

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus carefully before you decide to invest in the Company.

There are risks associated with any investment. Some of the particular risks in investing in the Company are set out in the section headed "Risks factors". You should read that section carefully before you decide to invest in the Company.

NATURE OF BUSINESS

The Group, established in January 2001, is engaged in the medical business relating to diagnosis, and particularly relating to diagnosis of cancerous, prenatal and other major diseases. This involves conducting research and development and commercialisation of testing services developed from third party technologies relating to the diagnosis of cancerous, prenatal and other major diseases.

Presently, the Group has successfully launched testing services in the cancer field, where the Directors believe the Group is one of the companies that uses the PDx Technology for the detection of EB virus associated cancerous diseases including nasopharyngeal cancer, a type of cancer of the nasopharynx at the back of the nose, and EB virus associated stomach cancers. The PDx Technology is a platform technology that detects genetic markers including DNA, RNA, EB virus DNA or viral genomes found circulating in blood plasma or serum and in other bodily fluids for screening, diagnosis and monitoring of diseases. The PDx Technology is non-specific as it refers to the detection of any genetic materials found circulating in blood plasma or serum. It is a general and generic form of a test. Accordingly, the PDx Technology as being referred to in a general sense is not itself a patent. Rather, patents are filed in respect of the PDx Technology that pertains to specific targets and diseases. A number of patents relating to the PDx Technology were filed pursuant to the Patent Cooperation Treaty and in the USA and Taiwan by the Chinese University, Dr. Yeung and ISIS that relates to the diagnosis of certain specific cancerous, foetal and other diseases. Dr. Yeung, a co-founder of the Group, contributed to the filing of the EB virus diagnosis patent by Professor Lo back in December 2000 which application process is completed and awaiting the grant of the patent. Such patent was subsequently licenced to the Group. Dr. Yeung had also performed research leading to two subsequent filing of patents in the U.S.A. based on the PDx Technology. These patents are now assigned to the Group. In addition, by entering into the Consultancy Agreement with the Chinese University, the Group has obtained the techniques relating to the PDx Technology from the research group of the Chinese University headed by Professor Lo. Together with a number of licensing agreements entered into with the Chinese University and ISIS in respect of patents filed and patents contributed by Dr. Yeung, they form the basis of the Group's testing services.

The Directors consider that the testing services currently offered by the Group for detecting cancerous diseases at an early stage to be an important contribution to the treatment of cancer in medical science since early detection allows for more aggressive treatment and enhances the likelihood of successful treatment of these diseases. Currently, the Group conducts research activities

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into developing a number of future testing services which are based on the PDx Technology. Examples of these include detection tests for screening early liver cancer, which are at the final development stage of research to affirm its usefulness for commercial exploitation; diagnosis of Down's syndrome and other foetal diseases that will be used as alternative non-invasive tests to those currently available in the market; and tests for assessing medical conditions of patients suffering from organ transplant failure, stroke, trauma and pleural effusion. (Please refer to the sub-section headed "Future testing services" in the section headed "Statement of business objectives and strategies" for further details.)

The cancer and foetal maternal testing services are all based on the same and common PDx Technology platform and they are all similar in technology, except for different medical applications. They all involve DNA or RNA extractions and use real time PCR machines to amplify genetic material products. These cancer and foetal maternal tests all fall within one focused line of business of the Group.

Based on the Directors' knowledge and experience in the bio-medical field, the Group is one of the companies in the world to bring to the market tests developed from the PDx Technology for early detection of cancerous diseases. The Group's tests identify several genetic markers including DNA, RNA, and EB virus DNA which, if present in the blood plasma or serum of a patient, increase the probability that such patient will be affected by prenatal or cancerous diseases as well as organ transplant failures, stroke, trauma and/or pleural effusion. Doctors, patients and laboratories may use the Group's tests to detect the above diseases at an early stage to facilitate better selection of treatments or therapy planning. As the tests developed by the Group are highly sensitive and specific, they may also assist patients and doctors in making more informed decisions. The Group's testing services relating to cancerous diseases can be used as part of a routine health check-up as well as a preliminary diagnosis of suspected cancerous diseases. If the test results are positive, the patients will then be referred for further evaluation using a PET scan or a CT scan to confirm the diagnosis and location of the cancer. The Group's cancer testing services involve the use of blood tests and are non-invasive while a PET scan or a CT scan uses radiation. These testing services are also relatively less expensive than a PET scan or CT scan.

