

SHARE CAPITAL

HK\$

Authorised share capital:

<u>1,000,000,000</u> Shares	<u>10,000,000</u>
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Shares issued or to be issued, fully paid or credited as fully paid:

1,010,000 Shares in issue	10,100
236,990,000 Shares to be issued under the Capitalisation Issue	2,369,900
64,000,000 Shares to be issued pursuant to the Share Offer	640,000
<u>25,800,000</u> Shares to be issued pursuant to the Initial IPO Conversion (<i>note</i>)	<u>258,000</u>
<u>327,800,000</u> Shares	<u>3,278,000</u>

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public.

Note:

Upon full conversion of the Convertible Notes following the Initial IPO Conversion, the First Post IPO Conversion and the Second Post IPO Conversion, the issued share capital of the Company will be increased to 388,000,000 Shares, 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 mandate to issue or repurchase Shares referred to in Appendix V to this prospectus.

Assumptions

The above table assumes that the Share Offer and the Capitalisation Issue will become unconditional and will be completed.

It, however, takes no account of (i) 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 (ii) any Shares which may be allotted and issued under the general mandate to issue Shares (see below), or (iii) which may be repurchased by the Company pursuant to the share repurchase mandate (see below).

Ranking

The Offer Shares will rank *pari passu* with all the Shares in issue or to be issued as mentioned in this prospectus and will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme, a summary of the terms of which is set out in the paragraph headed “Summary of the terms of the Share Option Scheme” in the section headed “Share Option Scheme” in Appendix V to this prospectus.

Right of First Refusal Agreement

The Company has entered into the Right of First Refusal Agreement whereby it has agreed to grant options to subscribe for Shares to the Chinese University, details of which are set out in the section headed “Relationship with Professor Lo and the Chinese University” and in the subsection headed “Options to be granted to the Chinese University” in the section headed “Business” of this prospectus.

General mandate to allot and issue new Shares

The Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with a total nominal value of not more than the sum of:

1. 20% of the total nominal amount of the share capital of the Company in issue immediately following the completion of the Capitalisation Issue, the Share Offer and the Initial IPO Conversion; and
2. the total nominal amount of the share capital of the Company repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares referred to below.

This mandate does not cover any Shares allotted, issued or dealt with under, inter alia, a rights issue, scrip dividend scheme or similar arrangement, upon the exercise of any options granted under the Share Option Scheme or pursuant to the First Post IPO Conversion or the Second Post IPO Conversion but does include any Shares to be allotted and issued upon the exercise of any options granted or to be granted pursuant to the Right of First Refusal Agreement.

This mandate will expire:

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by applicable law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of its Shareholders in general meeting,

whichever is the earliest.

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Further information on this general mandate is contained in the paragraph headed “Resolutions passed at extraordinary general meetings of the Company which were held on 20 April, 2004 and 31 May, 2004” in the section headed “Further information about the Company” in Appendix V to this prospectus.

General mandate to repurchase Shares

The Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following the completion of the Capitalisation Issue, the Share Offer and the Initial IPO Conversion.

This mandate only relates to repurchases which are made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and regulations. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by the Company of its own securities” in the section headed “Further information about the Company and its subsidiaries” in Appendix V to this prospectus.

The mandate will expire:

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by applicable law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

Convertible Notes

Terms of the Convertible Notes

The Company issued to the Noteholders the non-interest bearing Convertible Notes in an aggregate principal amount of HK\$21.5 million in December 2002. The net proceeds from the issue of the Convertible Notes amounted to approximately HK\$21.1 million after deduction of expenses payable by the Company in relation to the issue of such Convertible Notes. Such net proceeds were intended to be used mainly for the Group’s daily operations and marketing the Group’s existing and new testing services in future. To the extent that the net proceeds of the Convertible Notes are not immediately applied for the above purpose, it is the present intention of the Directors that such net proceeds will be placed on short-term deposits with banks or other authorized financial institutions. As at the Latest Practicable Date, an amount of approximately HK\$7.9 million has been utilised for the daily operations of the Group, financing the listing process and patent applications for the Chinese University and the Group. The Directors expect that approximately HK\$10.0 million will be used for

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the daily operating expenses of the Group; and the remaining approximately HK\$3.2 million as marketing of foetal maternal and cancer testing products in the PRC, Australia and Japan as to approximately HK\$100,000 from the Latest Practicable Date to 30 June, 2004 and as to approximately HK\$620,000 for each of the six-month period from 1 July, 2004 to 31 December, 2006. The table below is a summary of certain terms of the Convertible Notes.

