

The following is the text of a report, for the purpose of incorporation in this prospectus, from the auditors and reporting accountants of the Company, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

## RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

7th Floor, Allied Kajima Building,  
138 Gloucester Road, Hong Kong

8 June, 2004

The Directors

Plasmagene Biosciences Limited

First Shanghai Capital Limited

Dear Sirs,

We set out below our report of the financial information regarding Plasmagene Biosciences Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the two years ended 30 June, 2002, 30 June, 2003 and six months ended 31 December, 2003 (the “Relevant Periods”) for inclusion in this prospectus of the Company dated 8 June, 2004 (the “Prospectus”).

The Company was incorporated in the Cayman Islands on 27 June, 2002 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) as described in Appendix V of this Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on 20 September, 2002.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong private company). All subsidiaries have adopted the 30th day of June as their financial year end date throughout the Relevant Periods. Details of the subsidiaries are as follows:

Company	Place of incorporation and operation and date of incorporation	Issued and fully paid up share capital	Attributable equity interest	Principal activities
Chemosino International Limited	British Virgin Islands 30 April, 2002	Ordinary share US\$1	100%	Investment holding

Company	Place of incorporation and operation and date of incorporation	Issued and fully paid up share capital	Attributable equity interest	Principal activities
3 Ben Genomics Hong Kong Ltd.	Republic of Mauritius/ Hong Kong 11 January, 2001	Ordinary shares US\$100	100%	Research and development
Plasmagene Limited	Hong Kong 23 March, 2001	Ordinary shares HK\$12,000,000	100%	Diagnostic testing services and related research and development
Celltech Limited	Hong Kong 25 January, 2002	Ordinary shares HK\$100	100%	Not yet commenced business

The Company directly holds the interest in Chemosino International Limited. All other subsidiaries shown above are directly held by Chemosino International Limited.

No audited financial statements have been prepared for Chemosino International Limited since its date of incorporation. This company is newly incorporated and has not been involved in any material business transactions since its date of incorporation other than the Reorganisation. We have, however, reviewed all material transactions of this company for the period since its date of incorporation to the date of this report.

We have acted as auditors of all companies now comprising the Group for the Relevant Periods, or since their respective dates of incorporation, where this is a shorter period.

We have examined the audited financial statements or, where appropriate, management accounts of all companies now comprising the Group for the Relevant Periods, or from the respective dates of their incorporation, where this is a shorter period and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined income statements, combined statements of movements in equity and cash flows of the Group for the Relevant Periods and of the combined balance sheets of the Group and the balance sheets of the Company as at 30 June, 2002, 30 June, 2003 and 31 December, 2003 (the "Summaries") set out in this report have been prepared based on the audited financial statements or where appropriate, management accounts of all companies now comprising the Group and on the basis set out in Section V below.

The directors of the respective group companies now comprising the Group are responsible for preparing financial statements of the respective group companies, which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are also responsible for the Summaries. It is our responsibility to form an independent opinion, based on our examination, on the Summaries.

In our opinion, the Summaries together with the notes thereto, for the purpose of this report, give a true and fair view of the combined income statements and cash flows of the Group for the Relevant Periods and of the balance sheets of the Company and the combined balance sheets of the Group as at 30 June, 2002, 30 June, 2003 and 31 December, 2003.

## I. COMBINED INCOME STATEMENTS

The following is a summary of the combined income statements of the Group for the Relevant Periods, prepared on the basis set out in Section V below.

	<i>Section V Notes</i>	<b>Year ended 30 June,</b>		<b>Six months ended 31 December,</b>
		<b>2002</b>	<b>2003</b>	<b>2003</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	3	525,545	1,339,250	904,550
Cost of sales		<u>(493,619)</u>	<u>(1,003,501)</u>	<u>(691,617)</u>
		31,926	335,749	212,933
Other revenue	4	19,331	3,215	21,221
Selling and distribution expenses		(35,359)	(157,440)	(67,937)
Administrative expenses		(2,601,127)	(3,833,666)	(1,982,914)
Other operating expenses		<u>(480,565)</u>	<u>(1,069,331)</u>	<u>(441,547)</u>
Loss before taxation	5	(3,065,794)	(4,721,473)	(2,258,244)
Taxation	6	<u>—</u>	<u>—</u>	<u>—</u>
Loss attributable to shareholders		<u>(3,065,794)</u>	<u>(4,721,473)</u>	<u>(2,258,244)</u>
Dividend	7	<u>—</u>	<u>—</u>	<u>—</u>
Loss per share - basic	8	<u>(1.29) cents</u>	<u>(1.98) cents</u>	<u>(0.95) cents</u>

## II. COMBINED BALANCE SHEETS

The following are the summaries of the combined balance sheets of the Group and the balance sheets of the Company as at 30 June, 2002, 30 June, 2003 and 31 December, 2003 prepared on the basis set out in Section V below.

	Section V Notes	Group			Company		
		At 30 June, 2002	At 30 June, 2003	At 31 December, 2003	At 30 June, 2002	At 30 June, 2003	At 31 December, 2003
		HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Non-current assets							
Intangible assets	11	4,571,393	4,227,941	4,233,601	—	—	—
Plant and equipment	12	1,185,546	1,282,255	1,119,357	—	—	—
Investments in subsidiaries	13	—	—	—	—	7,048,063	9,449,016
		<u>5,756,939</u>	<u>5,510,196</u>	<u>5,352,958</u>	<u>—</u>	<u>7,048,063</u>	<u>9,449,016</u>
Current assets							
Inventories	14	15,671	2,784	22,597	—	—	—
Trade receivables	15	251,705	207,740	237,265	—	—	—
Other receivables and prepayments		1,097,697	3,547,795	4,714,412	—	3,465,480	4,542,822
Amounts due from related companies	16	111,734	2,829	270	—	—	—
Amounts due from directors	17	—	3,892,078	—	—	3,892,078	—
Cash and bank balances		670,801	18,373,656	14,975,406	—	18,320,385	14,814,250
		<u>2,147,608</u>	<u>26,026,882</u>	<u>19,949,950</u>	<u>—</u>	<u>25,677,943</u>	<u>19,357,072</u>
Current liabilities							
Other payables and accrued charges		1,530,766	1,686,545	1,308,795	—	355,232	130,000
Amounts due to related companies	18	—	3,598,176	—	—	3,598,176	—
Amount due to a shareholder	19	—	655,848	655,848	—	—	—
		<u>1,530,766</u>	<u>5,940,569</u>	<u>1,964,643</u>	<u>—</u>	<u>3,953,408</u>	<u>130,000</u>
Net current assets		<u>616,842</u>	<u>20,086,313</u>	<u>17,985,307</u>	<u>—</u>	<u>21,724,535</u>	<u>19,227,072</u>
Total assets less current liabilities		<u>6,373,781</u>	<u>25,596,509</u>	<u>23,338,265</u>	<u>—</u>	<u>28,772,598</u>	<u>28,676,088</u>
Non-current liabilities							
Loans from shareholders	20	2,473,793	—	—	—	—	—
Long term payables	21	3,082,106	—	—	—	—	—
Convertible loans	22	—	21,500,000	21,500,000	—	21,500,000	21,500,000
		<u>5,555,899</u>	<u>21,500,000</u>	<u>21,500,000</u>	<u>—</u>	<u>21,500,000</u>	<u>21,500,000</u>
Total net assets		<u>817,882</u>	<u>4,096,509</u>	<u>1,838,265</u>	<u>—</u>	<u>7,272,598</u>	<u>7,176,088</u>
Financed by:							
Share capital	24	—	10,100	10,100	—	10,100	10,100
Reserves	25	817,882	4,086,409	1,828,165	—	7,262,498	7,165,988
		<u>817,882</u>	<u>4,096,509</u>	<u>1,838,265</u>	<u>—</u>	<u>7,272,598</u>	<u>7,176,088</u>

## III. STATEMENTS OF MOVEMENTS IN EQUITY

The following are the summaries of the movements in the combined shareholders' equity/shareholders' equity of the Group and the Company for the Relevant Periods, prepared on the basis set out in Section V below.

