation to restate all future cash flows in present terms. The expected free cash flow for each year was determined as follows:

Expected Free Cash Flow = Net Profit + Depreciation + After-Tax Interest Expenses – Change in Net Working Capital – Capital Expenditure

The present value of the expected free cash flows was calculated as follows:

$$PVCF = CF_1/(1+r)^1 + CF_2/(1+r)^2 + \bullet\bullet\bullet + CF_n/(1+r)^n$$

In which
PVCF = Present value of the expected free cash flows;
CF = Expected free cash flow;
r = Discount rate; and
n = Number of years.

To adopt this method, we estimated the weighted average cost of capital ("**WACC**") of the Business Enterprise as the discount rate. WACC of the Business Enterprise is the minimum required return that the Business Enterprise must earn to satisfy its various capital providers including shareholders and debt holders. WACC calculation takes into account the relative weights of debt and equity. It is computed using the formula below:

$$WACC = W_e \times R_e + W_d \times R_d \times (1 - T_c)$$

In which
R_e = Cost of equity;
R_d = Cost of debt;
W_e = Weight of equity value to enterprise value;
W_d = Weight of debt value to enterprise value; and
T_c = Corporate tax rate.

8.4.2 Cost of Debt

The cost of debt was determined by the expected borrowing rate of the Business Enterprise. Since the interest expenses paid on debts are tax-deductible for the Business Enterprise, the cost of the Business Enterprise to get debt funds is less than the required rate of return of the suppliers of the debt capital. The after-tax cost of debt was calculated by multiplying one minus the corporate tax rate by the cost of debt.

8.4.3 Cost of Equity

The cost of equity was determined using the Capital Asset Pricing Model ("**CAPM**"), which describes the relationship between the risk of the Business Enterprise and expected return to investors. It is calculated by the following formula:

$$R_e = R_f + \beta \times \text{Market Risk Premium} + \text{Other Risk Premium}$$

In which
R_e = Cost of equity;
R_f = Risk-free rate; and
β = Beta coefficient.

8.4.4 Discount Rate

In the process of determining the WACC, we adopted several listed companies with business scopes and operations similar to those of the Business Enterprise as comparable companies. We noted that no listed companies in the PRC are specifically engaged in the research, development and manufacture of insulin or diabetic care products and most of them have diversified product portfolios.

To appropriately capture the geographical/country risks and the products specific business risk, we considered two groups of comparable companies, namely global insulin/diabetic care products companies and Chinese pharmaceutical companies. The comparable companies were selected mainly with reference to the following selection criteria:

Group A – Global insulin/diabetic care products companies:

- The companies are specifically engaged in research, development and manufacture of insulin and diabetic care products;
- The companies have no/few other pharmaceutical products which are not related to diabetic treatment;
- The companies have sufficient listing and operating histories; and
- The financial information of the companies is available to the public.

Group B – Chinese pharmaceutical companies:

- The companies are principally engaged in research, development and manufacture of pharmaceutical products, excluding Chinese medicine, herbal products and medical equipment, in the PRC;
- The companies have sufficient listing and operating histories; and
- The financial information of the companies is available to the public.

We conducted the search for comparable companies by inputting the selection criteria in an embedded equity search function in Bloomberg. Among all the potential comparable companies as suggested by Bloomberg, we examined the details of each suggested comparable companies and selected all relevant comparable companies which fulfilled the selection criteria. Therefore, based on the selection criteria and the search results returned from Bloomberg, the adopted comparable companies are considered exhaustive and representative.

Details of the comparable companies adopted were listed as follows:

Company Name	Stock Code	Listing Location	Business Description	Adjusted Beta	Market Capitalization *(USD Million)*	Listing Date
Novo Nordisk A/S	NOVOB.DC	Denmark	Novo Nordisk A/S develops, produces, and markets pharmaceutical products. The company focuses on diabetes care and offers insulin delivery systems and other diabetes products. The company also works in areas such as haemostatis management, growth disorders, and hormone replacement therapy. The company offers educational and training materials. The company markets worldwide.	0.880	131,122	17 May 1974
Generex Biotechnology Corporation	GNBT.US	United States	Generex Biotechnology Corporation researches and develops drug delivery systems and technology. The company's initial product is an insulin formulation that is administered as a fine spray into the oral cavity using a hand held aerosol applicator. The company is conducting clinical trials of its product in the United States, Canada, England, and Italy.	2.236	24	Traded on the over-the-counter Bulletin Board (OTCBB) on 4 November 2010

Company Name	Stock Code	Listing Location	Business Description	Adjusted Beta	Market Capitalization *(USD Million)*	Listing Date
Oramed Pharmaceuticals, Inc.	ORMP.US	United States	Oramed Pharmaceuticals, Inc. is a pharmaceutical company focused on the development of oral delivery solution. The company is developing orally ingestible insulin capsules for the treatment diabetes as well as delivery solutions for other drugs and vaccines.	0.614	145	Listed on the NASDAQ Capital Market on 11 February 2013 and have been traded in the OTCQB market until 8 February 2013
Beijing SL Pharmaceutical Co., Ltd.	002038.CH	China	Beijing SL Pharmaceutical Co., Ltd. develops, manufactures and markets genetic engineering drugs, biological drugs, chemical drugs and medicine preparations.	0.845	3,071	9 September 2004
Shanghai RAAS Blood Products Co. Ltd.	002252.CH	China	Shanghai RAAS Blood Products Co. Ltd. specializes in the manufacture of plasma derived medical products for therapeutic use in the areas of immunology, hematology and intensive care medicines. Its subsidiaries and partner companies produce vaccines and Recombinant DNA pharmaceuticals.	0.844	4,630	23 June 2008
Zhejiang Yatai Pharmaceutical Co., Ltd.	002370.CH	China	Zhejiang Yatai Pharmaceuticals Co., Ltd. manufactures medical drugs. The company develops, researches, and manufactures pharmaceuticals including penicillin, cephalosporins, and hormones.	1.073	628	16 March 2010