	Date of entry	Principal amount of Convertible Notes <i>HK\$</i>	Conversion Price <i>(Note 1)</i> <i>HK\$</i>	Conversion amount at Initial IPO conversion <i>(Note 1)</i> <i>HK\$</i>	Conversion amount at First IPO Conversion <i>(Note 1)</i> <i>HK\$</i>	Conversion Amount at Second IPO Conversion <i>(Note 1)</i> <i>HK\$</i>
The Applied Research Council	27 December, 2002	11,700,000	0.25	3,510,000	4,680,000	3,510,000
MCVIL	16 December, 2002	3,900,000	0.25	1,170,000	1,560,000	1,170,000
JAIC	16 December, 2002	2,340,000	0.25	702,000	936,000	702,000
JAIC Technology	16 December, 2002	1,560,000	0.25	468,000	624,000	468,000
Mr. Robert Owen	14 December, 2002	500,000	0.25	150,000	200,000	150,000
Mr. Russell Young	14 December, 2002	1,200,000	0.25	360,000	480,000	360,000
Mr. Tong Sui Bau	14 December, 2002	100,000	0.25	30,000	40,000	30,000
Mr. Lee Kam Lun, Kenyon	14 December, 2002	100,000	0.25	30,000	40,000	30,000
Ms. Jessica Pui Han Jook	14 December, 2002	100,000	0.25	30,000	40,000	30,000
		<u>21,500,000</u>		<u>6,450,000</u>	<u>8,600,000</u>	<u>6,450,000</u>

Note 1: The conversion price and amounts provided above are for illustration purposes only.

Each of the Noteholders and their respective beneficial owners are not connected persons of the Company, and therefore are regarded as public Shareholders. The Noteholders 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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Subject to adjustment prior to the Unconditional Date as stated in the terms of the Convertible Notes in relation to changes in capital structure and anti-dilution protection, the conversion price shall be calculated as follows:

Market capitalisation for the purpose of such calculation only means the number of Shares (Shares in issue at the Listing Date and assuming that the full conversion has taken place) multiplied by the Offer Price.

- (a) if market capitalisation of the Company is HK\$260,000,000.00 or below at the time of the Listing (assuming all outstanding Convertible Notes being converted at the Listing Date), then conversion price is 50% of the Offer Price; or
- (b) if market capitalisation of the Company is above HK\$260,000,000.00 at the time of the Listing (assuming all outstanding Convertible Notes being converted at the Listing Date), then conversion price will be calculated based on the following formulas:

Formula A:

$$\text{Conversion \%} = \frac{\text{Amount of Convertible Notes}}{\text{HK\$260,000,000} \times (1 - \% \text{ of public offer}) \times 50\%}$$

Formula B:

$$\text{Number of Shares to be issued} = \frac{\text{Conversion \% in Formula A}}{\text{Conversion \% in Formula A}} \times \frac{\text{Total no. of issued Shares}}{(1 - \text{Conversion \% of Formula A})}$$

Conversion price will be determined by the number of Shares to be issued to Noteholders and divided by the principal amount of HK\$21,500,000.

The intended principles forming the basis for the calculation of the conversion price is that the conversion price will be 50% of the Offer Price until the point when the market capitalisation (calculated on the basis set out in the relevant subscription agreement) exceeds HK\$260,000,000, the conversion price will then be capped. With the Offer Price of HK\$0.50 the conversion price has been determined at HK\$0.25. Accordingly, the dilution effect of the conversion of the Convertible Notes as currently disclosed in this prospectus is not expected to be changed.