	Issued capital HK\$	Share premium HK\$	Accumulated losses HK\$	Sub-total of reserves HK\$	Total HK\$
<b>Group</b>					
Balance at 1 July, 2001	—	18	(567,204)	(567,186)	(567,186)
Share issued upon incorporation ( <i>note a</i> )	—	—	—	—	—
Loss for the year	—	—	(3,065,794)	(3,065,794)	(3,065,794)
Effect of Reorganisation ( <i>note b</i> )	—	4,450,862	—	4,450,862	4,450,862
Balance at 30 June, 2002	—	4,450,880	(3,632,998)	817,882	817,882
Shares issued for cash	100	—	—	—	100
Loss for the year	—	—	(4,721,473)	(4,721,473)	(4,721,473)
Effect of Reorganisation ( <i>note b</i> )	10,000	3,276,180	4,713,820	7,990,000	8,000,000
Balance at 30 June, 2003	10,100	7,727,060	(3,640,651)	4,086,409	4,096,509
Loss for the period	—	—	(2,258,244)	(2,258,244)	(2,258,244)
Balance at 31 December, 2003	<u>10,100</u>	<u>7,727,060</u>	<u>(5,898,895)</u>	<u>1,828,165</u>	<u>1,838,265</u>
<b>Company</b>					
Balance at 1 July, 2001	—	—	—	—	—
Share issued upon incorporation ( <i>note a</i> )	—	—	—	—	—
Balance at 30 June, 2002	—	—	—	—	—
Shares issued for cash	100	—	—	—	100
Loss for the year	—	—	(464,562)	(464,562)	(464,562)
Effect of Reorganisation ( <i>note b</i> )	10,000	7,727,060	—	7,727,060	7,737,060
Balance at 30 June, 2003	10,100	7,727,060	(464,562)	7,262,498	7,272,598
Loss for the period	—	—	(96,510)	(96,510)	(96,510)
Balance at 31 December, 2003	<u>10,100</u>	<u>7,727,060</u>	<u>(561,072)</u>	<u>7,165,988</u>	<u>7,176,088</u>

*Notes:*

- (a) The Company was incorporated in the Cayman Islands on 27 June, 2002 with an authorised share capital of HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each. On the same date, one share of HK\$0.01 was allotted and issued to the initial subscriber and such share was then transferred to Dr. Yeung Wah Hin, Alex on 1 August, 2002.
  
- (b) The total amount of the nominal value of shares issued for acquisition of subsidiaries by the Company was HK\$10,000. The fair values of the companies acquired by the Company were HK\$7,737,060. The difference of HK\$7,727,060 has been recorded as share premium. An amount of HK\$4,713,820 represents pre-acquisition losses of the subsidiaries acquired by the Company.

## IV. COMBINED CASH FLOW STATEMENTS

The following is a summary of the combined cash flow statements of the Group for the Relevant Periods, prepared on the basis set out in Section V below.

	<i>Section V Notes</i>	<b>Six months ended</b>		
		<b>Year ended 30 June, 31 December,</b>		<b>2003</b>
		<b>2002</b>	<b>2003</b>	<b>2003</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss before taxation		(3,065,794)	(4,721,473)	(2,258,244)
Adjustments for:				
Depreciation		315,379	523,545	239,675
Amortisation of intangible assets		251,141	436,457	223,060
Interest income		(19,331)	(3,215)	(21,221)
Write off of intangible assets		—	229,756	—
Loss on disposals of plant and equipment		—	17,157	—
Costs of issue of convertible notes		—	363,326	—
		<u>          </u>	<u>          </u>	<u>          </u>
Operating loss before working capital changes		(2,518,605)	(3,154,447)	(1,816,730)
(Increase)/Decrease in inventories		(15,671)	12,887	(19,813)
(Increase)/Decrease in trade receivables		(251,705)	43,965	(29,525)
Increase in other receivables and prepayments		(1,097,697)	(2,450,098)	(1,166,617)
(Increase)/Decrease in amounts due from related companies		(111,718)	108,905	2,559
(Increase)/Decrease in amounts due from directors		—	(3,892,078)	3,892,078
(Decrease)/Increase in other payables and accrued charges		(138,613)	853,473	17,808
Increase/(Decrease) in amounts due to related companies		—	3,598,176	(3,598,176)
Increase in amount due to a shareholder		—	124,949	—
		<u>          </u>	<u>          </u>	<u>          </u>
Net cash used in operating activities		<u>(4,134,009)</u>	<u>(4,754,268)</u>	<u>(2,718,416)</u>

		Six months ended		
	<i>Section V Notes</i>	Year ended 30 June, 31 December,		
		2002	2003	2003
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of plant and equipment		(1,500,925)	(638,311)	(76,777)
Proceeds from sale of plant and equipment		—	900	—
Payments for licences and patents	28(b)	(1,422,852)	(820,455)	(374,278)
Payments for development costs	28(b)	(750,000)	(625,000)	(250,000)
Interest received		<u>19,331</u>	<u>3,215</u>	<u>21,221</u>
Net cash used in investing activities		<u>(3,654,446)</u>	<u>(2,079,651)</u>	<u>(679,834)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
	28(a)			
Proceeds from issuance of share capital		—	100	—
Proceeds from issuance of share capital of subsidiaries		4,250,862	—	—
Proceeds from issuance of convertible notes		—	21,500,000	—
Payments relating to issue costs of convertible notes		—	(363,326)	—
Loans from shareholders		1,073,795	1,410,914	—
Increase in long term payables		<u>2,457,106</u>	<u>1,989,086</u>	<u>—</u>
Net cash from financing activities		<u>7,781,763</u>	<u>24,536,774</u>	<u>—</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(6,692)	17,702,855	(3,398,250)
CASH AND CASH EQUIVALENTS AT 1 JULY		<u>677,493</u>	<u>670,801</u>	<u>18,373,656</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE/31 DECEMBER		<u><u>670,801</u></u>	<u><u>18,373,656</u></u>	<u><u>14,975,406</u></u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>				
Cash and bank balances		<u><u>670,801</u></u>	<u><u>18,373,656</u></u>	<u><u>14,975,406</u></u>



**V. NOTES TO THE SUMMARIES****1. Basis of preparation**

Pursuant to the Reorganisation, Century Year Company Limited and New Oxford Management Limited were acquired by Chemosino International Limited at a fair value of HK\$3,892,078 on 20 September, 2002 and were disposed of by the Group for the same consideration on 25 June, 2003.

For the purpose of this report, the summary of the combined income statements, combined statements of movements in equity and combined cash flow statements of the Group for the Relevant Periods include income statements, statements of movements in equity and cash flows of the companies now comprising the Group as a result of the Reorganisation as if the current group structure has been in existence throughout the Relevant Periods or since their respective dates of incorporation of the individual companies where there are shorter periods. Accordingly, the results of Century Year Company Limited and New Oxford Management Limited have not been included in the Summaries for the Relevant Periods on the basis as if the disposal of these companies had been completed with effect from 1 July, 2001.

The summary of the balance sheets of the Company and the combined balance sheets of the Group as at 30 June, 2002, 30 June, 2003 and 31 December, 2003 has been prepared to present the assets and liabilities of the Company and the Group as at these dates as if the current group structure had been in existence as at these dates.

All significant intra-group transactions and balances have been eliminated on combination.

**2. Principal accounting policies**

The Summaries in this report are prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

**(a) Revenue recognition**

Revenue from the sales of diagnostic testing services are recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

**(b) Research and development****(i) Licences and patents**

Expenditures for licences and patents are recognised as intangible assets only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably; otherwise they are charged to the combined income statement in the period in which they are incurred.

After initial recognition, the licences and patents are measured at cost less accumulated amortisation on a straight line basis over the estimated useful lives of the relevant testing services for periods of 7 to 15 years and any accumulated impairment losses.