Company Name	Stock Code	Listing Location	Business Description	Adjusted Beta	Market Capitalization *(USD Million)*	Listing Date
China Resources Double-Crane Pharmaceutical Co., Ltd.	600062.CH	China	China Resources Double-Crane Pharmaceutical Co., Ltd. develops, manufactures and markets a variety of medical products. The company's products include anti-influenza, antihypertensives, and antibiotics.	0.775	1,806	22 May 1997
Guangxi Beisheng Pharmaceutical Co., Ltd.	600556.CH	China	Guangxi Beisheng Pharmaceutical Co., Ltd. researches, develops, and produces blood, biochemical, and dermatological pharmaceuticals. The company's main products include blood albumin, interferon, and thymus peptides.	1.152	235	7 August 2001

Source: Bloomberg

Below is the summary of the key parameters of the WACC of the Business Enterprise adopted as at the Date of Valuation:

Key Parameters	As at 28 February 2014
(a) Risk-free Rate	4.40%
(b) Market Risk Premium	11.82%
(c) Beta Coefficient	0.92
(d) Size Premium	3.81%
(e) Firm Specific Risk Premium	2.00%
(f) Cost of Equity	21.10%
(g) Cost of Debt	6.55%
(h) Weight of Equity Value to Enterprise Value	99.72%
(i) Weight of Debt Value to Enterprise Value	0.28%
(j) Corporate Tax Rate	25.00%
WACC	21.05%

Notes:

(a) The risk-free rate adopted was the yield rate of China 10-year government bond as at the Date of Valuation as extracted from Bloomberg.

(b) The market risk premium adopted was the market risk premium in the PRC stock market as at the Date of Valuation as extracted from Bloomberg.

(c) The beta coefficient adopted was the average (excluding outliers) adjusted beta of the aforementioned comparable companies as at the Date of Valuation as extracted from Bloomberg.

(d) The size premium adopted was the size premium for micro-cap companies with reference to the size premium study conducted by Ibbotson Associates, Inc. as sourced from "2013 Ibbotson SBBI Valuation Yearbook".

(e) The firm specific risk premium adopted was to reflect the business risk and the regulatory risk of the Business Enterprise.

(f) The cost of equity was determined based on Capital Asset Pricing Model ("**CAPM**").

(g) The cost of debt adopted was the China above 5-year best lending rate as at the Date of Valuation as extracted from Bloomberg.

(h) The weight of equity value to enterprise value adopted was derived from the average debt-to-equity ratio of the aforementioned comparable companies as at the Date of Valuation as extracted from Bloomberg.

(i) The weight of debt value to enterprise value adopted was derived from the average (excluding outliers) debt-to-equity ratio of the aforementioned comparable companies as at the Date of Valuation as extracted from Bloomberg.

(j) The corporate tax rate adopted was the corporate tax rate in the PRC.

Hence, we adopted the WACC of 21.05% as the discount rate of the Business Enterprise as at the Date of Valuation.

For illustrative purpose, if only the comparable companies in group A (global insulin/diabetic care products companies) were included in the estimation of the WACC, the beta coefficient would be 0.88 and the weights of equity value and debt value to enterprise value would be 100.00% and 0% respectively. The resulting WACC would be 20.61%.

8.4.5 Marketability Discount

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company.

With reference to the 2013 edition of the FMV Restricted Stock Study Companion Guide, 710 private placement transactions of unregistered common stock, with and without registration right, issued by publicly traded companies from July 1980 through September 2012 were examined to determine the discount for lack of marketability. The average discount for the 715 transactions, excluding premiums, of 21.00% was adopted as the marketability discount in arriving at the market value of the Business Enterprise as at the Date of Valuation.

8.4.6 Sensitivity Analysis

To determine how the different values of an independent variable would impact a particular dependent variable under a given set of assumptions, we carried out a sensitivity analysis on the 51% market value of the Business Enterprise in respect of:

- 1% and 2% deviation in the discount rate;
- 5% and 10% deviation in the selling price per pill;
- 5% and 10% deviation in the production cost per pill;
- 5 million and 10 million deviation in the PRC diabetic population;
- 1% and 2% deviation in the growth rate of the PRC diabetic population;
- 0.25% and 0.5% deviation in the market share; and
- 1 year to 5 years postponement of the time to market.

The results of the sensitivity analysis were as follows:

Applied Discount Rate	**51% Market Value of the Business Enterprise** *(HK$)*	**Difference from Status Quo** *(HK$)*
23.05%	833,000,000	(197,000,000)
22.05%	924,000,000	(106,000,000)
21.05%	1,030,000,000	–
20.05%	1,152,000,000	122,000,000
19.05%	1,294,000,000	264,000,000

Percentage Change in Selling Price	**51% Market Value of the Business Enterprise** *(HK$)*	**Difference from Status Quo** *(HK$)*
+10%	1,351,000,000	321,000,000
+5%	1,191,000,000	161,000,000
0%	1,030,000,000	–
-5%	870,000,000	(160,000,000)
-10%	709,000,000	(321,000,000)

Percentage Change in Production Cost	**51% Market Value of the Business Enterprise** *(HK$)*	**Difference from Status Quo** *(HK$)*
+10%	816,000,000	(214,000,000)
+5%	923,000,000	(107,000,000)
0%	1,030,000,000	–
-5%	1,137,000,000	107,000,000
-10%	1,244,000,000	214,000,000

Change in the PRC Diabetic Population	**51% Market Value of the Business Enterprise** *(HK$)*	**Difference from Status Quo** *(HK$)*
+10 Million	1,133,000,000	103,000,000
+5 Million	1,082,000,000	52,000,000
0	1,030,000,000	–
-5 Million	978,000,000	(52,000,000)
-10 Million	927,000,000	(103,000,000)