Based on the same platform of the PDx Technology, the Group has also conducted SARS testing, where the Group offers RNA quantification testing service of the SARS virus to all the hospitals in Hong Kong. On 6 June, 2003, the Group entered into a research collaboration agreement with the Chinese University to conduct research regarding the treatment and diagnosis of SARS. However, the SARS testing was launched in a limited scale in late July 2003 as a free sample in kit form for two hospitals with in-house real time PCR machine operation in Hong Kong. The Group's marketing effort extended to the private hospitals in September 2003 but sales were halted as soon as an announcement was released that the Department of Health of the Hong Kong Government will accept sample testing for SARS from private hospitals for free. The Group, therefore, has not recorded any revenue from this line of business. On 15 October, 2003, the Group was granted by the Chinese University a non-exclusive licence regarding the use of technology for early diagnosis of SARS.

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By entering into the Consultancy Agreement, the Chinese University provides the Group with access to the Chinese University's biotechnology research. In addition, Dr. Yeung heads the research and development team of the Group with new insights based on the PDx Technology that can be conducted in-house. At the same time, the Group conducts a series of community and clinical research programmes jointly with the Town Health group, a local health care provider. These arrangements help to provide for the development of testing services without the need for the Group to support large in-house as well as clinical research programmes. While scientific and basic research are performed both by academic institutions and the Group, the emphasis of the Group's work is to transform scientific basic research results into commercially viable testing services that can be launched to the market.

In addition, reference is made to the paragraph headed "Regulatory requirements" in the section headed "Industry overview" of this prospectus relating to the compliance of the Group's business with relevant laws and regulations.

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TRADING RECORD

The following table summarises the audited combined results of the Group for each of the two years ended 30 June, 2003 and the six months ended 31 December, 2003. This summary is prepared on the basis set out in note 1 of the accountants' report in Appendix I to this prospectus and should be read in conjunction therewith.

	<i>Notes</i>	Year ended 30 June, 2002 HK\$	2003 HK\$	Six months ended 31 December, 2003 HK\$
Sales of testing services	1	525,545	1,339,250	904,550
EBgene		248,575	477,660	228,720
EBeasy		223,770	524,940	475,630
EBcombo		—	31,770	9,510
Pre-launch future testing services		53,200	304,880	190,690
Cost of sales	2	(493,619)	(1,003,501)	(691,617)
		31,926	335,749	212,933
Interest income		19,331	3,215	21,221
Total revenue less cost of sales		51,257	338,964	234,154
Selling and distribution expenses		(35,359)	(157,440)	(67,937)
Administrative expenses		(2,601,127)	(3,833,666)	(1,982,914)
Other operating expenses		(480,565)	(1,069,331)	(441,547)
Loss before taxation		(3,065,794)	(4,721,473)	(2,258,244)
Taxation		—	—	—
Loss attributable to Shareholders		(3,065,794)	(4,721,473)	(2,258,244)
Dividend		—	—	—
Loss per Share — basic	3	1.29 cents	1.98 cents	0.95 cents

Notes:

- This includes sales of diagnostic testing services to Spring Biotech, an Initial Management Shareholder, in the amount of HK\$162,660, HK\$483,380 and HK\$496,380 for the two years ended 30 June, 2003 and the six months ended 31 December, 2003 respectively. Sales generated from pre-launch future testing services represented income received from parties that engage the Group to perform such services for them. The majority of which was derived from Spring Biotech in joint community research programmes. The income from kit form of *EBgene* and *EBeasy* is not included in such services.
- Cost of sales comprises pharmaceutical supplies, laboratories supplies, depreciation on laboratory equipment, direct salaries, royalties and other laboratory expenses relating to the provision of diagnostic testing services.
- The basic loss per Share for the Track Record Period is calculated based on the loss attributable to Shareholders during the corresponding period and assuming 238,000,000 Shares in issue, comprising 1,010,000 Shares in issue as at the Latest Practicable Date and 236,990,000 Shares to be issued pursuant to the Capitalisation Issue as described in the section headed "Statutory and general information" in Appendix V to this prospectus.