## (ii) Research and development activities

Research costs are charged to the combined income statement in the period in which they are incurred. Development costs are recognised as intangible assets only when such costs are incurred for specific projects where recoverability can be foreseen with reasonable assurance and comply with the following criteria: (i) the product or process is clearly defined and the development costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) the Group intends to produce and market, or use, the product or process; (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the Group, can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Development costs not meeting these criteria are expensed as incurred. Development costs recognised as intangible assets are amortised on a straight line basis over the estimated commercial lives of the underlying testing services which generally do not exceed twenty years.

(c) *Plant and equipment*

Plant and equipment are stated at cost less accumulated depreciation and impairment losses and are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Laboratory equipment	20%
Leasehold improvements	Over the lease terms
Office equipment, furniture and fixtures	20% - 40%
Motor vehicles	30%

Major costs incurred in restoring plant and equipment to their normal working condition are charged to the combined income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the combined income statement.

(d) *Impairment*

At the relevant reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as expenses immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(e) *Taxation*

The charge for taxation is based on the results for the year/period as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year/period based on the assessable profit for the year/period less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(f) *Subsidiaries*

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses, if any.

(g) *Accounts receivable*

Accounts receivable are stated at face value, after provision for doubtful debts. Provision is made against accounts receivable to the extent they are considered to be doubtful.

(h) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) *Cash and cash equivalents*

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the combined cash flow statement, bank overdrafts which are repayable on demand and form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents.

(j) *Provisions and contingencies*

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(k) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the combined income statement on a straight line basis over the lease term.

(l) *Foreign currency translation*

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the combined income statement.

(m) *Employee benefits*

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the combined income statement as incurred.

(n) *Related parties*

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## 3. Turnover

The Group is principally engaged in sales of diagnostic testing services, and research and development relating to diagnosis of cancer and foetal diseases and certain other illnesses. During the Relevant Periods, all of the Group's business were carried on in Hong Kong.

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003
			HK\$
Sales of diagnostic testing services			
Related parties	162,660	483,380	496,380
Third parties	<u>362,885</u>	<u>855,870</u>	<u>408,170</u>
Total	<u>525,545</u>	<u>1,339,250</u>	<u>904,550</u>

## 4. Other revenue

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003
			HK\$
Bank interest received	<u>19,331</u>	<u>3,215</u>	<u>21,221</u>

## 5. Loss before taxation

Loss before taxation is stated after charging the following:

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003 HK\$
Auditors' remuneration	48,000	80,500	67,000
Amortisation of intangible assets	522,672	716,940	364,894
Less: Amounts capitalised as development costs	(271,531)	(280,483)	(141,834)
	251,141	436,457	223,060
Cost of inventories sold	116,098	131,888	71,029
Depreciation	315,379	523,545	239,675
Directors' remuneration			
As directors	—	—	—
For management	—	647,000	432,000
	—	647,000	432,000
Exchange losses	—	2,666	54,854
Write off of intangible assets	—	229,756	—
Loss on disposals of plant and equipment	—	17,157	—
Operating leases rental in respect of premises	624,015	457,896	64,500
Staff costs	545,808	1,225,930	575,983
Research and development expenditure other than amortisation	314,117	575,164	605,013

6. **Taxation**

No provision for Hong Kong profits tax is required since the Group has no assessable profits for the Relevant Periods.

The reconciliation between the Group's loss before taxation and the amount which is calculated based on the tax rate of 16%/17.5% in Hong Kong is as follows:

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003
			HK\$
Loss before taxation	<u>(3,065,794)</u>	<u>(4,721,473)</u>	<u>(2,258,244)</u>
Tax calculated at the tax rate of 16%/17.5%	(490,527)	(826,258)	(395,193)
Tax effect of expenses not deductible in determining taxable profits	174,709	139,454	25,052
Tax effect of income not taxable in determining taxable profits	(3,093)	(563)	(3,714)
Increase in opening deferred tax liability resulting from an increase in tax rate	—	(27,551)	—
Loss not recognised as deferred tax assets due to concerns as to their recoverability	<u>318,911</u>	<u>714,918</u>	<u>373,855</u>
Taxation	<u>—</u>	<u>—</u>	<u>—</u>

Details of the unprovided deferred tax asset for each of the two years ended 30 June, 2002, 30 June, 2003 and six months ended 31 December, 2003 are set out in note 23.

The Group did not have any significant unprovided deferred tax liabilities for the Relevant Periods.

7. **Dividend**

No dividend has been paid or declared by the Company or any of its subsidiaries for the Relevant Periods.

8. **Loss per share**

The calculation of the basic loss per share for the two years ended 30 June, 2002, 30 June, 2003 and six months ended 31 December, 2003 is based on the loss attributable to the shareholders during the Relevant Periods and assuming 238,000,000 shares in issue and issuable, comprising 1,010,000 shares in issue at the date of this Prospectus 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 of this Prospectus.

## 9. Directors' and senior management's emoluments

(a) Details of the emoluments paid and payable to the directors during the Relevant Periods are as follows:

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003
Bonuses	—	—	—
Fees	—	—	—
Salaries, commissions and other allowances	—	630,000	420,000
Retirement scheme contributions	—	17,000	12,000
	<u>—</u>	<u>647,000</u>	<u>432,000</u>

The above remuneration were paid and payable to Dr. Yeung Wah Hin, Alex.

The remuneration of the directors was in the following bands:

Emolument bands	Year ended 30 June,		Six months ended
	2002	2003	31 December,
			2003
HK\$Nil - HK\$1,000,000	<u>9</u>	<u>9</u>	<u>9</u>

No directors of the Company has waived any emoluments during the Relevant Periods.

(b) The five individuals whose emoluments were the highest in the Group are as follows:

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
			2003
Directors	—	1	1
Employees	<u>5</u>	<u>4</u>	<u>4</u>

During the year ended 30 June, 2002, no directors of the Company received emoluments.

During the year ended 30 June, 2003 and six months ended 31 December, 2003, only one director of the Company received emoluments.



(c) Details of the emoluments of employees as mentioned in note 9(b) above are as follows:

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003
Bonuses	—	—	—
Salaries, commissions and other allowances	460,434	878,868	417,351
Retirement scheme contributions	<u>22,820</u>	<u>38,934</u>	<u>18,333</u>
	<u>483,254</u>	<u>917,802</u>	<u>435,684</u>

The remuneration of the employees was in the following bands:

Emolument bands	Year ended 30 June,		Six months ended
	2002	2003	31 December,
			2003
HK\$Nil - HK\$1,000,000	<u>5</u>	<u>4</u>	<u>4</u>

(d) During the Relevant Periods, no emoluments has been paid or payable by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

#### 10. Retirement benefit costs

The contribution paid or payable by the Group for the mandatory provident fund schemes ("MPF schemes") during the Relevant Periods are as follows:

MPF schemes contribution	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003
	<u>25,759</u>	<u>69,810</u>	<u>36,490</u>