Applied China Diabetic Population Growth Rate	51% Market Value of the Business Enterprise *(HK$)*	Difference from Status Quo *(HK$)*
3.7%	1,253,000,000	223,000,000
2.7%	1,136,000,000	106,000,000
1.7%	1,030,000,000	–
0.7%	934,000,000	(96,000,000)
0.0%	871,000,000	(159,000,000)

Absolute Change in Market Share	51% Market Value of the Business Enterprise *(HK$)*	Difference from Status Quo *(HK$)*
+0.50%	1,070,000,000	40,000,000
+0.25%	1,050,000,000	20,000,000
0%	1,030,000,000	–
-0.25%	1,010,000,000	20,000,000
-0.50%	990,000,000	40,000,000

Postponement of Time to Market	51% Market Value of the Business Enterprise *(HK$)*	Difference from Status Quo *(HK$)*
1 year	874,000,000	(156,000,000)
2 years	742,000,000	(288,000,000)
3 years	629,000,000	(401,000,000)
4 years	533,000,000	(497,000,000)
5 years	452,000,000	(578,000,000)

9. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- The Business Enterprise will be operated and developed as planned by the Management;

- The valuation was mainly based on the projections of the future cash flows as provided by the Management. The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Business Enterprise operates, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise; and

- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing.

10. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the market value of the Business Enterprise. The factors considered included, but were not necessarily limited to the following:

- Financial forecasts and business plan of the Business Enterprise;

- Historical financial statements of the Business Enterprise;

- Market trends of the diabetes pharmaceutical industry and other dependent industries;

- Economic outlook in the PRC; and

- General descriptions in relation to the Business Enterprise.

We have discussed the details with the Management. We have also conducted research from various sources to verify the reasonableness and fairness of information provided and we believe that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion of value.

11. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events or circumstances have not been considered and we are not required to update our report for such events and conditions.

We would particularly point out that our valuation was based on the information such as the company background and business nature of the Management provided to us.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that 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 the historical and/or prospective information provided by the Management and other third parties to a considerable extent in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had 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 assumed that the Management is competent and perform duties under the company regulation. Also, ownership of the Business Enterprise was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market value of the Business Enterprise.

We have not investigated the title to or any legal liabilities of the Business Enterprise and have assumed no responsibility for the title to the Business Enterprise appraised.

Our conclusion of the market value was 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. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and the Management in respect of, or arising out of, the content 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.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report shall not pass to the Company until all professional fee has been paid in full.

12. 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 Company, the Business Enterprise and their associated companies, or the values reported herein.

13. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, the market value of 51% equity interest in the Business Enterprise as at the Date of Valuation, in our opinion, was reasonably stated as **HK$1,030,000,000 (HONG KONG DOLLARS ONE BILLION AND THIRTY MILLION ONLY)**.

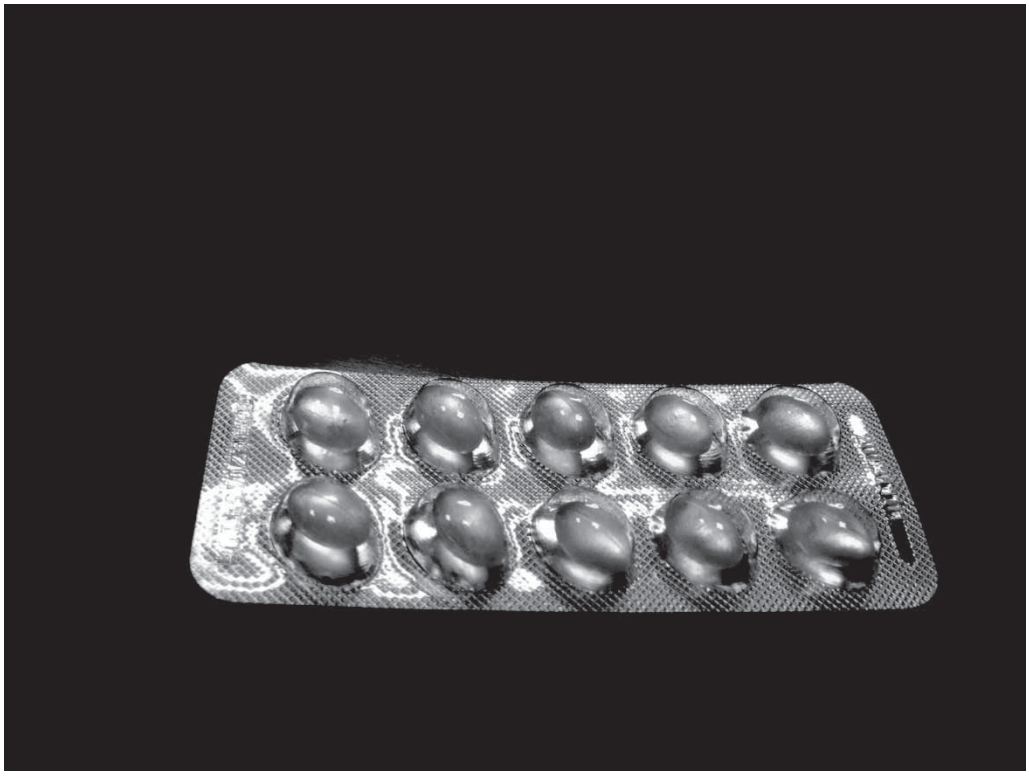
Yours faithfully,
For and on behalf of
Roma Appraisals Limited

APPENDIX I – PHOTOS OF THE SITE VISIT

The Laboratory Collaboratively Used by Tsinghua University and Fosse Bio

The Laboratory Collaboratively Used by Tsinghua University and Fosse Bio

Office of Fosse Bio



Oral Insulin Pills Under Clinical Trials

ASSUMPTIONS AND ESTIMATES

The following assumptions were estimated by the Management:

1. Revenue

- The sales of the oral insulin product was expected be commenced in November of 2015, with consideration of the expected time required for passing all the clinical trials and tests, and the expected time required for obtaining relevant licenses and permits for the sales of the oral insulin product.