COMPETITIVE ADVANTAGES

The Directors believe that the Group's competitive advantages lie in the following areas:

- the Group is one of the entities in the world to provide diagnostic tests of cancerous diseases developed from the PDX Technology. The Group has already launched testing services, namely *EBgene*, *EBeasy* and *EBcombo* between November 2001 and August 2002;
- a good reputation and market acceptance in respect of the Group's testing services which are proven to be non-invasive, safe, sensitive and less expensive than alternative testing services currently available in the market;
- the Group has in the pipeline a range of testing services that are in various stages of development and which are expected to be launched to the market in the coming two years following the Listing. Further, the Group's testing services are catered for a large population worldwide;
- the ability to generate steadily growing revenue for the Group shortly after the launch of future testing services as evidenced by the Group's testing services, namely, *EBgene*, *EBeasy* and *EBcombo* that were introduced to the market in November 2001, January 2002 and August 2002 respectively and which generated total sales of approximately HK\$525,545, HK\$1,339,250 and HK\$904,550 over a period of eight months up to 30 June, 2002, the year ended 30 June, 2003 and the six months ended 31 December, 2003, respectively. This is expected to lay a solid business foundation for future development of the Group;
- the anticipated gradual increased recognition of the Group's future testing services by the medical community and patients is expected to reduce significantly the Group's future requirements for sales and marketing support;
- the Group's history of cooperation with a local university and a healthcare organisation enables the Group to enhance its research capabilities and expedite the research and development process of future testing services. In particular, the licensing arrangement between the Group, ISIS and the Chinese University has helped to expedite the development of future testing services and to reduce the Group's expenditure in research and development; and
- a strong management team, including Dr. Yeung who has been engaged in cancer diagnostic and treatment research for over 30 years.

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RESTRICTIONS ON DISPOSAL OF SHARES AND INVESTMENT COSTS

The shareholding interests of the Initial Management Shareholders and certain other Shareholders (who are subject to restrictions on disposal of their Shares) immediately after completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, taking no account of any Shares which may be allotted and issued upon the exercise of any options granted or to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or the general mandates to issue or repurchase Shares referred to in Appendix V of this prospectus or the First Post IPO Conversion or the Second Post IPO Conversion, the cost at which they acquired their respective Shares and the relevant moratorium periods commencing on the date by reference to which disclosure of her/his/its direct or indirect shareholding interests in the Company is made in this prospectus and ending on the date which is 21 months (or 3 months, as the case may be) from the Listing Date, are set out below:

Shareholders	Number of Shares held <i>(note 1)</i>	%	Moratorium period ends <i>(Months from the Listing Date)</i>	Total approximate investment costs <i>(HK\$)</i>	Average approximate cost per Share <i>(HK\$)</i>	Date on which shareholding interest in the Group was first acquired
<i>Initial Management Shareholders</i>						
Dr. Yeung	2,368,454	0.72	21	707	0.0003	11 January, 2001
Ms. Margaret Tsui	119,170,370	36.35	21	6,069,159	0.051	11 January, 2001
Spring Biotech (including its shareholder and in turn its respective indirect and direct shareholders)	67,747,524	20.67	21	21,632,349	0.319	13 July, 2001
Vanbary Corporation (including its shareholder) <i>(note 2)</i>	12,574,648	3.84	21	640,356	0.051	31 August, 2001
Diamond Tech Investment Limited (including its shareholder) <i>(note 2)</i>	12,574,648	3.84	21	640,356	0.051	31 August, 2001
<i>Public Shareholders (notes 6 and 7)</i>						
Mr. Wong Kim Wing	11,782,178	3.59	21	600,000	0.051	31 August, 2001
Professor Lo	9,425,742	2.88	21	480,000	0.051	31 August, 2001
The Chinese University of Hong Kong Foundation Limited	2,356,436	0.72	21	120,000	0.051	31 August, 2001
The Applied Research Council	14,040,000	4.28	3	3,510,000	0.250	Prior to the Listing Date
MCVIL <i>(note 4)</i>	4,680,000	1.43	3	1,170,000	0.250	Prior to the Listing Date
JAIC <i>(note 4)</i>	2,808,000	0.86	3	702,000	0.250	Prior to the Listing Date
JAIC Technology <i>(note 4)</i>	1,872,000	0.57	3	468,000	0.250	Prior to the Listing Date
Mr. Robert Owen	600,000	0.18	3	150,000	0.250	Prior to the Listing Date
Mr. Russell Young	1,440,000	0.44	3	360,000	0.250	Prior to the Listing Date
Mr. Tong Sui Bau	120,000	0.04	3	30,000	0.250	Prior to the Listing Date
Mr. Lee Kam Lun, Kenyon	120,000	0.04	3	30,000	0.250	Prior to the Listing Date
Ms. Jessica Pui Han Jook	120,000	0.04	3	30,000	0.250	Prior to the Listing Date
Other public Shareholders	64,000,000	19.51	Not applicable	32,000,000	0.500	Prior to the Listing Date
Total	<u>327,800,000</u>	<u>100.00</u>				

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Notes:

1. The effects of the First Post IPO Conversion and the Second Post IPO Conversion on the shareholding structure of the Company are set out in the sub-section headed “Convertible Notes” in the section headed “Share capital” in this prospectus.
2. Pursuant to Rules 1.01 and 13.15(2) of the GEM Listing Rules, Diamond Tech Investment Limited is considered to be an Initial Management Shareholder as it is an existing Shareholder and it, together with Vanbarry Corporation, will be entitled to control approximately 7.68% of the issued share capital of the Company as at the Listing Date and is able to influence the management of the Company through its long standing relationship with Vanbarry Corporation and Mr. Cheng Yan Tak, Angus Ronald, a Director.
3. Other than Dr. Yeung and Ms. Margaret Tsui who are the founders of the Group, Spring Biotech which is an Initial Management Shareholder and a connected person of the Company (and its relationship with the Group is described in the section headed “Relationship with Initial Management Shareholders” and in the subsection headed “Connected transactions” under the section headed “Business” of this prospectus), Professor Lo who is the scientific consultant of the Group designated by the Chinese University (and his relationship with the Group is more fully described in the section headed “Relationship with Professor Lo and the Chinese University” in this prospectus), none of the other Shareholders has any relationship, other than being a Shareholder, with the Company and its connected persons. Spring Biotech nominated Mr. Cho Kam Luk as an executive Director. Mr. Cheng Yan Tak, Angus Ronald, who will hold approximately 3.84% of the issued share capital of the Company through Vanbarry Corporation on the Listing Date, is an executive Director. Save as disclosed above and apart from Dr. Yeung and Ms. Margaret Tsui who are executive Directors, none of the Shareholders had been a Director or participated in the management of the Company in the past. The respective investment costs of each of the existing Shareholders, other than Dr. Yeung and Ms. Margaret Tsui, were determined after arm’s length negotiation and based on the relevant Shareholders’ own valuation of the Group and assessment of the Group’s prospects at the time they invested in the Group.
4. MCVIL is managed by JAIC HK, a wholly owned subsidiary of JAIC. JAIC Technology is a limited partnership established in Japan. It is owned by JAIC and other independent third parties and is managed by JAIC. Save as disclosed, the public Shareholders shown above are independent of and not connected with each other so far as the Board is aware.
5. The Company and each of its controlling shareholders, Initial Management Shareholders and Directors have confirmed that they and their respective associates have not entered into, and prior to the Listing, will not enter into any arrangements or agreements (other than those agreements currently disclosed in this prospectus) in relation to the Shares (or shares in the predecessor companies of the Company), including as to the price of the Shares placed to existing Shareholders or to be placed pursuant to the Share Offer.
6. Each of Mr. Wong Kim Wing, Professor Lo, The Chinese University of Hong Kong Foundation Limited, The Applied Research Council, MCVIL, JAIC, JAIC Technology, Mr. Robert Owen, Mr. Russell Young, Mr. Tong Sui Bau, Mr. Lee Kam Lun, Kenyon and Ms. Jessica Pui Han Jook have confirmed that (i) they are independent of and are not connected with the Company’s directors, chief executive, substantial Shareholders and management Shareholders and their respective associates; (ii) their acquisition of the Shares had not been financed directly or indirectly by a connected person of the Company, save that Professor Lo and The Chinese University of Hong Kong Foundation Limited’s shareholding interest in the Company had arisen as a result of the Consultancy Agreement; and (iii) none of them are accustomed to taking instructions from a connected person in relation to the acquisition, disposal, voting or other disposition of the Shares registered in each of their respective names or otherwise held by each of them.
7. Each of The Applied Research Council, MCVIL, JAIC, JAIC Technology, Mr. Robert Owen, Mr. Russell Young, Mr. Tong Sui Bau, Mr. Lee Kam Lun, Kenyon and Ms. Jessica Pui Han Jook are passive investors and do not participate in the management of the Group. They had no board representation in the past and are not expected to have the same in the future.