## 11. Intangible assets

## Group

	Development costs HK\$	Licences and patents HK\$	Total HK\$
Cost			
At 1 July, 2001	—	156,430	156,430
Additions	<u>2,871,531</u>	<u>2,066,104</u>	<u>4,937,635</u>
At 30 June, 2002	<u>2,871,531</u>	<u>2,222,534</u>	<u>5,094,065</u>
Amortisation			
At 1 July, 2001	—	—	—
Charge to income statements	<u>245,000</u>	<u>6,141</u>	<u>251,141</u>
Amount capitalised as development costs	—	<u>271,531</u>	<u>271,531</u>
Provided for the year	<u>245,000</u>	<u>277,672</u>	<u>522,672</u>
At 30 June, 2002	<u>245,000</u>	<u>277,672</u>	<u>522,672</u>
Net book value			
At 30 June, 2002	<u><u>2,626,531</u></u>	<u><u>1,944,862</u></u>	<u><u>4,571,393</u></u>
Cost			
At 1 July, 2002	2,871,531	2,222,534	5,094,065
Additions	280,483	367,314	647,797
Write-off	<u>(55,046)</u>	<u>(274,309)</u>	<u>(329,355)</u>
At 30 June, 2003	<u>3,096,968</u>	<u>2,315,539</u>	<u>5,412,507</u>
Amortisation			
At 1 July, 2002	245,000	277,672	522,672
Charge to income statements	<u>420,000</u>	<u>16,457</u>	<u>436,457</u>
Amount capitalised as development costs	—	<u>280,483</u>	<u>280,483</u>
Provided for the year	<u>420,000</u>	<u>296,940</u>	<u>716,940</u>
Write-off	—	<u>(55,046)</u>	<u>(55,046)</u>
At 30 June, 2003	<u>665,000</u>	<u>519,566</u>	<u>1,184,566</u>
Net book value			
At 30 June, 2003	<u><u>2,431,968</u></u>	<u><u>1,795,973</u></u>	<u><u>4,227,941</u></u>
Cost			
At 1 July, 2003	3,096,968	2,315,539	5,412,507
Additions	<u>141,834</u>	<u>228,720</u>	<u>370,554</u>
At 31 December, 2003	<u>3,238,802</u>	<u>2,544,259</u>	<u>5,783,061</u>
Amortisation			
At 1 July, 2003	665,000	519,566	1,184,566
Charge to income statements	<u>210,000</u>	<u>13,060</u>	<u>223,060</u>
Amount capitalised as development costs	—	<u>141,834</u>	<u>141,834</u>
Provided for the period	<u>210,000</u>	<u>154,894</u>	<u>364,894</u>
At 31 December, 2003	<u>875,000</u>	<u>674,460</u>	<u>1,549,460</u>
Net book value			
At 31 December, 2003	<u><u>2,363,802</u></u>	<u><u>1,869,799</u></u>	<u><u>4,233,601</u></u>

12. **Plant and equipment  
Group**

	<b>Laboratory equipment HK\$</b>	<b>Leasehold improvements HK\$</b>	<b>Office equipment, furniture and fixtures HK\$</b>	<b>Motor vehicles HK\$</b>	<b>Total HK\$</b>
<b>Cost</b>					
At 1 July, 2001	—	—	—	—	—
Additions	<u>973,417</u>	<u>181,972</u>	<u>345,536</u>	<u>—</u>	<u>1,500,925</u>
At 30 June, 2002	<u>973,417</u>	<u>181,972</u>	<u>345,536</u>	<u>—</u>	<u>1,500,925</u>
<b>Accumulated depreciation</b>					
At 1 July, 2001	—	—	—	—	—
Charge for the year	<u>132,448</u>	<u>106,151</u>	<u>76,780</u>	<u>—</u>	<u>315,379</u>
At 30 June, 2002	<u>132,448</u>	<u>106,151</u>	<u>76,780</u>	<u>—</u>	<u>315,379</u>
<b>Net book value</b>					
At 30 June, 2002	<u>840,969</u>	<u>75,821</u>	<u>268,756</u>	<u>—</u>	<u>1,185,546</u>
<b>Cost</b>					
At 1 July, 2002	973,417	181,972	345,536	—	1,500,925
Additions	20,948	250,660	272,497	94,206	638,311
Write-off	<u>(900)</u>	<u>(181,972)</u>	<u>(24,295)</u>	<u>—</u>	<u>(207,167)</u>
At 30 June, 2003	<u>993,465</u>	<u>250,660</u>	<u>593,738</u>	<u>94,206</u>	<u>1,932,069</u>
<b>Accumulated depreciation</b>					
At 1 July, 2002	132,448	106,151	76,780	—	315,379
Charge for the year	197,018	96,664	164,643	65,220	523,545
Write-off	<u>(255)</u>	<u>(181,972)</u>	<u>(6,883)</u>	<u>—</u>	<u>(189,110)</u>
At 30 June, 2003	<u>329,211</u>	<u>20,843</u>	<u>234,540</u>	<u>65,220</u>	<u>649,814</u>
<b>Net book value</b>					
At 30 June, 2003	<u>664,254</u>	<u>229,817</u>	<u>359,198</u>	<u>28,986</u>	<u>1,282,255</u>
<b>Cost</b>					
At 1 July, 2003	993,465	250,660	593,738	94,206	1,932,069
Additions	43,420	18,832	14,525	—	76,777
Write-off	<u>—</u>	<u>—</u>	<u>(3,383)</u>	<u>—</u>	<u>(3,383)</u>
At 31 December, 2003	<u>1,036,885</u>	<u>269,492</u>	<u>604,880</u>	<u>94,206</u>	<u>2,005,463</u>
<b>Accumulated depreciation</b>					
At 1 July, 2003	329,211	20,843	234,540	65,220	649,814
Charge for the period	100,877	25,694	84,118	28,986	239,675
Write-off	<u>—</u>	<u>—</u>	<u>(3,383)</u>	<u>—</u>	<u>(3,383)</u>
At 31 December, 2003	<u>430,088</u>	<u>46,537</u>	<u>315,275</u>	<u>94,206</u>	<u>886,106</u>
<b>Net book value</b>					
At 31 December, 2003	<u>606,797</u>	<u>222,955</u>	<u>289,605</u>	<u>—</u>	<u>1,119,357</u>

## 13. Investments in subsidiaries

## Company

	At 30 June,		At 31 December,
	2002	2003	2003
	HK\$	HK\$	HK\$
Unlisted shares, at cost	—	8	8
Amounts due from subsidiaries	<u>—</u>	<u>7,801,623</u>	<u>9,449,057</u>
	—	7,801,631	9,449,065
Amounts due to subsidiaries	<u>—</u>	<u>(753,568)</u>	<u>(49)</u>
	<u>—</u>	<u>7,048,063</u>	<u>9,449,016</u>

The amounts due are unsecured, interest free and not repayable within the next twelve months.

## 14. Inventories

## Group

	At 30 June,		At 31 December,
	2002	2003	2003
	HK\$	HK\$	HK\$
Pharmaceutical supplies	<u>15,671</u>	<u>2,784</u>	<u>22,597</u>

At 30 June, 2002, 30 June, 2003 and 31 December, 2003, all inventories are carried at cost.

## 15. Trade receivables

Trade receivables arising from the ordinary course of business are as follows:

## Group

	At 30 June,		At 31 December,
	2002	2003	2003
	HK\$	HK\$	HK\$
Trade receivables	<u>251,705</u>	<u>207,740</u>	<u>237,265</u>

The Group's policy is to allow an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	At 30 June,		At 31 December,
	2002	2003	2003
	HK\$	HK\$	HK\$
0-30 days	84,175	168,690	110,225
31-60 days	59,430	33,910	124,730
61-90 days	108,100	1,410	2,310
> 90 days	—	3,730	—
	<u>251,705</u>	<u>207,740</u>	<u>237,265</u>

Breakdown of trade receivables is as follows:

	At 30 June,		At 31 December,
	2002	2003	2003
	HK\$	HK\$	HK\$
Trade receivables	251,705	207,740	237,265
Less: Provision for doubtful debts	—	—	—
	<u>251,705</u>	<u>207,740</u>	<u>237,265</u>

#### 16. Amounts due from related companies

##### Group

Particulars of amounts due from related companies are as follows:

	Notes	At 30 June,		At 31 December,
		2002	2003	2003
		HK\$	HK\$	HK\$
New Oxford Management Limited	a	111,734	—	—
Wellchamp Capital Limited	b	—	2,829	270
		<u>111,734</u>	<u>2,829</u>	<u>270</u>

Notes:

- (a) The balance represents amount due from New Oxford Management Limited, an immediate holding company of Plasmagene Limited, 3 Ben Genomics Hong Kong Ltd. and Celltech Limited prior to the Reorganisation. The amount due is unsecured, interest free and the outstanding balance was fully settled on 24 September, 2003. The maximum balances outstanding during the years ended 30 June, 2002, 30 June, 2003 and six months ended 31 December, 2003 were HK\$312,861, HK\$4,558,075 and nil respectively.