- Since the target market of the oral insulin product would be diabetic patients who have been diagnosed and receiving treatments, the size of the target market was estimated based on the total diabetic population in the PRC and the rate of diabetic patients who have been diagnosed and receiving treatments.

- According to IDF Diabetes Atlas, 6th Edition, the diabetic population in the PRC was estimated to be 98.4 million in 2013 and 142.7 million in 2035, of which the implied compounded annual growth rate would be 1.7%. Hence, the PRC diabetic population in 2013 was assumed to be 98.4 million and the annual growth rate was assumed to be 1.7%.

- According to press presentation published by Novo Nordisk A/S in March 2013, the rate of diabetes patients diagnosed and receiving treatments in the PRC was estimated to be 33%. This rate was applied to the estimated diabetic population each year within the projection period to estimate the size of the target market each year.

- The selling price per pill (with 50 units of insulin) was estimated to be RMB2.75 (in terms of current nominal value), which took into account the expected profitability of the oral insulin product, the expected affordability of patients and the prices of other diabetic care products. A nominal growth of 3% per year was applied with reference to the general inflation rate in the PRC.

- The suitable level of intake of the oral insulin for type 1 diabetes and type 2 diabetes per day was estimated to be 200 units and 100 units of insulin intake respectively, which is equivalent to 4 pills and 2 pills per day respectively. According to the IDF Diabetes Atlas, 6th Edition, type 2 diabetes accounts for 85% to 95% of all diabetes.

- The number of pills sold was estimated to be 1,000,000,000 in 2017 and the market share was expected to reach 25% by 2025.

2. Cost of Goods Sold

- The cost of goods sold including the raw material costs and the processing charge and labor cost was estimated to be RMB1.16 (in terms of current nominal value) per pill respectively. A nominal growth of 3% per year was applied with reference to the general inflation rate in the PRC.

- The value added tax rate was estimated to be 17%, with reference to current taxation laws in the PRC.

3. Operating Expenses

- Expenses related to selling and distribution, staff salary and salesperson commission, including commission to Tsinghua University, were estimated to be 19% of revenue.

- Administrative expense was estimated to be HK$2,200,000 in 2014 and 5% of the revenue from 2015 and onwards.

- Research and development expense was estimated to be HK$97,400,000, HK$100,000,000 and HK$50,000,000 in 2015, 2016 and 2017 respectively, for further product development and clinical trials and tests.

- Other expenses were estimated to be 1% of the revenue, which would allow for sundry and contingency fees.

4. Corporate Income Tax

- The PRC corporate tax rate of 25% was assumed to estimate the corporate income tax, with reference to current taxation laws in the PRC.

5. Net Working Capital

- Net working capital was estimated based on the expected turnover days of the accounts receivables, inventories and accounts payables.

6. Capital Expenditure and Depreciation

- An estimated capital expenditure of HK$100,000,000 in relation to the construction of the factories and purchase of machineries with production capacity of 6 billion pills per year would be spent during the first half of 2015.

- Regular equipment maintenance and refreshment of HK$1,000,000, together with inflation adjustment, was assumed each year after 2015, except in 2022 where an additional capital expenditure of HK$30,000,000, together with inflation adjustment, would be spent in order to increase the production capacity to 9 billion pills per year.

- The depreciation expense in relation to the estimated capital expenditure was estimated based on straight line depreciation with useful life of 10 years, in accordance with the accounting policies of the Company.

7. Success Rate

- According to the Clinical Trial Success Rates Study published by BioMedTracker, an institutional research service company, the success rate of endocrine medicine at Phase III of the clinical trial was estimated to be 60%. This rate was applied to the cash flow projection to account for the risk that the Project might not successfully pass the clinical trial.

Deloitte.
德勤

INDEPENDENT ASSURANCE REPORT ON CALCULATIONS OF VALUATION OF 51% EQUITY INTEREST IN SMART ASCENT LIMITED ("SMART ASCENT") AS AT 28 FEBRUARY 2014

TO THE DIRECTORS OF UNITED GENE HIGH-TECH GROUP LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Roma Appraisals Limited dated 26 June 2014, of 51% equity interest in Smart Ascent as at 28 February 2014 (the "**Valuation**") is based. Smart Ascent is principally engaged in investment holding. Its subsidiaries are principally engaged in oral insulin product development of which its oral insulin product is currently under part B of Phase III clinical trials in China and manufacture and distribution of the oral insulin products. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under paragraph 29(2) of Appendix IB of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and will be included in a circular dated 26 June 2014 to be issued by issued by United Gene High-Tech Group Limited (the "**Company**") in connection with the proposed acquisition of 51% issued share capital of Smart Ascent involving proposed issuance of convertible bonds under specific mandate (the "**Circular**").

Directors' responsibility for the discounted future estimated cash flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out on pages IIIB-1 to IIIB-3 of the Circular (the "**Assumptions**"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting accountants' responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by paragraph 29(2) of Appendix IB of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of Smart Ascent.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 June 2014

WALLBANCK BROTHERS
Securities (Hong Kong) Limited

1312, Tower 1, Lippo Centre
89 Queensway, Hong Kong
Tel: 2374 5293
Fax: 2770 8776

26 June 2014

The Board of Directors
United Gene High-Tech Group Limited
Unit No. 2111, 21/F.,
West Tower Shun Tak Centre,
168–200 Connaught Road,
Central,
Hong Kong

Dear Sirs,

We refer to the cash flow forecasts underlying the valuation on the Target Group (the "**Valuation**") prepared by the Directors and management of the Company as set out in Appendix IIIA to this circular, of which this report forms part.

