RISKS RELATING TO THE BUSINESS OF THE GROUP

The Group has a history of incurring losses and future losses are anticipated

For the two years ended 30 June, 2003 and the six months ended 31 December, 2003, the Group suffered a net loss of approximately HK$3.1 million, HK$4.7 million and HK$2.3 million respectively. There is no assurance that the Group will become profitable after the Listing. Losses in the near future are anticipated as a result of, amongst other things, significant investment in research, development and marketing of its tests. The Group's revenues may not increase in proportion to the increase in its expenditure. Profitability depends on the successful development and market acceptance of the Group's existing and future tests in the future.

The Group's cash represents a significant portion of its assets

As at 31 December, 2003, the Group's total assets amounted to HK$25,302,908 of which current assets amounted to HK$19,949,950. Of such amount of current assets, cash and bank balances amounted to HK$14,975,406. Accordingly, the Group's cash and bank balances represented approximately 59.18% of the Group's total assets and approximately 75.06% of the Group's current assets. The primary source of the Group's cash as at 31 December, 2003 was from the subscription of the Convertible Notes and not from its ordinary course of business. Accordingly, potential investors should note that the total asset value of the Group as shown in its latest balance sheet does not necessarily reflect its current scale of operations as cash from funding exercises represented a significant portion. In addition, the Group will receive net proceeds from the Share Offer amounting to approximately HK$24 million. The future success of the Group would be dependent on, among other factors, the manner in which the Group utilises its cash in the future for its expansion plan. The cash, including net proceeds from the Share Offer of HK$24 million, will be utilised in financing patent expenditure, marketing activities, compliance requirements and research activities. Please refer to sub-section headed "Use of proceeds" under the section headed "Statement of business objectives and strategies" of this prospectus.

Reliance on businesses conducted with an Initial Management Shareholder

For the two years ended 30 June, 2003 and the six months ended 31 December, 2003, the Group recorded aggregate turnover generated from businesses conducted in relation to a community research program with Spring Biotech which is an Initial Management Shareholder of HK$162,660, HK$483,380 and HK$496,380, representing some 31.0%, 36.1% and 54.9% respectively of the Group's total turnover for the corresponding period. The agreements entered into between Spring Biotech and the Group in relation to the community research program will expire after 30 June, 2004, but is extendable upon mutual agreement. In the event that Spring Biotech ceases to use the services offered by the Group and the Group fails to find replacement customers using the Group's services on comparable terms, the Group's profitability will be adversely affected. It is the intention of the Group and Spring Biotech to renew the existing agreement prior to its expiration for twelve months until 30 June, 2005 upon similar terms. (Note: Investors should not treat the revenue generated from the businesses conducted with the related party stated above as projections of the future performance of the Group as these businesses represent only part of the Group's businesses).

Reliance on a single technology

The testing services offered by the Group are largely developed from the PDx Technology licensed to the Group by ISIS and the Chinese University for periods between seven to twenty years. The Group's profitability will depend to a significant extent on market acceptance of its testing services. Save for the licensing agreement with ISIS with a term of seven years which may be extended if the Group's royalty payment to ISIS meets the minimum amount specified in the relevant agreement; the Group's licences from the Chinese University are for a period of twenty years. The minimum royalty requirements for specific licence agreements are described under the sub-section of "Intellectual property" in the section headed "Business" of this prospectus. In the event that the minimum royalty requirements cannot be fulfilled, it may trigger the termination of particular licence agreements and may have adverse effect on the future profitability related to those licences. In addition, in the event that any of the licences are terminated by the licensors, the Group's operations and performance may be adversely affected. In general, none of the Group's licence agreements allow for early termination on the part of the licensors unless events that may trigger early termination of one or more of the licence agreements or bring an end to the exclusivity of the licence agreements take place during licensed periods. Such events include: (i) the Group fails to comply with any of the respective obligations contained in the licence agreements; (ii) the Group commits a material breach of the terms of the licence agreements; (iii) there is a significant change in the ownership or control of the Group or its assets; (iv) the Group not being able to meet requirements for royalty payments specified in the agreements and such requirements are not waived by the licensors; (v) a cessation of the Group's business; (vi) the Group goes into liquidation or has appointed receivers; (vii) the Group contests the secret or substantial nature of the confidential technology, or challenges the validity of any patent contained within the licensed technology, or raises the claim that such a patent is not necessary; and (viii) the Group fails to have licensed product available for commercial sale or provide evidence to show that the Group has exercised reasonable endeavours towards applying the regulatory approvals of the licensed product by relevant authorities prior to a specified date.