- (b) The balance represents amount due from Wellchamp Capital Limited of which Mr. Cheng Yan Tak Angus Ronald is a director and shareholder. The amount due is unsecured, interest free and repayable on demand. The maximum balances outstanding during the year ended 30 June, 2003 and six months ended 31 December, 2003 were HK\$2,829 and HK\$4,460 respectively.

#### 17. Amounts due from directors

##### Group and Company

The balances at 30 June, 2003 represent proceeds from disposal of shares of Century Year Company Limited as described in note 1. The proceeds are receivable from Dr. Yeung Wah Hin, Alex and Ms. Margaret Tsui. The amounts due are unsecured, interest free and the outstanding balances were fully settled on 24 September, 2003. The maximum balances outstanding during the year ended 30 June, 2003 and six months ended 31 December, 2003 were HK\$3,892,078.

#### 18. Amounts due to related companies

##### Group and Company

Particulars of amounts due to related companies are as follows:

	<i>Notes</i>	<b>At 30 June,</b>		<b>At 31 December,</b>
		<b>2002</b>	<b>2003</b>	<b>2003</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
New Oxford Management Limited	a	—	3,178,985	—
Century Year Company Limited	b	<u>—</u>	<u>419,191</u>	<u>—</u>
		<u>—</u>	<u>3,598,176</u>	<u>—</u>

##### *Notes:*

- (a) The balance mainly comprises the net balance payable on disposals of shares of Plasmagene Limited, 3 Ben Genomics Hong Kong Ltd. and Celltech Limited to the Group.
- (b) The balance represents amount due to Century Year Company Limited, an intermediate holding company of Plasmagene Limited, 3 Ben Genomics Hong Kong Ltd. and Celltech Limited prior to the Reorganisation.

The amounts due are unsecured, interest free and the outstanding balances were fully settled on 24 September, 2003.

#### 19. Amount due to a shareholder

##### Group

The balance represents amount due to Spring Biotech Limited. The amount due is unsecured, interest free and repayable on demand.

## 20. Loans from shareholders

**Group**

Particulars of loans from shareholders are as follows:

	At 30 June,		At 31 December,
	2002	2003	2003
	HK\$	HK\$	HK\$
Professor Lo Yuk Ming, Dennis	160,000	—	—
Spring Biotech Limited	1,801,952	—	—
The Chinese University of Hong Kong Foundation Limited	40,000	—	—
Vanbarry Corporation	471,841	—	—
	<u>2,473,793</u>	<u>—</u>	<u>—</u>

Loans from shareholders are unsecured, interest-free and not repayable within the next twelve months. The loans were fully capitalised on 13 September, 2002.

## 21. Long term payables

**Group**

	Notes	At 30 June,		At 31 December,
		2002	2003	2003
		HK\$	HK\$	HK\$
Amount due to a beneficial shareholder	a	625,000	—	—
Loan from a related company	b	2,236,053	—	—
Loan from an ex-shareholder	c	221,053	—	—
		<u>3,082,106</u>	<u>—</u>	<u>—</u>

*Notes:*

- (a) The amount represents a partial consideration payable to The Chinese University of Hong Kong for development costs and licences. The amount shall be paid in cash by April 2004. The amount due is unsecured and interest-free.
- (b) The balance represents loan from New Oxford Management Limited, an immediate holding company of Plasmagene Limited, 3 Ben Genomics Hong Kong Ltd. and Celltech Limited prior to the Reorganisation. The amount due is unsecured, interest-free and was fully capitalised pursuant to the Reorganisation. The shareholding interests in Plasmagene Limited, 3 Ben Genomics Hong Kong Ltd. and Celltech Limited were transferred to Chemosino International Limited on 24 June, 2003.
- (c) The balance represents loan from an ex-shareholder and was fully capitalised pursuant to the Reorganisation.

**22. Convertible loans****Group and Company**

On 14, 16 and 27 December, 2002, the Company issued convertible notes totalling HK\$21,500,000. Pursuant to the terms of the convertible notes, the notes may be converted into shares of the Company in three stages as follows:

- (a) The first conversion will take place prior to the date of listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") whereby 30% of the aggregate nominal value of the notes may be converted into shares.
- (b) 40% of the aggregate nominal value of the notes may be converted into shares on the date six months after the listing date.
- (c) 30% of the aggregate nominal value of the notes may be converted into shares on the date one year after the listing date.

The conversion price will be calculated as follows:

- (a) If the market capitalisation of the Company is HK\$260,000,000 or below at the time of listing of the shares, then conversion price is 50% of the offer price.
- (b) If the market capitalisation of the Company is above HK\$260,000,000 at the time of listing of the shares, then conversion price will be calculated based on certain formulae as stated in the subscription agreement for the convertible notes.

The noteholders may request early redemption of the notes if:

- (a) the gross proceeds from the listing are less than HK\$32,000,000 or the market capitalisation of the Company following the listing is less than HK\$194,000,000; or
- (b) the listing does not occur on or before 30 June, 2004; or
- (c) any decision is made by the directors to dispose of the Group or its assets or business to third parties whereby (i) the proceeds to be paid by such third party will exceed the aggregate of the initial principal amount of the convertible notes which is payable to the noteholders plus 25% interest as calculated on a compound annual basis; and (ii) the proceeds to be paid by such third party will be in the form of cash or shares in a listed company or a combination of both; or
- (d) there are events of default as stated in the subscription agreement.

Should the noteholders request early redemption of the notes under the circumstances described in (a) to (d) above, the listing will not proceed.

The convertible notes are secured by a pledge of the shares of Plasmagene Limited and intellectual properties of the Group, personal guarantees executed by Dr. Yeung Wah Hin, Alex and Ms. Margaret Tsui, and corporate guarantees executed by the Group.

The redemption of the convertible notes, the personal guarantees executed by Dr. Yeung Wah Hin, Alex and Ms. Margaret Tsui, the corporate guarantees executed by the Group, the pledge of the shares of Plasmagene Limited and intellectual properties of the Group will cease to be of any effect from the listing date.



23. **Deferred taxation**

No provision for deferred taxation has been accounted for as the Group has net deferred tax assets at the balance sheet date. The major components of the unprovided deferred taxation of the Group at 30 June, 2002, 30 June, 2003 and 31 December, 2003 are set out below:

	<b>At 30 June,</b>	<b>At 31 December,</b>	
	<b>2002</b>	<b>2003</b>	<b>2003</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Accelerated depreciation allowance	(100,180)	(78,289)	(62,587)
Temporary difference relating to the capitalisation of licences, patents and development costs	(324,503)	(533,740)	(609,630)
Future benefit of tax losses	<u>718,564</u>	<u>1,620,828</u>	<u>2,054,871</u>
	<u>293,881</u>	<u>1,008,799</u>	<u>1,382,654</u>

The Group has not provided the net deferred tax assets as the generation of future taxable profits against which the assets can be utilised is uncertain.

The Company has no material deferred taxation assets or liabilities.