In formulating our opinion and recommendations, we have relied on the accuracy of the information, opinions and representations provided to us by the Directors and management of the Company and Roma Group Limited (the "**Valuer**"), and have assumed that all information, opinions and representations contained or referred to in the Valuation were true and accurate at the time when they were made and will continue to be accurate at the date of this circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Valuer in the Valuation were reasonably made after due enquiry. We have no reason to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate, misleading or deceptive. Having made all reasonable enquiries, the Directors and the Valuer have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Valuation, including this letter, misleading or deceptive. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company and the Valuer, nor have we conducted an independent investigation into the business, affairs and financial position of the Company and the Target Group.

In formulating our opinion, we have relied on the financial information provided by the Company, Target Group and the Valuer, particularly, on the accuracy and reliability of financial statements and other financial data of the Company and Target Group. We have not audited, compiled nor reviewed the said financial statements and financial data. We shall not express any opinion or any form of assurance on them. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Valuer. The Directors and the Valuer have also advised us that no material facts have been omitted from the information to reach an informed view, and we have no reason to suspect that any material information has been withheld. We have not carried out any feasibility study on any past, existing and forthcoming investment decision, opportunity or project undertaken or be undertaken by the Company and the Target Group.

Our opinion has been formed on the assumption that any analysis, estimation, forecast, anticipation, condition and assumption provided by the Company and the Valuer and the Target Group are valid and sustainable. Our opinions shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company and the Target Group.

We have reviewed the forecasts upon which the Valuation has been made for which you as the directors of the Company are responsible and discussed with you and the Valuer the information and documents provided by you which formed part of the bases and assumptions upon which the forecast has been prepared. We have also considered the letter from Deloitte Touche Tohmatsu addressed to yourselves as set out in Appendix IIIC to this circular regarding the accounting policies and calculations upon which the forecasts have been made.

Our opinion does not address on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our opinion shall not constitute any opinion on any valuation of the relevant projects or an expression of an audit or review opinion on the Valuation.

On the basis of the foregoing, in balance and in general terms, at this stage, we are of the opinion that in such circumstances, the forecasts upon which the Valuation have been made, for which you as the Directors of the Company are solely responsible, have been made after due and careful enquiry by you.

We take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

Yours faithfully,
For and on behalf of
WALLBANCK BROTHERS
Securities (Hong Kong) Limited
Phil Chan
Chief Executive Officer

Deloitte.
德勤

INTRODUCTION

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Consolidated Statement of Assets and Liabilities**") has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the proposed acquisition of 51% issued share capital of the Target Company as if the Acquisition had been completed on 31 December 2013.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities is prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2013 which has been extracted from the Group's interim report for the six months then ended published on 28 February 2014 as set out in Appendix IA to this circular; and (ii) the audited consolidated statement of financial position of the Target Group as at 28 February 2014 as extracted from the accountants' report thereon set out in Appendix IIA to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition had been undertaken at 31 December 2013.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities has been prepared by the directors of the Company based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group. Accordingly, the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities does not purport to describe the financial position of the Enlarged Group that would have been attained had the Acquisition been completed at 31 December 2013, nor purport to predict the future financial position of the Enlarged Group.

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

			Pro forma adjustments				
	The Group as at 31 December 2013	**The Target Group as at 28 February 2014**					**The Enlarged Group Total**
	HK$'000	*HK$'000 (note 1)*	*HK$'000 (note 2)*	*HK$'000 (note 3)*	*HK$'000 (note 4)*	*HK$'000 (note 5)*	*HK$'000*
Non-current assets							
Property, plant and equipment	36,036	–					36,036
Intangible assets	–	281,474	1,808,035				2,089,509
Interest in an associate	225,000	–				(199,511)	25,489
Investments in convertible bonds	248,112	–					248,112
Amounts due from non-controlling shareholders	–	5,215					5,215
Amounts due from former non-controlling shareholders	–	1,694					1,694
Loan to a non-controlling shareholder	–	6,197					6,197
Available-for-sale financial assets	102,680	–					102,680
	611,828	294,580					2,514,932
Current assets							
Inventories	156	–					156
Amount due from Extrawell (BVI)	–	19,780					19,780
Trade receivables	14,847	–					14,847
Prepayments, deposits and other receivables	1,188	8,074					9,262
Available-for-sale financial assets	1,548	–					1,548
Bank and cash balances	203,415	87		(65,000)	(2,500)		136,002
	221,154	27,941					181,595
Current liabilities							
Trade payables	6,606	–					6,606
Accruals and other payables	9,081	2,487					11,568
Amount due to a non-controlling shareholder	–	20,404					20,404
	15,687	22,891					38,578
Net current assets	205,467	5,050					143,017
Total assets less current liabilities	817,295	299,630					2,657,949
Non-current liabilities							
Convertible bonds	50,179	–		223,068			273,247
Amounts due to Extrawell (BVI)	–	32,330					32,330
Amounts due to a non-controlling shareholders	–	7,683					7,683
Amounts due to former non-controlling shareholders	–	2,518					2,518
Loan from a non-controlling interest	–	6,197					6,197
Deferred tax liabilities	1,435	–					1,435
	51,614	48,728					323,410
Net assets	765,681	250,902					2,334,539

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

1. The financial information of the Target Group as at 28 February 2014 is extracted from the accountants' report of the Target Group as set out in Appendix IIA to this circular. In addition, the accountants' report of the Target Group includes an emphasis of matter regarding the recoverability of the carrying value of the Intangible Assets (as defined below) of the Target Group.

2. Pursuant to the Acquisition Agreement, the Company will acquire 51% issued share capital of the Target Company at a total consideration of HK$780,000,000 which will be settled by cash of HK$65,000,000 and the Convertible Bonds with principal amount of HK$715,000,000.