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UNDERTAKINGS

Each of the Initial Management Shareholders, including their respective shareholders, where appropriate, has undertaken to the Company, First Shanghai Capital and the Stock Exchange that for a period commencing on the date by reference to which disclosure of the shareholding interest of the relevant Initial Management Shareholders in the Company is made in this prospectus and ending on the date which is 21 months from the Listing Date:

- (i) she/he/it places in escrow, with an escrow agent acceptable to the Stock Exchange, the Shares held by her/him/it (“relevant securities”) (as such term is defined in Rule 13.15(4) of the GEM Listing Rules) on terms acceptable to the Stock Exchange;
- (ii) she/he/it will not, save as provided in Rule 13.18 of the GEM Listing Rules, sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) or permit the registered holder to sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any of the direct or indirect interests held by her/him/it in the relevant securities;
- (iii) if she/he/it pledges or charges any direct or indirect interest in the relevant securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, she/he/it must inform the Company, the Sponsor and the Lead Manager immediately thereafter, disclose the details required by the GEM Listing Rules; and
- (iv) having pledged or charged any of her/his/its interest in the relevant securities under sub-paragraph (iii) above, the Initial Management Shareholder must inform the Company, the Sponsor and the Lead Manager immediately in the event that she/he/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the relevant securities affected.

Town Health, which is the holding company of Town Health Bio-Medical Technology Limited and the ultimate holding company of Spring Biotech, has undertaken to the Company, the Stock Exchange and First Shanghai Capital not to dispose of its shares (whether directly or indirectly) in Town Health Bio-Medical Technology Limited during the period commencing on the date by reference to which disclosure of its indirect shareholding interest in the Company is made in this prospectus and ending on the date which is 21 months immediately following the Listing Date. Town Health Bio-Medical Technology Limited, which is the holding company of Spring Biotech, has also undertaken to the Company, the Stock Exchange and First Shanghai Capital not to dispose of its shares (whether directly or indirectly) in Spring Biotech during the period commencing on the date by reference to which disclosure of its indirect shareholding interest in the Company is made in this prospectus and ending on the date which is 21 months immediately following the Listing Date. Mr. Cheng Yan Tak, Angus Ronald who is the sole beneficial shareholder of Vanbarry Corporation, has also undertaken to the Company, the Stock Exchange and First Shanghai Capital not to dispose of his shares (whether directly or indirectly) in Vanbarry Corporation during the period commencing on the date by reference to which disclosure of his indirect shareholding interest in the Company is made in this prospectus and ending on the date which is 21 months immediately following the Listing Date.