The Convertible Notes may be converted into Shares in three stages, namely, the Initial IPO Conversion, the First Post IPO Conversion and the Second Post IPO Conversion. The Initial IPO Conversion will take place prior to the Listing Date, whereby 30% of the aggregate nominal value of the Convertible Notes will be converted into a total of 25,800,000 Shares to be allotted and issued to the Noteholders unless the Noteholders have given notice requiring early redemption of the Convertible Notes. On each of the First Post IPO Conversion Date and the Second Post IPO Conversion Date, the First Post IPO Conversion and the Second Post IPO Conversion will take place, respectively and the remaining unconverted Convertible Notes will be automatically converted into Shares.

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The percentages of shareholdings of each of the Noteholders following the Initial IPO Conversion are detailed below in the paragraph headed “Effect of the First Post IPO Conversion and the Second Post IPO Conversion”. None of the Noteholders will hold or control 5% or more of the Company’s issued share capital as at the Listing Date and therefore, will not constitute a significant shareholder as defined in the GEM Listing Rules. In addition, upon the Initial IPO Conversion, it is anticipated that each individual Noteholder shall exercise its voting rights in the Company as it deems appropriate for its own purposes and therefore, their proposed shareholdings should not be aggregated. Accordingly, the Noteholders are (i) considered to be members of the public as detailed in Rule 11.23 of the GEM Listing Rules and (ii) not subject to the 6 month lock-up period requirement detailed in Rule 13.17 of the GEM Listing Rules. However, each of the Noteholders has undertaken to the Company not to dispose of, or enter into any agreement to dispose of, their respective Shares, held as at the Listing Date and allotted and issued upon the Initial IPO Conversion, within the first three months following the Listing Date. Other than those rights to convert, no other rights will attach to the Convertible Notes following the Listing Date. After the Second Post IPO Conversion Date, no Convertible Notes will remain outstanding. The conversion price applicable to the Initial IPO Conversion will be applicable to the First Post IPO Conversion and the Second Post IPO Conversion (unless the Company conducts a share subdivision or a share consolidation in which cases, the conversion price will be adjusted accordingly). The Company has undertaken to the Noteholders that it will not, prior to the Second Post IPO Conversion, take any action which would under the anti-dilution provisions attaching to the Convertible Notes give rise to an adjustment of the conversion price. The Noteholders had no previous dealings in the Shares and their shareholdings in the Company as shown in the paragraph headed “Group structure” under the section headed “Business” of this prospectus are as a result of the Initial IPO Conversion.

A Noteholder may require early redemption of the Convertible Notes in certain limited circumstances by giving the Company a notice by the Unconditional Date to redeem all or part of the Convertible Notes on the Listing Date. Such circumstances for redemption of the Convertible Notes include (i) if the Listing is not a Qualified Listing; (ii) if the Listing does not occur on or before 13 June, 2004, being the date falling 18 months from the first date of issue of the Convertible Notes; (iii) if any decision is made by the Directors to dispose of the Group or its assets or business to third parties whereby the proceeds to be paid by such third party will exceed the aggregate of (aa) the initial principal amount of the Convertibles Notes which is payable to the Noteholders and (bb) 25% interest as calculated on a compound annual basis, and such proceeds to be paid by such third party will be in the form of cash or shares in a listed company or both; and (iv) if any events of default (as set out below) shall have occurred which shall not have been rectified within 30 days of the date of such occurrence, the Noteholders may at its option serve a redemption notice. If this happens, the Company will redeem, on or before the Listing Date, such amount of the outstanding principal amount of the Convertible Notes. However, if there is any early redemption of Convertible Notes by any one of the Noteholders, one of the conditions precedent to the Underwriting Agreements, namely, that the Noteholders have not given notice at any time prior to 6:00 p.m. on the day immediately preceding the Listing Date to redeem all of or part of the Convertible Notes on the Listing Date, will not be satisfied and the Listing will therefore not proceed. In such circumstances, all monies received in respect of the Share Offer will be returned to the applicants. Although the Listing is not a Qualified Listing and will not occur on or before 13 June, 2004, the Noteholders have on 3 June, 2004 given their consent for the Company to waive their rights as regards early redemption of the Convertible Notes and proceed with the Listing as if it is a Qualified Listing and to extend such deadline to 30 June, 2004. Events of default are, inter alia, (a) overdue payments in respect of Convertible Notes of