## 24. Share capital

	At 30 June,				At 31 December,	
	2002		2003		2003	
	Number of shares	Nominal value HK\$	Number of shares	Nominal value HK\$	Number of shares	Nominal value HK\$
Shares of HK\$0.01 each						
Authorised						
At 1 July, 2001/2002/2003	—	—	5,000,000	50,000	1,000,000,000	10,000,000
Upon incorporation ( <i>note a</i> )	5,000,000	50,000	—	—	—	—
Increase in authorised share capital ( <i>note b</i> )	—	—	995,000,000	9,950,000	—	—
At 30 June, 2002/2003/ 31 December, 2003	<u>5,000,000</u>	<u>50,000</u>	<u>1,000,000,000</u>	<u>10,000,000</u>	<u>1,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid						
At 1 July, 2001/2002/2003	—	—	1	—	1,010,000	10,100
Share issued upon incorporation ( <i>note a</i> )	1	—	—	—	—	—
Shares issued for acquisition of subsidiaries pursuant to the Group Reorganisation ( <i>note c</i> )	—	—	999,999	10,000	—	—
Shares issued for cash ( <i>note d</i> )	—	—	10,000	100	—	—
At 30 June, 2002/2003/ 31 December, 2003	<u>1</u>	<u>—</u>	<u>1,010,000</u>	<u>10,100</u>	<u>1,010,000</u>	<u>10,100</u>

*Notes:*

- (a) The Company was incorporated in the Cayman Islands on 27 June, 2002 with an authorised share capital of HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each. On the same date, one share of HK\$0.01 was allotted and issued to the initial subscriber and such share was then transferred to Dr. Yeung Wah Hin, Alex on 1 August, 2002.
- (b) On 6 September, 2002, the Company increased its authorised share capital from HK\$50,000 to HK\$10,000,000 by the creation of an additional 995,000,000 shares of HK\$0.01 each, such new shares ranking *pari passu* in all respects with the existing shares of the Company.
- (c) On 20 September, 2002, the Company allotted and issued, credited as fully paid, a total of 505,773 shares as to 50 shares to Dr. Yeung Wah Hin, Alex and as to 505,723 shares to Ms. Margaret Tsui for the acquisition by the Company of the entire issued share capital of Century Year Company Limited. On 24 October, 2002, the Company allotted and issued, in each case credited as fully paid, a total of 494,226 shares as to 287,500 shares to Spring Biotech Limited, as to 106,726 shares to Vanbarry Corporation, as to 40,000 shares to Professor Lo Yuk Ming, Dennis, as to 10,000 shares to The Chinese University of Hong Kong Foundation Limited and as to 50,000 shares to Ms. Mabel Leung for the acquisition by the Company of each of their respective shareholding interests in each of 3 Ben Genomics Hong Kong Ltd., Celltech Limited and Plasmagene Limited. All the shares which were issued during the period rank *pari passu* in all respects.
- (d) On 24 October, 2002, 10,000 shares of HK\$0.01 each were issued for cash at par to Dr. Yeung Wah Hin, Alex.

## 25. Reserves

## (a) Group and Company

The amounts of the Group's and the Company's reserves and the movements therein for the Relevant Periods are presented in the statements of movements in equity in Section III above.

## (b) Distributable reserves

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

As at 30 June, 2002, 30 June, 2003 and 31 December, 2003, the Company had no reserves available for distribution to its shareholders.

## 26. Related party transactions

During the Relevant Periods, the Group had the following transactions with the following related parties:

Nature of transactions	Notes	Year ended 30 June,		Six months ended
		2002	2003	31 December, 2003
		HK\$	HK\$	HK\$
Consultancy fees paid to Century Year Company Limited	a(i)	659,919	187,500	—
Purchase of plant and equipment from Century Year Company Limited	a(ii)	—	279,191	—
Sales of diagnostic testing services to Spring Biotech Limited	b	162,660	483,380	496,380
Development cost paid/payable to The Chinese University of Hong Kong	c	500,000	—	—
Consultancy fees paid/payable to The Chinese University of Hong Kong	e(i)	2,100,000	—	—
Licence fees paid to The Chinese University of Hong Kong	e(iii)	100,000	—	—
Net rental and utility charges reimbursed from Wellchamp Capital Limited	(h)	—	33,402	162,355

## Notes:

## (a) The Group entered into the following transactions with Century Year Company Limited:

- (i) Monthly consultancy fees of HK\$47,500 and HK\$15,000 were paid by Plasmagene Limited and 3 Ben Genomics Hong Kong Ltd. respectively, to Century Year Company Limited for the period from 13 August, 2001 to 30 September, 2002 and from 20 August, 2001 to 30 September, 2002. The consultancy agreements with Plasmagene Limited and 3 Ben Genomics Hong Kong Ltd. were terminated on 1 October, 2002. Spring Biotech Limited, Vanbarry Corporation, Diamond Tech Investment Limited, Professor Lo Yuk Ming, Dennis and The Chinese University of Hong Kong Foundation Limited are interested in the transactions as beneficial shareholders of Century Year Company Limited for the period from 20 September, 2002 to 30 September, 2002 and Ms. Margaret Tsui and Dr. Yeung Wah Hin, Alex are interested as directors and beneficial shareholders of Century Year Company Limited.

- (ii) On 25 June, 2003 the Group acquired plant and equipment from Century Year Company Limited amounting to HK\$279,191. Ms. Margaret Tsui and Dr. Yeung Wah Hin, Alex are interested in the transaction as directors and beneficial shareholders of Century Year Company Limited.
- (b) Sales of diagnostic testing services made to Spring Biotech Limited which is a shareholder of the Company. On 23 April, 2002, the Group entered into a formal agreement with Spring Biotech Limited whereby the Group agreed to provide consultancy services on certain diagnostic testing for the period from 1 May, 2002 to 30 June, 2004. The Group had trade receivables of HK\$155,650, HK\$109,200 and HK\$110,215 due from Spring Biotech Limited as at 30 June, 2002, 30 June, 2003 and 31 December, 2003 respectively. Sales of diagnostic testing services are charged to Spring Biotech Limited based on the number of test performed. The charges to Spring Biotech Limited are comparable to those charged to independent third parties.
- (c) In April, 2002, the Group has undertaken to contribute in sponsorship to The Chinese University of Hong Kong which has beneficial interest in the Group, for the development of genomic strategies for non-invasive detection of Down's syndrome amounting to HK\$500,000. HK\$250,000 and HK\$125,000 was paid during the years ended 30 June, 2002 and 30 June, 2003 respectively. The Group had other payables of HK\$250,000, HK\$125,000 and HK\$125,000 due to The Chinese University of Hong Kong as at 30 June, 2002, 30 June, 2003 and 31 December, 2003 respectively.
- (d) During the period from 1 July, 2001 to 14 August, 2001, the Group's office premises were provided rent free by First Oriental Nuclear Medicine Limited, a company in which Ms. Margaret Tsui is interested as a beneficial shareholder and Dr. Yeung Wah Hin, Alex is interested as a director and beneficial shareholder. The directors estimate the notional rental for these premises were HK\$15,000 for the year ended 30 June, 2002.
- (e) The Group entered into the following agreements with The Chinese University of Hong Kong:
- (i) a consultancy agreement dated 23 June, 2001 for setting up a laboratory for a total consideration of HK\$2,100,000. The consideration will be settled as to HK\$1.5 million in cash payable in six half-yearly instalments of HK\$250,000 and by the issue of 600,000 ordinary shares of Plasmagene Limited. The agreement is for a term of 3 years with effect from 15 August, 2001. The Group then entered into a supplemental variation agreement dated 15 September, 2002, whereby the supplemental variation agreement supersedes the variation agreement and varies certain terms of the original consultancy agreement. The Chinese University of Hong Kong acknowledged that Plasmagene Limited underwent a reorganisation whereby the Company is introduced as the new ultimate holding company of Plasmagene Limited, all existing shareholders of Plasmagene Limited exchanged their shares for shares in the Company on a pro-rata basis. As at 30 June, 2002, the Group had shareholders' loan of HK\$200,000 and other payables of HK\$1,200,000 due to The Chinese University of Hong Kong. As at 30 June, 2003 the Group had share capital of HK\$100 issued to The Chinese University of Hong Kong Foundation Limited and other payables of HK\$500,000 due to The Chinese University of Hong Kong. As at 31 December, 2003 the Group had share capital of HK\$100 issued to The Chinese University of Hong Kong Foundation Limited and other payables of HK\$250,000 due to The Chinese University of Hong Kong.
- (ii) an agreement dated 8 August, 2002 and a supplemental agreement dated 31 October, 2003, whereby the Company was granted a right of first refusal of an exclusive licence in respect of certain technology and invention developed by Professor Lo in consideration for options to subscribe for shares of the Company. Further details of the agreement and the share option scheme are set out in the section headed "Further information about the business of the Group" and "Share option scheme" respectively in Appendix V of this Prospectus.