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Mr. Wong Yan Kit, who is the sole beneficial shareholder of Diamond Tech Investment Limited, has also undertaken to the Company, First Shanghai Capital and the Stock Exchange not to dispose of his shares (whether directly or indirectly) in Diamond Tech Investment Limited during the period commencing on the date by reference to which disclosure of his indirect shareholding interest in the Company is made in this prospectus and ending on the date which is 21 months immediately following the Listing Date.

Each of Mr. Wong Kim Wing, Professor Lo and The Chinese University of Hong Kong Foundation Limited has undertaken to the Company and First Shanghai Capital not to dispose of, or enter into any agreement to dispose of, their Shares (whether directly or indirectly) for a period commencing on the date by reference to which disclosure of their respective shareholding interests in the Company are made in this prospectus and ending on the date which is 21 months following the Listing Date. Each of The Applied Research Council, MCVIL, JAIC, JAIC Technology and five other individual investors, namely, Mr. Robert Owen, Mr. Russell Young, Mr. Tong Sui Bau, Mr. Lee Kam Lun, Kenyon, and Ms. Jessica Pui Han Jook has undertaken to the Company not to dispose of, or enter into any agreement to dispose of, their Shares issued upon the Initial IPO Conversion for a period of three months following the Listing Date.

Under Rule 17.43 of the GEM Listing Rules, the Company shall publish an announcement on being informed of, or on otherwise becoming aware of, any matter referred to in the undertakings mentioned above concerning the pledging or charging of any interests in the relevant securities by each of the Initial Management Shareholders. In these circumstances, the information to be announced will include the number and class of securities being pledged or charged, the purpose for which the pledge or charge is made, and in the event that the pledgee or chargee has disposed of or intends to dispose of any of the relevant securities, details of the same, including the number of the relevant securities affected or to be affected.

BUSINESS OBJECTIVES AND STRATEGIES

The Group's overall business objective is to become a prominent medical diagnostics company that utilizes the detection of genetic materials in a non-invasive manner for all the major disease categories. The Directors consider that with the Group as one of the companies in the world offering cancer tests based on the detection of EB virus DNA in blood plasma, the Group is in the progress of a long way into achieving its objectives.

The Group plans to advance and commercialise the diagnostic and screening technology for the early detection of prenatal and cancerous diseases as well as other major illnesses through the expansion of its research capability and establishment of strategic alliances with other life science research organizations or pharmaceutical companies in the world. At the same time, the Group will build on its knowledge in the prenatal and cancer diagnostic field in practical and commercial clinical applications to increase its range of testing services offered to the market. The Group aims to establish its existing and future testing services as a preferred test for foetal and cancerous diseases in the Asian region through gradual recognition of its testing services by the medical community and patients. At

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the same time, the Group intends to market its existing cancer testing services, namely, *EBgene*, *EBeasy* and *EBcombo* in China in the next two years. The Directors anticipate a good prospect in these markets given that nasopharyngeal and EB virus associated stomach cancers are common diseases in the Chinese communities.

The Group intends to expand geographically and offer its testing services to the international market initially covering China, Australia and Japan, and in the longer term, on a worldwide basis. In particular, the Group plans to sub-license the PDx Technology to laboratories and hospitals in Japan, Australia and the PRC. The royalty fees payable to the Group will be based on sales generated by the sub-licensees which will be responsible for keeping complete and accurate accounts of licensed products. In order to ensure completeness and accuracy of the royalty income calculation, it is intended that the Group will have access to the audited financial statements of the sub-licensees.