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which the Noteholders have given notice to redeem, for more than thirty days, (b) breach of warranties, representations or undertakings set out in the subscription agreement dated 4 December, 2002 relating to the Convertible Notes; (c) a default by the Company of the conditions to the Convertible Notes which is incapable of remedy; (d) there is a material adverse change in the financial position or trading prospects of the Group, and in respect of (b), (c) and (d) above, notice thereof has been given to the Company on or prior to the Unconditional Date; and (e) any members of the Group becoming insolvent and proceedings being instituted against the Group. Such early redemption provisions under the terms of the Convertible Notes ceases to have any effect on and from the Unconditional Date. The Convertible Notes may not be redeemed by the Noteholders following the Unconditional Date. If there is no redemption by the Unconditional Date, the Initial IPO Conversion will take place and after the Listing, the First Post IPO Conversion and the Second Post IPO Conversion will be mandatory. Pursuant to the terms, the Convertible Notes are interest free (assuming no redemption required), secured by a pledge of the shares in Plasmagene and the intellectual properties of the Group, personal guarantees executed by Dr. Yeung and Ms. Margaret Tsui and corporate guarantees executed by the Group. Such pledge of assets and guarantees shall cease to be of any effect upon the Listing. In accordance with the terms of the Convertible Notes, the Convertible Notes may only be transferred prior to the Listing Date if (i) the Noteholders have first provided all of the Shareholders with the right to either jointly and independently purchase the Notes at the same price as offered by the prospective transferee; and (ii) the transfer is made in accordance with any applicable requirements of the Stock Exchange, the GEM Listing Rules and any other applicable laws and regulations. For the period of twelve months after the Listing Date, the Noteholders may not transfer or agree to transfer the Convertible Notes.

Conversion of all the Convertible Notes will result in The Applied Research Council becoming a substantial shareholder of the Company, hence a connected person of the Company as defined by the GEM Listing Rules and whose shares may not be treated as in the hands of the public. The Company undertakes that it shall at all times procure that there is at least a minimum prescribed percentage (as defined in the GEM Listing Rules) of the securities of the Company be held in the hands of the public.

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Effect of the First Post IPO Conversion and the Second Post IPO Conversion

The table below shows the effects of the First Post IPO Conversion and the Second Post IPO Conversion, taking no account of any Shares which may be allotted and issued upon the exercise of the options granted or to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or the general mandate to issue or repurchase Shares referred to in Appendix V to this prospectus:

Name	Notes	Number of Shares held on the Listing Date	%	Number of Shares held after the First Post IPO Conversion	%	Number of Shares held after the Second Post IPO Conversion	%
<i>Initial Management Shareholders</i>							
Dr. Yeung		2,368,454	0.72	2,368,454	0.65	2,368,454	0.61
Ms. Margaret Tsui	1	119,170,370	36.35	119,170,370	32.90	119,170,370	30.71
Spring Biotech	2	67,747,524	20.67	67,747,524	18.70	67,747,524	17.46
Vanbarr Corporation	3	12,574,648	3.84	12,574,648	3.47	12,574,648	3.24
Diamond Tech Investment Limited	4	12,574,648	3.84	12,574,648	3.47	12,574,648	3.24
<i>Public Shareholders (Note 13)</i>							
Mr. Wong Kim Wing	5	11,782,178	3.59	11,782,178	3.25	11,782,178	3.04
Professor Lo	6	9,425,742	2.88	9,425,742	2.60	9,425,742	2.43
The Chinese University of Hong Kong Foundation Limited	6	2,356,436	0.72	2,356,436	0.65	2,356,436	0.61
The Applied Research Council	7, 13	14,040,000	4.28	32,760,000	9.04	46,800,000	12.06
MCVIL	8	4,680,000	1.43	10,920,000	3.01	15,600,000	4.02
JAIC	9	2,808,000	0.86	6,552,000	1.81	9,360,000	2.41
JAIC Technology	10	1,872,000	0.57	4,368,000	1.21	6,240,000	1.61
Mr. Robert Owen	11	600,000	0.18	1,400,000	0.39	2,000,000	0.52
Mr. Russell Young	11	1,440,000	0.44	3,360,000	0.93	4,800,000	1.24
Mr. Tong Sui Bau	11	120,000	0.04	280,000	0.08	400,000	0.10
Mr. Lee Kam Lun, Kenyon	11	120,000	0.04	280,000	0.08	400,000	0.10
Ms. Jessica Pui Han Jook	11	120,000	0.04	280,000	0.08	400,000	0.10
Other public Shareholders	12	<u>64,000,000</u>	<u>19.51</u>	<u>64,000,000</u>	<u>17.68</u>	<u>64,000,000</u>	<u>16.50</u>
		<u>327,800,000</u>	<u>100.0</u>	<u>362,200,000</u>	<u>100.0</u>	<u>388,000,000</u>	<u>100.0</u>
Total public float		<u>113,364,356</u>	<u>34.58</u>	<u>147,764,356</u>	<u>40.81</u>	<u>126,764,356</u>	<u>32.68</u>