   The transaction is to be accounted for as an acquisition of assets and liabilities as the Target Group does not constitute a business under Hong Kong Financial Reporting Standard 3 "Business Combinations" and thus no goodwill is arising thereon. The principal asset of the Target Group, which is owned by the 51%-owned subsidiary of the Target Company, namely Fosse Bio, is the oral insulin product development project which is accounted for as intangible assets (the "**Intangible Assets**"). For simplicity and for the purpose of preparing the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group, the fair value of the identifiable assets and liabilities (other than the Intangible Assets) of the Target Group at 31 December 2013 upon completion of the Acquisition (see (C) in the following table) is assumed to be the same as their carrying amounts of HK$30,572,000 at 28 February 2014 as if the Acquisition had been completed at 31 December 2013. For the purpose of presenting the 100% net assets of the Target Group (including the Intangible Assets), the consideration being allocated to the Intangible Assets and the other assets and liabilities for the acquisition of 51% issued share capital of the Target Company by the Company is to be grossed up as follows:

	HK$'000
Consideration transferred:	
Cash payment	65,000
Fair value of Convertible Bonds (see note 3 below)	368,818
Consideration for 51% equity interest in the Target Company (representing the additional 21.07% effective interest in Fosse Bio *(Note)*) (A)	433,818
Pro forma fair value of net assets of the Target Group (B) = (A)/21.07%	2,058,937
Pro forma fair value of net liabilities of the Target Group (excluding the Intangible Assets) (C)	30,572
Pro forma fair value of the Intangible Assets to be recognised (B) + (C)	2,089,509
Less: Carrying amount of Intangible Assets already recognised by the Target Group	281,474
Pro forma adjustment on the Intangible Assets	1,808,035

   Note: Before the Acquisition, the Group has 9.69% effective interest in Fosse Bio through the Group's 19% equity interest in an associate, Extrawell. After the Acquisition, the Group's effective interest in Fosse Bio would increase by 21.07% to 30.76%, whereby 26.01% would be held directly through the Group's subsidiary and the remaining 4.75% held through Extrawell.

   The consideration allocated to the identifiable assets and liabilities (including the Intangible Assets) of the Target Group and the fair value of the Convertible Bonds will be re-assessed at the actual completion date of the Acquisition and is therefore subject to change.

   For the purpose of preparation of the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, the directors of the Company have, prior to recognition of the Intangible Assets resulting from the Acquisition, considered the following:

(i) the emphasis of significant matter set out in the accountants' report of the Target Company included in Appendix IIA of this circular which describes the uncertainty related to the recoverability of the carrying value of the Intangible Assets held by the Target Group amounting to approximately HK$281,000,000 as at 28 February 2014 as mentioned above; and

(ii) market value of 51% equity interest of the Target Company (of which the principal assets of its subsidiaries are the Intangible Assets) as at 28 February 2014 amounting to approximately HK$1,030,000,000 as set out in the valuation report issued by Roma include in Appendix IIIA of this circular.

Taking into account the aforesaid factors, the directors of the Company are of the view that based on their best estimation, it is probable that the expected future economic benefits attributable to the Intangible Assets would flow to the Group and that such expected future economic benefits would exceed the pro forma adjustment relating to purchase consideration allocated to the Intangible Assets for the Enlarged Group amounting to approximately HK$1,808,035,000. As a result, Intangible Assets amounting to approximately HK$2,089,509,000 have been recognised for the Enlarged Group in the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities as at 31 December 2013. However, as the recoverability of the Intangible Assets is based on a number of factors which are inherently uncertain and the valuation of which is based on a model which may have limitations and is based on a number of assumptions and subjectivity, the actual future economic benefits that flow to the Group may or may not be as expected.

For the purpose of the preparation of the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group, the directors of the Company have assessed whether the Intangible Assets may be impaired as at 31 December 2013 on a pro forma basis, in accordance with Hong Kong Accounting Standard ("**HKAS**") 36 "Impairment of Assets", and concluded that there is no impairment in respect of the Intangible Assets based on the fair value of the Intangible Assets in the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group as at 31 December 2013.

The Group would adopt consistent accounting policies in the impairment assessment of the Intangible Assets, upon actual completion of the Acquisition, and in subsequent reporting periods. The entire carrying amount of the Intangible Assets will be tested for impairment in accordance with HKAS 36 "Impairment of Assets" by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount on the actual date of performing the impairment test.

Based on the valuation of the 51% equity interest in the Target Company as of 28 February 2014 carried out by Roma as set out in Appendix IIIA to the Circular, the fair value is HK$1,030,000,000, indicating a fair value of the 100% equity interest in Fosse Bio, the subsidiary of the Target Company holding the Intangible Assets of HK$3,960,015,000, which is in excess of the pro forma net assets of the Target Company (including the Intangible Assets) amounting to HK$2,058,937,000 upon the completion of the Acquisition as at 31 December 2013, the Board holds the view that no impairment is considered necessary and accordingly value in use method is not necessary to consider assuming the Completion took place at 31 December 2013.

3. The adjustment represented the consideration transferred by the Company comprising cash payment of HK$65,000,000 and the recognition of liability and equity components of the Convertible Bonds to be issued by the Company with principal amount of HK$715,000,000 to the Vendor. The Convertible Bonds carry interest at 3.5% per annum, will be matured on the date falling on the 7th anniversary from the date of issue and can be converted into a total of 286,000,000 shares of the Company at an initial conversion price of HK$2.5 per share, subject to anti-dilutive adjustments. Under HKAS 32 and HKAS 39, the Convertible Bonds to be issued by the Company contain both 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. The fair value of the Convertible Bonds is HK$368,818,000, comprising the fair value of the liability component and that of the conversion option classified as equity component amounting to HK$223,068,000 and HK$145,750,000 respectively assuming the Convertible Bonds had been issued on 31 December 2013. The fair value of the liability component and the conversion option of the Convertible Bonds is based on the valuation carried out at 31 December 2013 by Roma Appraisal Limited, an independent professional valuer not connected with the Group.

4. The estimated transaction cost attributable to the Acquisition is HK$2,500,000 assuming the Acquisition had been completed on 31 December 2013.