Further, there is no assurance that other factors affecting the sales of the Group's testing services, such as technological advancement which can replace this single technology will not have any adverse impact on the future profitability of the Group.

Testing services substitution and competition

Although most of the technology licensed to the Group are currently under patent application, it is possible for other producers or researchers to produce alternative testing services achieving similar diagnostic results which could be used as substitutes for the testing services of the Group. These alternative testing services or substitutes may compete with the testing services of the Group. Although presently the Directors are not aware of similar testing services available in the market that may effectively compete with the Group's testing services, there is no assurance that competition will not increase and that new competitive testing services will not emerge to compete directly with the Group's testing services in terms of medical efficacy and price. In such event or if substitute testing services are priced lower than that of the Group's testing services, the profitability of the Group could be adversely affected.

Reliance on Dr. Yeung

The Group's chairman, Dr. Yeung, possesses extensive experience in the Group's business. The development of the Group's business in the areas of diagnosis of cancerous, prenatal and other major diseases, the application of new generation of tests into the market place of the medical community, R&D and technical expertise relies to a significant extent on the contribution of Dr. Yeung. Under the service agreement entered by Dr. Yeung with the Company on 20 April, 2004, either party can terminate the appointment without any compensation by not less than 3 months' notice. In the event that Dr. Yeung ceases to serve the Group and the Group cannot find a suitable replacement promptly, the operations of the Group could be adversely affected.

Reliance on collaborative relationships with the Chinese University and Town Health group

The Group entered into the Consultancy Agreement with the Chinese University which has designated Professor Lo as its consultant to advise Plasmagene. Such advice covers the establishment of a laboratory by Plasmagene to conduct research on diagnostic services using the PDx Technology. The Consultancy Agreement is effective for three years commencing from 15 August, 2001 and expiring on 14 August, 2004. The Group has also entered into the Right of First Refusal Agreement with the Chinese University on 8 August, 2002 relating to the grant of a right of first refusal to the Company by the Chinese University in respect of certain technology and inventions of the PDx Technology, details of which are set out in the sub-section headed "Options to be granted to the Chinese University" in the section headed "Business" of this prospectus. The Right of First Refusal Agreement is valid for a period of four years from the Listing Date. The expiry of the Consultancy Agreement and the Right of First Refusal Agreement without renewal may pose some difficulties for the Group to acquire new research methodology that may originate from the Chinese University. In addition, under a memorandum of understanding entered into on 10 July, 2002 between the Company and the Chinese University, the Company and the Chinese University agreed to cooperate on future research and development activities. Plasmagene also conducts a community research programme with Spring Biotech (please refer to the subsection headed "Connected transactions" in the "Business" section for further details). In the event these arrangements terminate, and no suitable replacement can be found on terms acceptable to the Group, the Group may have to expand its research and development team and the related research expenditure may be increased. As a result, this may have an adverse impact on the Group's profitability.

Research and development risks

The future growth of the business of the Group is expected to rely on the successful development and sales of the Group's existing and future testing services. Additionally, consumers may not accept the Group's future testing services in development or may accept the tests much later than the Directors anticipate. Any delay in clinical trials or negative clinical results of future testing services or the introduction of substitute testing services with similar diagnostic effects by other producers or researchers could adversely affect the future prospects of the Group. In addition, there is no assurance that the Group will obtain necessary regulatory approvals of its future testing services. In such event or if there is any delay in obtaining such approvals, if necessary, the Group's performance may be affected.

