

PLASMAGENE BIOSCIENCES LIMITED

普施基因生物科技有限公司*

(incorporated in the Cayman Islands with limited liability)



Placing and Public Offer

Sponsor



First Shanghai Capital Limited

Lead Manager and Bookrunner

First Shanghai Securities Limited

* For identification purpose only

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

PLASMAGENE BIOSCIENCES LIMITED

Plasmagene Biosciences Limited

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(incorporated in the Cayman Islands with limited liability)

Listing on

**The Growth Enterprise Market of
The Stock Exchange of Hong Kong Limited**

By way of Placing and Public Offer

Number of Shares under the Share Offer	: 64,000,000 Shares
Number of Placing Shares	: 57,600,000 Shares (subject to reallocation)
Number of Public Offer Shares	: 6,400,000 Shares (subject to reallocation)
Offer Price	: HK\$0.50 per Offer Share
Nominal value	: HK\$0.01 each
Stock code	: 8250

Sponsor



First Shanghai Capital Limited

Lead Manager and Bookrunner

First Shanghai Securities Limited

Co-managers

Core Pacific-Yamaichi International (H.K.) Limited Guotai Junan Securities (Hong Kong) Limited
Kingsway Financial Services Group Limited Phillip Securities (HK) Ltd.
Sun Hung Kai International Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Prospective investors of the Offer Shares should note that First Shanghai Securities (for itself and on behalf of the Underwriters) may terminate the obligations of the Underwriters under the Underwriting Agreements by notice in writing to the Company, upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 6:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date. The said events include those of a financial, political, industrial, economic, military, legal, fiscal and/or other nature.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

* For identification purpose only

8 June, 2004

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

(Note 1)

Application lists for the Public Offer open <i>(Note 2)</i>	11:45 a.m. on 11 June, 2004	
Latest time for lodging WHITE and YELLOW		
Application Forms	12:00 noon on 11 June, 2004	
Application lists for the Public Offer close	12:00 noon on 11 June, 2004	
Announcement of the level of indication of interests in the Placing, the results of applications in respect of the Public Offer and the basis of allotment of the Public Offer Shares (with successful applicants' identification number, where appropriate) and the number of Shares, if any, reallocated between the Placing and the Public Offer to be published on the GEM website at <i>www.hkgem.com</i> and in The Standard (in English) and the Hong Kong Economic Times (in Chinese) on or before		16 June, 2004
Share certificates to be posted or available on or before <i>(Notes 3, 5, 6 and 7)</i>		17 June, 2004
Refund cheques in respect of wholly or partially unsuccessful applications to be posted or available on or before <i>(Notes 4 to 6)</i>		17 June, 2004
Dealings in the Shares on GEM commence on	18 June, 2004	

Notes:

1. All references to time are to Hong Kong local time. In the event of any change to the expected timetable as set out in this prospectus, an announcement will be made accordingly.
2. If there is a “**black**” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on 11 June, 2004, the application lists of the Public Offer will not be opened on that day. Please refer to the section headed “How to apply for the Public Offer Shares — Effect of bad weather on the opening of the application lists of the Public Offer” in this prospectus.
3. Applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more and have indicated on their Application Forms that they wish to collect their Share certificates and/or refund cheques, if any, in person may collect them from the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, between 9:00 a.m. and 1:00 p.m. on 17 June, 2004 or on the date to be notified by the Company on the GEM Website and in The Standard (in English) and the Hong Kong Economic Times (in Chinese) as the date of despatch of Share certificates and refund cheques.

Applicants being individuals who opt for collection in person must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for collection in person must be attended by their authorised representatives bearing letters of authorisation stamped with their respective corporation’s chop. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

EXPECTED TIMETABLE

4. Refund cheques will be issued in respect of wholly or partially unsuccessful applications under the Public Offer.
5. Applicants who apply on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more may collect their refund cheques, if any, in person if they have indicated their wishes to do so on their Application Forms but may not collect their Share certificates in person, which will be deposited into CCASS for credit to their designated CCASS participant's stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
6. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the address specified in the relevant Application Forms. Further details are set forth under "Collection/posting of Share certificates/refund cheques and deposit of Share certificates into CCASS" in the section headed "How to apply for the Public Offer Shares" in this prospectus.
7. No temporary documents of title will be issued.

Certificates for the Offer Shares will only become valid certificates of title at 6:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date if the Share Offer has become unconditional.

Prospective investors in the Offer Shares should note that First Shanghai Securities (for itself and on behalf of all other Underwriters) is entitled to terminate the Underwriters' obligations under the Underwriting Agreements by notice in writing to the Company upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 6:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date. The said events include those of a financial, political, industrial, economic, military, legal, fiscal and/or other nature.

If the Underwriters terminate their obligations under the Underwriting Agreements in accordance with its terms or otherwise, the Share Offer will not become unconditional and the certificates for the Offer Shares, notwithstanding that they may have been despatched to or collected by the applicants for the Offer Shares, will not become valid certificates of title.

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You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information which is different from that contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, the directors of any one of them or any other person or party involved in the Share Offer.