In order to achieve the Group's business objectives, the Directors have formulated the following strategies:

— **continuing the Group's commitment to research and development in medical diagnostic industry**

In order that the Group is kept abreast of the latest developments in the medical diagnostics industry, the Group's research and development will be strengthened in a three-pronged approach. First, the existing Consultancy Arrangement between the Group and Professor Lo and the Right of First Refusal Agreement will continue to serve as a strong research support to the Group. (Please refer to the section headed "Relationship with Professor Lo and the Chinese University" for further details.) Secondly, the Group's own research team will carry out research activities on programmes selected on the basis of practicality and ease of commercialisation to ensure that the Group's research methodology is ahead of its competitors. These in-house research programmes relate to the detection of prostate cancer, colon cancer and cancer in general. The Group's research teams will also carry out research activities focusing on post market clinical research to allow the Group to further improve its existing testing services in terms of accuracy of the tests and shortening the length of time to produce test results. Thirdly, the Group will seek opportunities to acquire third party diagnostic technologies to complement the Group's research capabilities.

— **establishing alliances with strategic partners**

The Group intends to establish alliances in Hong Kong with major local laboratories for marketing the Group's testing services to their customers, who are mainly doctors and laboratories. The Directors believe that such alliances will represent effective marketing tools which will allow the Group's product to reach local doctors who are frequent users of laboratories. When an alliance that is commercially beneficial to both parties is established with certain key laboratories, they will likely market the Group's testing services to their own customers and end-users. In Hong Kong, laboratories usually retain a list of doctors that are routinely sending laboratory business to them. The Directors consider that it would be easier to market to these doctors through alliances with the laboratories rather than by the Group on its own. The Group also plans to establish strategic alliances with leading physicians in the

obstetrics and oncology fields and medical institutions in Hong Kong which are primary users of the Group's testing services. At the same time, the Group will explore forming alliances with major international medical insurance providers with a view to introducing the Group's testing services to medical insurance policies for individuals classified as high risk, meaning those individuals who have a strong family history of certain cancers as well as those with medical conditions that may lead to or develop into cancer, such as gastritis and hepatitis carriers. This exploration entails a detailed explanation of the capability of the Group's testing services in helping to minimise the risk of the insurance companies, but at the same time offering certain health assurance to individuals that will be signing up for health and life insurance.

— **developing future testing services**

Based on the focused line of business in the PDx Technology, the Group will continue to develop future testing services that suit different needs of its customers, for instance, different priced testing services to suit a wider range of customer population while maintaining the strict criteria of being non-invasive, accurate and sensitive. For example, these PDx Technology tests may include the testing of DNA, RNA, genetic and epigenetic markers for other common cancers.

— **expanding geographically to China, Australia and Japan**

The Group plans to expand its business scope geographically initially to neighbouring countries. In Asia, the Group will target initially China, Australia and Japan as each of these countries has its own endemic disease categories for which the Group's testing services can be applied. An example of this would be in China where the anticipated use of the Group's tests would be for liver cancer, a disease which had in the past been ranked as one of the diseases with the highest mortality. In Australia, pregnant women who are rhesus factor negative are usually recommended to undergo a rhesus factor test to detect the likelihood of haemolytic diseases of the newborn. Accordingly, the Group's *Rhesus D test* is being developed to cater for such demands. Additionally, the Group's EB virus associated cancer tests, namely, *EBgene*, *EBeasy* and *EBcombo* tests are expected to attract considerable demand in Japan where there has traditionally been a high incidence of stomach cancer. Other than setting up laboratory facilities and sub-licensing, the Group can also expand its business geographically by setting up representative offices, distribution through forming alliances and offering the testing services in kit form. The Group's website at www.plasma-gene.com provides easy access for its customers to order the Group's testing services through the Internet and for delivery of blood specimens to its laboratory in Hong Kong.

The geographical expansion will be carried out in two folds. First, the Group will lease laboratory facilities in overseas countries for offering the Group's testing services. Technicians at these laboratories will collect and deliver blood samples to the Group's laboratory in Hong Kong for further handling. Afterwards, test results will then be delivered to the overseas laboratories. Secondly, the Group plans to sublicense the use of the PDx Technology (to the extent possible) and where appropriate, other technologies underlying the Group's testing services from time to time to overseas laboratories and hospitals. The Group will charge a sublicense fee based on sales generated from the use of such technologies.