Reliance on intellectual property licences owned by third parties

Apart from the intellectual property rights assigned by Dr. Yeung to 3 Ben and Plasmagene (please refer to the subsection headed “Intellectual property” in “Business” section of this prospectus for further details), the Group does not at present own any patents or other intellectual property rights in the underlying technologies of its testing services. The Group’s testing services are developed using intellectual property which has been licensed to the Group by ISIS, the Chinese University and F. Hoffmann-La Roche Limited for fixed periods of time. The licensing arrangement with ISIS may be extended if the Group’s royalty payments to ISIS meets specified minimum amounts. Particularly, in relation to the licence agreement entered into between the Group (as licensee) and ISIS (as licensor), the Group was also granted an option to renew this licence for a further period from the date the licence expires and continuing for so long as the commercial practice of the technology concerned is covered by a patent in the relevant jurisdictions, subject to the Group meeting a minimum cumulative aggregate royalty payment to ISIS of about HK$7 million in 2008. The ISIS license will apply to certain foetal maternal products of the Group in Hong Kong, Japan and Australia. Products directly based on this license include the RhD test and the X-linked recessive test for foetal abnormalities. There is no assurance that these licensing arrangements will continue after the expiry of the relevant agreements on terms acceptable to the Group, failing which the Group’s operations may be adversely affected. Further, some of the patent applications covering certain countries relating to such licensed technology are currently being filed by ISIS and the Chinese University. It is possible that certain of these patent applications may be rejected or restricted by the relevant patent authorities on grounds generally that such patents are similar to prior registered patents or patent applications. In such event, the scope of the market in which the Group may offer certain of its testing services will be limited since to offer such testing services may either infringe the rights of any prior patents or patent applications or result in the Group’s testing services being imitated without any protection to enforce its rights, and as a result, this may have an adverse impact on its performance.

Delay in obtaining relevant overseas government approval

The Group plans to expand its business to Japan, the PRC and Australia in future. The setting up of new businesses in these countries must comply with all applicable laws and regulations in these countries and therefore may require approval or authorisation from the relevant overseas government. Any significant delay in obtaining such approval or authorisation may have an adverse impact on the Group’s performance.

Uncertain ability to protect intellectual property rights

The patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions. Although the Group enjoys rights to use certain intellectual property rights through the licensing arrangements with ISIS, the Chinese University and F. Hoffmann-La Roche Limited, it may be possible for a third party to imitate or use the Group’s intellectual property rights without authorisation. Should such infringement occur, the Group may suffer significant losses caused by a reduction in the sales of its testing services and an increase in legal expenditure and management's time in relation to the protection of the intellectual property rights attached to the licensed patents. In addition, there can be no assurance that any patents licensed to the Group will not be challenged, and subsequently narrowed, invalidated or circumvented. In such events, the operations and performance of the Group could be adversely affected.

The Group could be subject to intellectual property infringement claims as the number of competitors grows, and the content and functionality of the Group's testing services may overlap with those of its competitors. These claims could be costly and may divert the Group's attention from operating its business. If the Group becomes liable to third parties for infringing their intellectual property rights, the Group could be required to pay substantial damages and be forced to develop non-infringing technologies, obtain licences or cease selling testing services that contain the infringing technologies. The Group may be unable to develop non-infringing technologies or obtain licences on terms acceptable to the Group, and as a result, the business of the Group may be adversely affected.

Limited operating history of the Group's cancer testing services

The Group has a limited operating history in respect of its commercialised cancer testing services that were only introduced to the market in 2001. The Group's testing services including those for stroke, trauma, organ transplant and pleural effusion are yet to be launched. The success of the Group in offering its testing services is dependent upon a number of factors, including, amongst other things, market acceptance and effectiveness of the Group's testing services, the ability to continue to develop related technology and increase public awareness of its testing services. As such, the business of the Group may not grow as anticipated if some or all of the above mentioned factors are not favourable to the Group in the future.