- (iii) an exclusive licence agreement dated 4 June, 2001 with the right to sub-licence to use the technology titled “Non-invasive prenatal monitoring” and intellectual property right in connection with and relating to the making of, or authorising the making of, using and selling the licensed products in the licensed field of use anywhere in the world and for further development of the technology. Licence fees of HK\$100,000 were paid during the year ended 30 June, 2002 with further payments upon granting of a licensed patent in each of the patents jurisdiction provided that the aggregate amount of lump sum payment shall not exceed HK\$1 million. Royalties on gross revenue generated and sub-licence fees received are payable at 7.5% to 15% and 25% respectively. The aggregate amount of the royalties payable shall not be less than HK\$3 million a year from the eighth year of the effective date.
- (iv) an exclusive licence agreement dated 21 May, 2002 with the right to sub-licence the technology entitled “Detection of cells or DNA of different origins within the body” and intellectual property right in connection with and relating to the making of, or authorising the making of, using and selling the licensed products in the licensed field of use anywhere in the world and for further development of the technology. Lump sum licence fees of HK\$35,000 are payable upon the granting of a licensed patent in each agreed country provided that the aggregate amount of lump sum payment shall not exceed HK\$1 million. Royalties on gross revenue and sub-licence fees received are payable at 10% and 25% respectively. The aggregate amount of the royalties payable shall not be less than HK\$3 million a year from the eighth year of the effective date.
- (v) an exclusive licence agreement dated 15 March, 2002 to use the technology titled “Gastric disease detection system”. Lump sum licence fees of HK\$35,000 are payable upon the granting of a licensed patent in each agreed country provided that the aggregate amount of lump sum payment shall not exceed HK\$1 million. Royalties on gross revenue generated and sub-licence fees received are payable at 10% and 25% respectively.
- (vi) an exclusive licence agreement dated 31 July, 2002 with the right to sub-licence to use the technology titled “Method for Evaluating Stroke or Cardiac Ischemia by Nucleic Acid Detection” and intellectual property right in connection with and relating to the making of, or authorising the making of, using and selling the licensed products in the licensed field of use anywhere in the world and for further development of the technology. Lump sum licence fees of HK\$35,000 are payable upon the granting of a licensed patent in each agreed country provided that the aggregate amount of lump sum payment shall not exceed HK\$1 million. Royalties on gross revenue and sub-licence fees received are payable at 10% and 25% respectively.
- (vii) an exclusive licence agreement dated 31 July, 2002 with the right to sub-licence to use the technology titled “Method for Evaluating a Disease Condition by Nucleic Acid Detection and Fractionation” and intellectual property right in connection with and relating to the making of, or authorising the making of, using and selling the licensed products in the licensed field of use anywhere in the world and for further development of the technology. Lump sum licence fees of HK\$35,000 are payable upon the granting of a licensed patent in each agreed country provided that the aggregate amount of lump sum payment shall not exceed HK\$1 million. Royalties on gross revenue and sub-licence fees received are payable at 10% and 25% respectively.
- (viii) an exclusive licence agreement dated 15 August, 2002 with the right to sub-licence to use the technology titled “Method for Classifying Pleural Effusions” and intellectual property right in connection with and relating to the making of, or authorising the making of, using and selling the licensed products in the licensed field of use anywhere in the world and for further development of the technology. Lump sum licence fees of HK\$35,000 are payable upon the granting of a licensed patent in each agreed country provided that the aggregate amount of lump sum payment shall not exceed HK\$1 million. Royalties on gross revenue and sub-licence fees received are payable at 10% and 25% respectively.

- (ix) an exclusive licence agreement dated 1 March, 2003 with the right to sub-licence to use the technology titled “Circulating mRNA as Diagnostic Markers for Pregnancy-Related Disorders” and intellectual property right in connection with and relating to the making of, or authorising the making of, using and selling the licensed products in the licensed field of use anywhere in the world and for further development of the technology. Lump sum licence fees of HK\$35,000 are payable upon the granting of a licensed patent in each agreed country provided that the aggregate amount of lump sum payment shall not exceed HK\$1 million. Royalties on gross revenue and sub-licence fees received are payable at 10% and 25% respectively.
- (x) a memorandum of understanding dated 10 July, 2002 whereby they set out their intention to enter into a long term research collaboration relationship and the principles under which future co-operation between the two parties will be conducted.
- (xi) a research collaboration agreement dated 6 June, 2003 to undertake a collaborative research program for the Treatment and Diagnosis of Severe Acute Respiratory Syndrome. The agreement sets out their respective contributions and responsibilities to the research program and their respective interests in relation to the results of the research.
- (xii) an non-exclusive and non-transferable agreement dated 15 October, 2003 to apply and exploit the use of the technology related to “Prognostic PCR Assay for Severe Acute Respiratory Syndrome” to make, authorise the making of, use, process, supply and sell the product worldwide. Royalties are payable at 5% of net sales value.
- (f) The Group entered into an agreement dated 25 February, 2002 with Spring Biotech (China) Limited, a fellow subsidiary of Spring Biotech Limited, whereby the Group granted an exclusive licence to Spring Biotech (China) Limited to use certain technology for a period of 3 years effective from 25 February, 2002 within the People’s Republic of China and pay to the Group royalties equivalent to 23.8% of the gross sales of the licensed products. The Group entered into a termination agreement dated 2 March, 2004 with Spring Biotech (China) Limited to terminate this arrangement.
- (g) The Group entered into the following agreements with Dr. Yeung Wah Hin, Alex:
  - (i) a deed of assignment of patent dated 6 September, 2002 whereby Dr. Yeung Wah Hin, Alex assigned and transferred all the intellectual property rights, title and interests in PCT International treaty application relating to “treatment of cancer and other diseases by administration of positron-emitting radiopharmaceutical” to the Group for a consideration of HK\$1.
  - (ii) a deed of assignment of patent dated 24 September, 2003 whereby Dr. Yeung Wah Hin, Alex assigned all of his rights, title and interest in United States patent application relating to new sensitive diagnostic testing methodology using multiplex real time PCR with one dye and its use in diagnostic of severe acute respiratory syndrome to the Group for a consideration of HK\$1.
- (h) The Group sub-leased part of its office premises to Wellchamp Capital Limited for the period from 26 May, 2003 to 25 May, 2004 at a monthly rental of HK\$25,000. A net amount of HK\$33,402 and HK\$162,355 was paid by Wellchamp Capital Limited to the Group as rental and utility charges during the year ended 30 June, 2003 and six months ended 31 December, 2003. Mr. Cheng Yan Tak, Angus Ronald is interested in the transactions as shareholder and director of Wellchamp Capital Limited.

Save as disclosed above, no other material related party transactions have been entered into by the Group. The directors are of the opinion that the above transactions were conducted on normal commercial terms in the ordinary and usual course of business.

The directors have confirmed that the related party transactions described in (a), (c), (d) and (f) above were completed and discontinued whereas all the other related party transactions described above will continue after the listing of the shares of the Company on the GEM.