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— expansion of sales and marketing efforts

The Group plans to appoint local laboratories in the Asian region to market the Group's testing services. These laboratories will introduce and market the Group's testing services to their customers that are mainly doctors, and collect blood samples for onward delivery to the Group's laboratory in Hong Kong. Local laboratories usually have territorial advantages as well as their own list of doctors that utilise their facilities. As mentioned before, once a commercial alliance is formed which is beneficial to both parties, these laboratories will market the Group's products to doctors on their lists that have used their services. In this way, marketing effort for the Group will be lessened. These overseas laboratories will be paid a commission calculated as a percentage of the sales of the testing services. The Group initially intends to target the relatively affluent communities in the Asian region such as Australia and Japan.

SHARE OFFER STATISTICS (based on the Offer Price of HK\$0.50 per Offer Share)

Market capitalisation (<i>Note 1</i>)	HK\$163.9 million
Adjusted net tangible asset value per Share (<i>Note 2</i>)	7.2 HK cents

Notes:

- 1 The market capitalisation is calculated on the basis of the Offer Price of HK\$0.50 and 327,800,000 Shares in issue immediately after the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, taking no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme or the Right of First Refusal Agreement, the general mandate to issue or repurchase Shares referred to in Appendix V to this prospectus, the First Post IPO Conversion or the Second Post IPO Conversion.
- 2 The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed "Adjusted net tangible assets" of the section headed "Financial information" in this prospectus and on the basis of a total of 302,000,000 Shares in issue immediately after the Share Offer and the Capitalisation Issue, taking no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme or the Right of First Refusal Agreement, the general mandate to issue or repurchase Shares referred to in Appendix V to this prospectus, the Initial IPO Conversion, the First Post IPO Conversion or the Second Post IPO Conversion.

USE OF PROCEEDS

The net proceeds from the Share Offer are estimated to amount to approximately HK\$24 million after deduction of expenses payable by the Company in relation to the Share Offer. The Directors presently intend to apply such net proceeds from the Share Offer as follows:

- approximately HK\$4.3 million for financing the patent expenditure in respect of existing and new testing services developed, or to be developed, from technologies licensed to the Group;

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- approximately HK\$13.4 million for funding the marketing activities relating to the Group's existing and future testing services when the Group's business is expanded to China, Australia, Japan and via the Internet;
- approximately HK\$3.6 million for funding the compliance requirements in relation to the Group's business expansion to China, Australia, Japan and via the Internet. The Directors consider that the costs of compliance requirements mainly include registrations of individual products/testing services to governmental and regulatory bodies and the related legal costs; and
- approximately HK\$2.7 million for the Group's research activities relating to the development of new testing services.

The Directors consider that the net proceeds from the Share Offer, together with the Group's internally generated funds, will be sufficient to finance the future development of the Group as described in the section headed "Statement of business objectives and strategies" in this prospectus.

RISK FACTORS

The Directors consider that there are certain risks involved in the operation of the Group. These risk factors, more particularly set out in the section headed "Risks factors" in this prospectus, are as follows:

Risks relating to the business of the Group

- the Group has a history of incurring losses and future losses are anticipated
- the Group's cash represents a significant portion of its assets
- reliance on businesses conducted with an Initial Management Shareholder
- reliance on a single technology
- testing services substitution and competition
- reliance on Dr. Yeung
- reliance on collaborative relationships with the Chinese University and Town Health group

SUMMARY

- research and development risks
- reliance on intellectual property licences owned by third parties
- delay in obtaining relevant overseas government approval
- uncertain ability to protect intellectual property rights
- limited operating history of the Group's cancer testing services
- reliance on financial support from Shareholders
- legal validity and enforceability of electronically concluded contracts
- limited sales and marketing experience
- professional indemnity insurance

Risks relating to the industry

- technological changes resulting in product obsolescence

Risks relating to Hong Kong and the PRC

- political and economic risks in Hong Kong
- legal and regulatory considerations in the PRC
- political and economic considerations in the PRC

Risks relating to the Share Offer

- possible redemption of the Convertible Notes that may lead to cancellation of the Listing
- dilution of Shareholders' interest as a result of equity fund raising
- marketability and possible price volatility of the Shares