

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

For the purpose of the Listing, the Company has sought a waiver, as described below, from the Stock Exchange from strict compliance with certain requirements of the GEM Listing Rules.

Connected transactions

The Group has from time to time conducted business with the Town Health group. Following the Listing, certain of these business arrangements will constitute non-exempt continuing connected transactions under the GEM Listing Rules and will be subject to approval by the Shareholders in general meeting of the Company as required under Rule 20.18 of the GEM Listing Rules. Details of the connected transactions are set out below.

Nature of the connected transactions

An agreement dated 23 April, 2002 as amended and supplemented by a supplemental agreement dated 7 August, 2002 were entered into between Plasmagene and Spring Biotech under which Plasmagene agreed to offer the Group's testing services to Town Health's patients. The test results will be followed up by the doctors at Town Health's medical centre and will also be used in a community research programme jointly run by Plasmagene and the Town Health group. The programme consists of seminars and the offering of the Group's cancer tests based on the PDx Technology. The cancer tests were marketed as *EBeasy* and *EBgene* and were offered free of charge to the public during the launch of the programme.

Plasmagene charges Spring Biotech a fee based on a fixed scale depending on the type of testing services offered to patients at Town Health's medical centre. Spring Biotech will use its reasonable endeavours to procure that the Group's total gross revenue from offering its testing services at Town Health's medical centre will not be less than HK\$3 million up to 30 June, 2004. The arrangement is for a period of twenty-six months commencing from 1 May, 2002 until 30 June, 2004. Further details of these connected transactions are set out in the paragraph headed "Connected transactions" of the section headed "Business" in this prospectus.

Cap estimation

The Directors estimate that on the basis of the terms of the above mentioned agreements and the projected sales from the relevant testing services, the aggregate amount of fees receivable by the Group from the Town Health group under the community research programme jointly conducted with Spring Biotech will not exceed HK\$2,000,000 for the year ending 30 June, 2004. The estimated aggregate amounts of fees to be received under the community research programme is calculated based on the amount of revenue that Spring Biotech agreed to procure, being approximately HK\$3 million for the two years ending 30 June, 2004 based on the relevant agreements entered into between Plasmagene and Spring Biotech, or HK\$1.5 million each year, plus an allowance of additional revenue of HK\$500,000 expected to be generated in each of the two financial years ending 30 June, 2004. The agreements relating to the community research programme will terminate on 30 June, 2004. The relevant agreements do not stipulate any penalty to be made by Spring Biotech in the event the gross

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revenue is less than HK\$3 million up to 30 June, 2004. As stated in the relevant agreements, Spring Biotech agreed to use its reasonable endeavours to procure that the revenue will not be less than HK\$3 million. If Spring Biotech has not used its reasonable endeavours to achieve the target of HK\$3 million during the two years ending 30 June, 2004, the Group may consider not renewing the agreement with Spring Biotech. However, 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.

The waiver

The connected transactions as described above constitute non-exempt continuing connected transactions under the GEM Listing Rules and are subject to the reporting, announcement and independent Shareholders' approval requirements after the Listing Date. The Directors consider that strict compliance with Rules 20.47 and 20.48 of the GEM Listing Rules may be impractical and unduly burdensome and would not be of benefit to the Shareholders as a whole. As such, the Company has applied to the Stock Exchange for a waiver from the announcement requirement as required under Rule 20.47 and the independent Shareholders' approval requirement set out in Rule 20.48 of the GEM Listing Rules in respect of such connected transactions for a period commencing from the Listing Date and up to 30 June, 2004. Such connected transactions will be conducted in compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules.

In the opinion of the Directors (including the independent non-executive Directors) and the Sponsor, the connected transactions between the Group and the Town Health group fall within the ordinary course of business of the Group on normal commercial terms and are fair and reasonable so far as the interests of independent Shareholders are concerned. The Directors (including the independent non-executive Directors) and the Sponsor are also of the opinion that the cap estimation as detailed in the sub-section headed "Cap estimation" above is fair and reasonable.

In the event that the Group enters into any new transactions or agreements with any connected persons in the future, the Company will comply with the provisions of Chapter 20 of the GEM Listing Rules. In addition, if any of the non-exempt continuing connected transactions shall continue after the expiry of the current waiver on 30 June, 2004, the Company will comply with the provisions of Chapter 20 of the GEM Listing Rules in relation to non-exempt continuing connected transactions.