## 27. Commitments

*Operating lease commitments*

At the respective balance sheet dates, the Group had the following outstanding commitments under non-cancellable operating leases in respect of land and buildings as follows:

	At 30 June,		At 31 December,
	2002	2003	2003
	HK\$	HK\$	HK\$
Within 1 year	445,725	1,327,436	1,068,436
After 1 year but within 5 years	—	490,746	57,428
After 5 years	—	—	—
	<u>445,725</u>	<u>1,818,182</u>	<u>1,125,864</u>

## 28. Notes to the combined cash flow statements

(a) *Analysis of changes in financing activities during the Relevant Periods:*

	Share capital, including premium HK\$	Loans from shareholders HK\$	Long term payables HK\$	Convertible loans HK\$
Cash inflows from financing activities and balance as at 1 July, 2001	18	1,199,998	—	—
Cash inflows from financing activities	—	1,073,795	2,457,106	—
Non-cash transaction for acquisition of intangible assets	—	—	625,000	—
Loan advances in the form of intangible assets	—	200,000*	—	—
Effect of Reorganisation	<u>4,450,862</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance as at 30 June, 2002	4,450,880	2,473,793	3,082,106	—
Cash inflows from financing activities	100	1,410,914	1,989,086	21,500,000
Reallocation to current liabilities	—	(530,899)	(625,000)	—
Loan advances in the form of intangible assets reallocated from current liabilities	—	200,000*	—	—
Capitalisation of shareholders' loans of a subsidiary	—	(3,553,808)	(4,446,192)	—
Effect of Reorganisation	<u>3,286,180</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance as at 30 June, 2003 and 31 December, 2003	<u>7,737,160</u>	<u>—</u>	<u>—</u>	<u>21,500,000</u>

\* The above represents capital contribution and loan advances by The Chinese University of Hong Kong for consultation services provided to the Group by setting up of Group's laboratory and details of which are set out in the section headed "Relationship with the Chinese University" of this Prospectus.

(b) *Non-cash transactions*

## (i) Payments for licences and patents

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003
			HK\$
Additions in licences and patents	2,066,104	367,314	228,720
Add: Payables for additions of licences and patents at the beginning of the year/period	—	643,252	145,558
Less: Overprovision for payables for additions of licences and patents at the beginning of the year/period	—	(44,553)	—
Payables for additions of licences and patents at end of the year/period	<u>(643,252)</u>	<u>(145,558)</u>	<u>—</u>
Cash payments for licences and patents	<u>1,422,852</u>	<u>820,455</u>	<u>374,278</u>

## (ii) Payments for development costs

	Year ended 30 June,		Six months ended
	2002	2003	31 December,
	HK\$	HK\$	2003
			HK\$
Additions in development costs	2,871,531	280,483	141,834
Add: Payables for additions of development costs at the beginning of the year/period	—	1,450,000	625,000
Less: Payables for additions of development costs at end of the year/period	(1,450,000)	(625,000)	(375,000)
Shares allotment as consideration	(200,000)	—	—
Shareholders' loans	(200,000)	(200,000)	—
Amortisation of capitalised licences and patents to development costs	<u>(271,531)</u>	<u>(280,483)</u>	<u>(141,834)</u>
Cash payments for development costs	<u>750,000</u>	<u>625,000</u>	<u>250,000</u>



## 29. Statement of operations by segments

Segment information is provided as follows:

**The Group****Business activities****Principal activities**

Sales of diagnostic testing services

The use of blood tests in the diagnosis of cancerous diseases based on the PDx Technology.

Research and development

Research and development relating to diagnosis of cancer and foetal diseases and certain other illnesses.

(a) *By business activities*

Results for the year ended 30 June, 2002

	<b>Sales of diagnostic testing services</b>	<b>Research and development</b>	<b>Combined</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
REVENUE			
External sales	<u>525,545</u>	<u>—</u>	<u>525,545</u>
CONTRIBUTION TO LOSS FROM OPERATIONS	<u>(2,077,487)</u>	<u>(1,007,638)</u>	(3,085,125)
Interest income			19,331
Taxation			<u>—</u>
LOSS ATTRIBUTABLE TO SHAREHOLDERS			<u>(3,065,794)</u>

Assets and liabilities at 30 June, 2002

	<b>Sales of diagnostic testing services</b> <i>HK\$</i>	<b>Research and development</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
<b>ASSETS</b>			
Segment assets	<u>4,415,526</u>	<u>2,575,644</u>	6,991,170
Unallocated segment assets			<u>913,377</u>
			<u>7,904,547</u>
<b>LIABILITIES</b>			
Segment liabilities	<u>4,198,055</u>	<u>2,887,920</u>	7,085,975
Unallocated segment liabilities			<u>690</u>
			<u>7,086,665</u>

Other information for the year ended 30 June, 2002

	<b>Sales of diagnostic testing services</b> <i>HK\$</i>	<b>Research and development</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
Capital expenditure	3,877,273	2,289,756	6,167,029
Depreciation and amortisation	<u>566,520</u>	<u>—</u>	<u>566,520</u>

Results for the year ended 30 June, 2003

	<b>Sales of diagnostic testing services</b> <i>HK\$</i>	<b>Research and development</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
REVENUE			
External sales	<u>1,339,250</u>	<u>—</u>	<u>1,339,250</u>
CONTRIBUTION TO LOSS FROM OPERATIONS	<u>(2,978,490)</u>	<u>(1,746,198)</u>	(4,724,688)
Interest income			3,215
Taxation			<u>—</u>
LOSS ATTRIBUTABLE TO SHAREHOLDERS			<u>(4,721,473)</u>

Assets and liabilities at 30 June, 2003

	<b>Sales of diagnostic testing services</b> <i>HK\$</i>	<b>Research and development</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
ASSETS			
Segmental assets	<u>14,103,138</u>	<u>10,352,315</u>	24,455,453
Unallocated segment assets			<u>7,081,625</u>
			<u>31,537,078</u>
LIABILITIES			
Segmental liabilities	<u>13,620,246</u>	<u>10,307,106</u>	23,927,352
Unallocated segment liabilities			<u>3,513,217</u>
			<u>27,440,569</u>

Other information for the year ended 30 June, 2003

	<b>Sales of diagnostic testing services</b> <i>HK\$</i>	<b>Research and development</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
Capital expenditure	745,704	259,922	1,005,625
Depreciation and amortisation	960,002	—	960,002
Write off of intangible assets	<u>—</u>	<u>229,756</u>	<u>229,756</u>

Results for the six months ended 31 December, 2003

	<b>Sales of diagnostic testing services</b> <i>HK\$</i>	<b>Research and development</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
<b>REVENUE</b>			
External sales	<u>904,550</u>	<u>—</u>	<u>904,550</u>
<b>CONTRIBUTION TO LOSS FROM OPERATIONS</b>	<u>(1,294,005)</u>	<u>(985,460)</u>	<u>(2,279,465)</u>
Interest income			21,221
Taxation			<u>—</u>
<b>LOSS ATTRIBUTABLE TO SHAREHOLDERS</b>			<u>(2,258,244)</u>

Assets and liabilities at 31 December, 2003

	<b>Sales of diagnostic testing services</b> <i>HK\$</i>	<b>Research and development</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
<b>ASSETS</b>			
Segment assets	<u>11,558,087</u>	<u>9,477,833</u>	21,035,920
Unallocated segment assets			<u>4,266,988</u>
			<u>25,302,908</u>
<b>LIABILITIES</b>			
Segment liabilities	<u>12,378,247</u>	<u>11,086,396</u>	23,464,643
Unallocated segment liabilities			<u>—</u>
			<u>23,464,643</u>

Other information for the six months ended 31 December, 2003

	<b>Sales of diagnostic testing services</b> <i>HK\$</i>	<b>Research and development</b> <i>HK\$</i>	<b>Combined</b> <i>HK\$</i>
Capital expenditure	162,120	143,377	305,497
Depreciation and amortisation	<u>462,735</u>	<u>—</u>	<u>462,735</u>

(b) *By geographical location*

The revenue and results, assets and liabilities of the Group for the years ended 30 June, 2002, 30 June, 2003 and six months ended 31 December, 2003 are derived wholly from customers located in one geographical market, namely Hong Kong.

**30. Subsequent events**

On 20 April, 2004 and 31 May, 2004, written resolutions were passed to effect the transactions which are set out in the paragraph headed "Resolutions at extraordinary general meetings of the Company which were held on 20 April, 2004 and 31 May, 2004" in Appendix V of this Prospectus.

Save as aforesaid, no other material significant events took place subsequent to 31 December, 2003.

**31. Subsequent financial statements**

No audited financial statements have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December, 2003.

Yours faithfully,  
**RSM Nelson Wheeler**  
*Certified Public Accountants*  
Hong Kong