5. The adjustment represented the reclassification of the Group's interest in the Target Company held through the associate, Extrawell to non-controlling interest as if the Target Company had become the subsidiary of the Group upon completion of the Acquisition. For the purpose of preparing the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, the Group's interest in the Target Company held through Extrawell is determined based on the pro forma fair value of net assets of the Target Group as calculated in note 2.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF 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 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 pro forma financial information consists of the pro forma statement of assets and liabilities as at 31 December 2013 and related notes as set out on pages IV-1 to IV-5 of the circular issued by the Company dated 26 June 2014 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages IV-1 to IV-5 of the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 51% issued share capital of Smart Ascent Limited involving proposed issuance of convertible bonds under the specific mandate on the Group's financial position as at 31 December 2013 as if the transaction had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed financial statements for the six months ended 31 December 2013, on which no audit or review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the 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 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 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 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 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 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 pro forma financial information.

The purpose of 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 2013 would have been as presented.

A reasonable assurance engagement to report on whether the 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 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 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 pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 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 pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to note 2 to the pro forma financial information where the directors of the Company describe the inherent uncertainty and their assessment relating to the recoverability of the carrying value of the principal assets arising from the proposed acquisition.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 June 2014

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 Group. 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.

The Company shall comply with Listing Rule 13.09 and disclose any inside information under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

2. SHARE CAPITAL

(a) Share Capital

The authorised and issued share capital of the Company as at the Latest Practicable Date, and immediately following the completion of the Major Transaction (assuming no further issue of Shares from the Latest Practicable Date to the completion of the Major Transaction) 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:		
1,136,193,024	Shares in issue as at the Latest Practicable Date	11,361,930.24
286,000,000	Conversion Shares to be allotted and issued under the Major Transaction	2,860,000
1,422,193,024	Shares in issue immediately following the completion of the Major Transaction	14,221,930.24

All of the Conversion Shares in issue and to be allotted, issued and fully paid, rank and will rank *pari passu* with each other in all respects, including, in particular, as to dividends, voting rights and return of capital. The Conversion Shares in issue and to be issued are or will be listed on the Main Board of 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$546,800,000 which will be due on the 10th anniversary at the date of issue and could be convertible into approximately 1,367,000,000 Shares at the initial conversion price of HK$0.40 (subject to adjustments).

Save as above mentioned and the pending convertible bonds under Appendix V 5(ii), 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, 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 *(Note 1)*	Beneficial owner	56,640,000	4.99%
	Interest of a controlled corporation	307,351,350	27.05%
United Gene Holdings Limited *(Note 1)*	Beneficial owner	67,500,000	5.94%
	Interest of a controlled corporation	239,851,350	21.11%
Dr. Xie Yi *(Note 2)*	Interest of a controlled corporation	239,851,350	21.11%
Ease Gold Investment Limited *(Note 2)*	Interest of a controlled corporation	239,851,350	21.11%
Good Link Limited *(Note 3)*	Interest of a controlled corporation	239,851,350	21.11%
Victory Trend Limited *(Note 3)*	Interest of a controlled corporation	239,851,350	21.11%
Best Champion Holdings Limited *(Note 4)*	Beneficial owner	61,650,000	5.43%
	Interest of a controlled corporation	178,201,350	15.68%
China United Gene Investment Holdings Limited *(Note 5)*	Beneficial owner	178,201,350	15.68%
Chau Yiu Ting	Beneficial owner	121,500,000	10.69%

Notes:

1. United Gene Holdings Limited is wholly-owned by Dr. Mao, which owns 33.50% equity interests of Best Champion Holdings Limited.

2. Ease Gold Investment Limited, is wholly-owned by Dr. Xie Yi, which owns 33.50% equity interests of Best Champion Holdings Limited.

3. Victory Trend Limited, is owned as to 50% by Dr. Mao Yumin and as to 50% by Dr. Xie Yi, 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.

5. China United Gene Investment Holdings Limited is owned as to 60% by Best Champion Holdings Limited.

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$55,000 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 THE COMPANY

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 31 December 2013, the date to which the latest published audited financial statements of the Company were made up. None of the Directors is 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 in the ordinary course of business) with two years immediately preceding the Latest Practicable Date and are or may be material:

(i) the Acquisition Agreement;

(ii) the conditional sale and purchase agreement dated 27 April 2013 (as supplemented and amended by a supplemental agreement dated 7 May 2013, a second supplemental agreement dated 30 August 2013 and a third supplemental agreement dated 28 January 2014) entered into between United Gene and the relevant vendors, up to the Latest Practicable Date, convertible bonds of a principal amount of HK$552 million were issued and convertible bonds of a total principal amount of HK$192 are pending, subject to certain conditions, to be issued;

(iii) 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 Longmark (Shanghai) as enlarged by the capital injection and subscription.

(iv) the conditional placing agreement dated 18 February 2013 (as supplemental and amended by a supplemental agreement dated 19 April 2013) entered into between United Gene 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 were issued by United Gene;

(v) the conditional subscription agreement dated 18 February 2013 (as supplemental and amended by a supplemental agreement dated 19 April 2013) entered into between United Gene, Dr. Mao Yumin and United Gene Holdings Limited, in relation to the subscription of the 10-year, 0.1% convertible bonds in an aggregate principal amount up to HK$59,000,000 were issued by United Gene.