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Notes:

- (1) Ms. Margaret Tsui is the wife of Dr. Yeung.
- (2) Town Health is a company whose shares are listed on GEM. As at the Latest Practicable Date, it was indirectly beneficially owned as to approximately 13.08% by Dr. Cho Kwai Chee, directly beneficially owned as to approximately 0.1% by Mr. Cho Kam Luk, a Director and approximately 86.82% by other directors of Town Health and public shareholders.
- (3) Vanbarry Corporation is wholly beneficially owned by Mr. Cheng Yan Tak, Angus Ronald who is a Director.
- (4) Diamond Tech Investment Limited is wholly beneficially owned by Mr. Wong Yan Kit who is an independent third party.
- (5) Mr. Wong Kim Wing is an independent third party, has no board representation in the past and is not expected to have the same in the future, and has never involved or intends to involve in the management or daily operation of the Group before or after the Listing respectively.
- (6) The Chinese University of Hong Kong Foundation Limited is a non-profit company limited by guarantee incorporated to promote and develop educational and cultural programmes, scientific and technological research, hospital and related healthcare and service providers, human services programmes and other public services activities. Both Professor Lo and The Chinese University of Hong Kong Foundation Limited have no board representation in the past and are not expected to have the same in the future, and have never involved or intend to involve in the management or daily operation of the Group before or after the Listing respectively.
- (7) The Applied Research Council is a company wholly owned by the Hong Kong government. It is responsible for the control and administration of the Applied Research Fund which provides funding support to technology ventures and research and development projects.
- (8) MCVIL is a limited company incorporated on 10 April, 2000 in the British Virgin Islands. It is an investment fund focusing on investments in companies with operations in China and Hong Kong. CAPI Ventures Inc. is the investment advisor of MCVIL which is managed by JAIC HK. MCVIL is an independent third party. MCVIL is beneficially owned by a Japanese insurance company.
- (9) JAIC is a company whose shares are listed on the JASDAQ market in Japan. It specialises in the management of direct investment funds in Japan and other parts of the world. As of March 2002, JAIC managed a total of 52 funds of approximately 78 billion yen. JAIC is an independent third party.
- (10) JAIC Technology is a limited partnership established on 30 November, 2001 under the laws of Japan. It is owned by JAIC and other independent third parties. It was formed for the purpose of making equity related investments in innovative technology companies and is managed by JAIC. JAIC Technology is an independent third party.
- (11) Mr. Robert Owen, Mr. Russell Young, Mr. Tong Sui Bau, Mr. Lee Kam Lun, Kenyon, and Ms. Jessica Pui Han Jook, are all independent third parties.
- (12) These Shares will be distributed under the Share Offer and are regarded as being held in public hands within the meaning of the GEM Listing Rules.
- (13) Immediately after the Second Post IPO Conversion, The Applied Research Council will become a substantial Shareholder and accordingly will not be regarded as a public Shareholder.