Reliance on financial support from Shareholders

The Group's operations have up to the Latest Practicable Date relied, to a certain extent, on financial support from its shareholders. For the year ended 30 June, 2002, it was funded partly by Shareholders' loan of HK$2.7 million and a loan from New Oxford Management Limited, a connected person of the Company, of HK$2.2 million. For the period between July to November 2002, additional loans from Shareholders and New Oxford Management Limited of approximately HK$3.7 million were raised by the Group; of which HK$0.6 million due to Spring Biotech will be settled on 17 June, 2004 and the remaining of HK$3.1 million together with the Group's loans from Shareholders of HK$2.7 million and New Oxford Management Limited of HK$2.2 million totalling HK$8 million was fully capitalised as part of the Reorganisation into shares of the Company's subsidiaries. (Details of such capitalisation of the Shareholders' loans of the Group are set out in the section headed "Changes in the share capital of subsidiaries of the Company" in Appendix V to this prospectus). In the event that the Group is not able to generate sufficient cashflow from its operations to fund its business requirements in the future, and if the Group is not able to secure loan facilities or financing arrangements, the Group's operations and performance as well as its ability to implement its business plan may be adversely affected.

Legal validity and enforceability of electronically concluded contracts

The Group plans to sell its testing services via the Internet beginning in the fourth quarter of 2004, when the Group plans to launch its campaign in selected international journals to doctors worldwide. This will involve receiving purchase orders through the Group's websites and concluding contracts with customers electronically. However, the legal validity and enforceability of electronically concluded contracts is an uncertain area of law. In some jurisdictions, legislation prohibits or restricts the use of electronic media in forming contracts. The terms of an electronically concluded contract may be difficult to establish and are not easily incorporated since ordinary contractual principles relating to contract formation may or may not apply to certain electronic communications. In particular, it is not immediately apparent where or when an electronic contract is entered into, and there is very little, if any, case law to determine these issues. Although the Directors do not expect major regulatory, logistics and technical difficulties in launching its Internet sales, it may still give rise to issues as to the governing law and jurisdiction governing the contract and its enforceability, none of which are necessarily remedied by express provisions. In addition, it may lead to an escalation of compliance costs and hence, the performance of the Group may be adversely affected.

Limited sales and marketing experience

The Directors consider that the successful commercialisation of future testing services depends, to a certain extent, on the Group's sale and marketing ability. The Group's existing testing services were commercially launched starting from November 2001. The Group has limited experience in commercially marketing its testing services because of their uniqueness. There is no assurance that sales and marketing activities conducted by the Group's sale and marketing team will work as intended. If such sales and marketing activities do not work as intended and the Group cannot find suitable replacement for its sales and marketing team or develop other means of distribution of its testing services, the Group's business and operating performance may be adversely affected.

Professional indemnity insurance

The Group may face claims of liability arising from the alleged harmful effects of the use of the Group's testing services. The Group is covered by a professional indemnity insurance against liability arising from the Group's testing services and other losses that may arise therefrom. There is no assurance that the Group's insurance sufficiently covers the product liability claims in the future or that such claims would not have any adverse impact on the operation or financial position of the Group or its occurrence would not damage the business reputation of the Group.

RISKS RELATING TO THE INDUSTRY

Technological changes resulting in product obsolescence

It is possible that the Group's competitors will develop technologies more effective than those used in the Group's testing services. The Group's competitors could develop future testing services which would render testing services of the Group less competitive or obsolete.

RISKS RELATING TO HONG KONG AND THE PRC

Political and economic risks in Hong Kong

All of the Group's businesses, assets and operations are located in Hong Kong which is a special administrative region of the PRC with its own government and legislature. There is no assurance that the present political and economic environment in Hong Kong will remain unchanged. Future developments in the political and economic environment in Hong Kong may have a material and adverse effect on the business, operations and financial position of the Group.

Legal and regulatory considerations in the PRC

Unlike in common law systems, decisions of Chinese courts may be cited as persuasive authority but do not have binding precedential effect. While considerable progress has been made in the past two decades in the development of the laws and regulations dealing with the protection of foreign investors' interests in their investments in the PRC and contractual rights in dealing with domestic PRC individuals and entities, these laws and regulations are relatively new. This fact combined with the limited number of published judicial interpretations and the non-binding nature of prior court decisions result in significant uncertainty in the interpretation and enforcement of such laws and regulations. There can be no assurance that the Group's business if expanded to the PRC in the future, will not be adversely affected by changes in such laws and regulations or the interpretation thereof.