(vi) 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 share held;

(vii) 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

6. CONTINGENT LIABILITIES AND LITIGATION

Litigation concerning CNL (Pinghu) Biotech Co. Ltd. ("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), 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. Pursuant to the Construction Agreements, the total construction costs was 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 was substantially different from the contracted amount. CNL (Pinghu) only settled the amount of RMB16,601,000 and was recorded as the cost of buildings as at 30 June 2012. 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 was 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 approximately HK$19,142,000) and RMB18,766,000 (equivalent to

HK$23,801,000). According to the relevant legal opinion dated on 29 July 2013, the possibility for Pinghu District Court for adopting the construction cost of RMB18,766,000 is higher. On 20 December 2013, the 浙江省平湖市人民法院 (People's Court of Pinghu City, Zhejiang Province*) delivered a further civil ruling, pursuant to which, CNL (Pinghu) shall, after the said civil ruling came into force, pay to Jiangsu Ruifeng, among other things, a fee of RMB3,309,000 (equivalent to approximately HK$4,197,000) for the construction services rendered. CNL (Pinghu) planned to file an application to appeal to 浙江省嘉興市中級人民法院 (the Intermediate People's Court of Jiaxing City, Zhejiang Province). On 25 April 2014, 浙江省嘉興市中級人民法院 delivered a civil judgement in relation to the appeal, pursuant to which the appeal was rejected and the original judgement of 浙江省平湖市人民法院 was upheld. As at 31 March 2014, the total amount of construction costs paid by the Group was RMB15,976,000 (equivalent to approximately HK$20,176,000) and a total provision of RMB6,740,000 (equivalent to approximately HK$8,512,000) has been made.

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. EXPERTS' QUALIFICATIONS AND CONSENTS

The followings are the qualifications of the experts who have provided their opinions or advices for inclusion in this circular:

Name	Qualification
East Asia Sentinel Limited ("**East Asia**")	Certified Public Accountants
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**")	Professional Valuer
Wallbanck Brothers Securities (Hong Kong) Limited ("**Wallbanck**")	A licensed corporation to carry out type 4, 6, and 9 regulated activities under the SFO

Each of East Asia, Donvex Capital, Deloitte, Roma and Wallbanck has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter or report and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of East Asia, Donvex Capital, Deloitte, Roma and Wallbanck was not beneficially interested in the share capital of any member of the Group nor did it have 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, each of East Asia, Donvex Capital, Deloitte, Roma and Wallbanck did not have any direct or indirect interest in any assets which had since 30 June 2013 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

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 Unit No. 2111, 21/F., West Tower Shun Tak Centre, Nos. 168–200 Connaught Road, Central, 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 2011, 2012 and 2013;

(c) the independent reporting accountant's assurance report on the compilation of pro forma financial information of the Enlarged Group prepared by Deloitte as set out in Appendix IV of this circular;

(d) the valuation report in respect of the fair value of the Target Company as at 26 June 2014 prepared by Roma;

(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 71 to 72 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 73 to 101 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 27 September 2013 in relation to, among others, (i) proposed acquisition of 18.83% issued share capital of Extrawell Pharmaceutical Holdings Limited (stock code: 858) ("**Extrawell**") 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 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 involving proposed issuance of convertible bonds under specific mandate;

(k) 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;

(l) 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;

(m) 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

(n) 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 Unit No. 2111, 21/F., West Tower Shun Tak Centre, Nos. 168–200 Connaught Road, Central, 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 a special general meeting (the "**SGM**") of United Gene High-Tech Group Limited (the "**United Gene**") will be convened and held at Victoria Room I, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong on 16 July 2014 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 execution of the acquisition agreement dated 17 March 2014 (the "**Acquisition Agreement**", a copy of which is marked "A" and initialed by the chairman of SGM for identification purpose and tabled at the SGM) entered into between Extrawell (BVI) Limited (the "**Purchaser**"), and Clear Rich International Limited (the "**Vendor**") for the acquisition of an aggregate of 5,100 ordinary shares of HK$1 each in the issued share capital of Smart Ascent Limited (the "**Target Company**"), representing 51% of the total issued capital of Target Company and the transaction contemplated thereunder be and are hereby approved, ratified and/or confirmed;

(ii) subject to the completion of Acquisition Agreement, the creation and issue by United Gene of the Convertible Bonds (as defined in the Circular) to the Vendor as partial consideration in accordance with the terms and conditions of the Acquisition Agreement and the terms and conditions of the Convertible Bonds attached to the Acquisition Agreement and all transactions thereunder be and are hereby approved, ratified and confirmed;

(iii) subject to the Completion of Acquisition Agreement, the issue and allotment of up to 286,000,000 new ordinary shares (as defined in the Circular) of United Gene at the conversion price of HK$2.50 each (subject to adjustments) which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds under the Specific Mandate be and are hereby approved, ratified and confirmed;

(iv) the Purchaser's undertaking, as a term of the Acquisition Agreement, for Capital Commitment of the Target Company for the period of 3 years from the Completion Date of the Acquisition Agreement whereby (i) the corresponding Capital Commitment to be assumed by the Purchaser for each of the three financial year ended 31 March 2015, 31 March 2016, 31 March 2017 shall be HK$200,000,000, HK$300,000,000 and HK$100,000,000 respectively and (ii) the maximum capital commitment the Purchaser undertakes to assume for each of the three financial year ended 31 March 2015, 31 March 2016, 31 March 2017 shall be HK$200,000,000, HK$500,000,000 and HK$600,000,000 respectively (the "**Annual Caps**") with an aggregate amount not exceeding HK$600,000,000 (the "**Continuing Connected Transaction**") by way of unsecured interest-free shareholder loans be and is hereby approved, ratified and confirmed;

(v) the directors of United Gene (the "**Directors**") are hereby authorized to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivering all agreements, documents and instruments) which are in their opinion, necessary, appropriate, desirable or expedient to implement or give effect to the terms of, or the transactions and the Continuing Connected Transaction contemplated by the Acquisition Agreement, the allotment and issue of the Conversion Shares by United Gene under the Specific Mandate and the exercise of the conversion rights attaching to the Convertible Bonds and to agree to such variation, amendments or waiver of matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the Acquisition Agreement and all transactions contemplated thereunder and are in the interests of United Gene."

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

Hong Kong, 26 June 2014

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business in Hong Kong:
2111, 21/F, West Tower
Shun Tak Center
168-200 Connaught Road
Central
Hong Kong

Notes:

(1) A member of United Gene entitled to attend and vote at the Meeting is entitled to appoint one or (if holding two or more shares) more proxies to attend and vote in his stead. A proxy need not be a member of United Gene. 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 United Gene in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 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 United Gene 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.