Political and economic considerations in the PRC

In 1978, the PRC government embarked on a shift in policy to transform the Chinese economy from a government planned economy to a market economy. Like other businesses which operate in the PRC market, the Group's business in the PRC could be adversely affected by changes in the PRC's state plans or political, economic and social conditions or changes in policies by the PRC government. The political, economic and social conditions in the PRC may fluctuate in response to internal or external factors that are hard to predict.

Since the introduction of the unified floating rate system in 1994, movements in the exchange rate of the Renminbi against other currencies, such as the Hong Kong dollar, are to an extent subject to market forces. Despite such developments, the Renminbi is still not a freely convertible currency. In addition, there is no assurance that the Renminbi will not be subject to depreciation or appreciation due to administrative or legislative intervention by the PRC government or adverse market movements, or that shortages in the availability of the foreign currency will not develop. The profitability of the future operations of the Group if expanded to the PRC in the future, may be adversely affected by any devaluation of the Renminbi.

RISKS RELATING TO THE SHARE OFFER

Possible redemption of the Convertible Notes that may lead to cancellation of the Listing

Under the terms of the Convertible Notes, a Noteholder may require early redemption of all or part of the Convertible Notes in circumstances (i) where the Listing is not a Qualified Listing, with such notice of Qualified Listing to be given by the Unconditional Date, or (ii) where any events of default as set out in the terms of the Convertible Notes shall have occurred and is not rectified within 30 days of such occurrence. See further details under the sub-heading "Convertible Notes" in the section headed "Share capital". If a notice to redeem is served on the Company at any time prior to 6:00 p.m. on the day immediately preceding the Listing Date, one of the conditions precedent to the Underwriting Agreements, namely, that the Noteholders shall not have given notice to redeem all or part of the Convertible Notes (which condition cannot be waived), will not be able to be fulfilled and the Listing will therefore not proceed. In such circumstances, all monies received in respect of the Share Offer will be returned to the placees and/or the applicants. Following the Unconditional Date, no notice may be given to redeem the Convertible Notes.

Dilution of Shareholders' interest as a result of equity fund raising

Potential investors should note that the First Post IPO Conversion and the Second Post IPO Conversion shall take place six months and twelve months respectively after the Listing Date, which would result in the allotment and issue of 34,400,000 Shares and 25,800,000 Shares to the Noteholders respectively. These allotment and issues of new Shares would have a dilution effect on the interests of the Shareholders. Please refer to the sub-section headed "Convertible Notes" in the section headed "Share capital" of this prospectus for further information.

The Group may need to raise additional funds in the future to finance expansion of existing businesses or development of new businesses. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to the existing Shareholders, the interests of the existing shareholders of the Company may be diluted as a result of equity fund raising.

Marketability and possible price volatility of the Shares

Prior to the Share Offer, there has been no public trading market for the new Shares, and there is no assurance that an active trading market for the Offer Shares will develop or be sustained upon completion of the Share Offer. Shares of other companies with substantial business interests in the software business and listed on the Stock Exchange have experienced substantial price volatility in the past, and it is possible that the Offer Shares will be subject to changes in price that may not be directly related to the Group's financial condition or business performance.

The market price and trading volume of the Shares may be highly volatile. Factors that could cause the market price of the Shares to fluctuate include:

- variations in the Group's revenue, earnings and cash flow;
- announcements of new service and product offerings, technological innovations, strategic alliances and/or acquisitions involving the Group's competitors or price reductions by the Group, its competitors or providers of alternative products and services;
- changes in the Group's competitive position;
- changes in the distribution and liquidity of the Shares;
- investor's views of the Group; and
- general economic or market conditions.

In addition, as the Group's assets contain a significant portion of cash, the Group's utilisation of its cash may also affect the market price and trading volume of the Shares.