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SUMMARY

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

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

NATURE OF BUSINESS

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

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

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

SUMMARY

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

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

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

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

SUMMARY

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

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

SUMMARY

TRADING RECORD

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

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

Notes:

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

COMPETITIVE ADVANTAGES

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

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

SUMMARY

RESTRICTIONS ON DISPOSAL OF SHARES AND INVESTMENT COSTS

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

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

SUMMARY

Notes:

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

UNDERTAKINGS

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

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

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

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

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

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

BUSINESS OBJECTIVES AND STRATEGIES

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

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

SUMMARY

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

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

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

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

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

— **establishing alliances with strategic partners**

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

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

— **developing future testing services**

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

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

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

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

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— expansion of sales and marketing efforts

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

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

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

Notes:

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

USE OF PROCEEDS

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

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

SUMMARY

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

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

RISK FACTORS

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

Risks relating to the business of the Group

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

SUMMARY

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

Risks relating to the industry

- technological changes resulting in product obsolescence

Risks relating to Hong Kong and the PRC

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

Risks relating to the Share Offer

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

DEFINITIONS

In this prospectus, the following expressions have the following meanings, unless the context otherwise requires:

“Application Form(s)”	WHITE application form(s) and YELLOW application form(s), or, where the context requires either of them, which are used by applicants under the Public Offer
“Asia” or “Asian region”	includes Hong Kong, the PRC, Japan, Australia, Taiwan, Singapore and Korea
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of directors of the Company
“business day”	a day on which banks are generally open for business in Hong Kong (other than a Saturday)
“Capitalisation Issue”	the capitalisation issue referred to 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
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Celltech”	Celltech Limited, a company incorporated in Hong Kong under the Companies Ordinance on 25 January, 2002 with limited liability and an indirect wholly owned subsidiary of the Company
“Chinese University”	The Chinese University of Hong Kong
“Companies Law”	the Companies Law (2003 Revision) (Cap 22) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended) as amended, supplemented or otherwise modified from time to time
“Company”	Plasmagene Biosciences Limited, a company incorporated in the Cayman Islands on 27 June, 2002 under the Companies Law
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules

DEFINITIONS

“Consultancy Agreement”	an agreement entered into between the Chinese University and Plasmagene on 23 June, 2001 relating to the provision of consultancy services by the Chinese University through its designated consultant, Professor Lo, to Plasmagene (as supplemented by an agreement dated 10 August, 2001 and varied by a variation agreement dated 25 July, 2002 and a supplemental variation agreement dated 13 September, 2002)
“Convertible Notes”	the convertible notes of an aggregate principal amount of HK\$21.5 million issued by the Company to the Noteholders in December 2002. These Convertible Notes shall be converted into Shares in three stages, namely the Initial IPO Conversion prior to the Listing Date, the First Post IPO Conversion which will take place on the First Post IPO Conversion Date and the Second Post IPO Conversion which will take place on the Second Post IPO Conversion Date
“Director(s)”	the director(s) of the Company
“Dr. Yeung”	Dr. Yeung Wah Hin, Alex, the chairman of the Board
“European Union”	an economic and political union established in 1993 after the ratification of the Maastricht Treaty by members of the European Community. There are currently 25 member countries in the European Union, namely Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Malta, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom
“First Post IPO Conversion”	the conversion of 40% of the aggregate nominal value of the Convertible Notes into a total of 34,400,000 Shares to be allotted and issued to the Noteholders on the First Post IPO Conversion Date, pursuant to the terms of the Convertible Notes
“First Post IPO Conversion Date”	the date on which the First Post IPO Conversion shall take place, being the date falling six months after the Listing Date
“First Shanghai Capital” or “Sponsor”	First Shanghai Capital Limited, a deemed licensed corporation licensed to perform type 6 regulated activity (i.e. advising on corporate finance) under the SFO and the sponsor for the Listing

DEFINITIONS

“First Shanghai Securities” or “Lead Manager”	First Shanghai Securities Limited, a deemed licensed corporation to carry on business in types 1, 4, 6, 7 and 9 regulated activities (dealing in securities, advising on securities, advising on corporate finance, providing automated trading services and asset management) under the SFO and the lead manager and bookrunner of the Share Offer
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM website”	the GEM website located at <i>www.hkgem.com</i> , operated by the Stock Exchange for GEM
“Group”	the Company and its subsidiaries, and where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company, where relevant
“HK\$”, “Hong Kong dollar(s)” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong government”	the Government of Hong Kong
“independent third party (parties)”	a third party who (i) is independent of, and not connected with (within the meaning of the GEM Listing Rules), any Director, chief executive, substantial or management shareholder of the Company, or any of their respective subsidiaries or associates of any of them, and (ii) has no business relationship with the Group
“Initial IPO Conversion”	the conversion of 30% of the aggregate nominal value of the Convertible Notes into 25,800,000 Shares to be allotted and issued to the Noteholders, prior to the Listing Date pursuant to the terms of the Convertible Notes

DEFINITIONS

“Initial Management Shareholders”	has the meaning ascribed thereto under the GEM Listing Rules. In the case of the Group, this means Dr. Yeung, Ms. Margaret Tsui, the wife of Dr. Yeung, Spring Biotech and its beneficial and ultimate shareholder, namely, Town Health Bio-Medical Technology Limited, Town Health, Vanbarry Corporation and its sole beneficial shareholder, namely, Mr. Cheng Yan Tak, Angus Ronald, Diamond Tech Investment Limited and its sole beneficial shareholder, namely, Mr. Wong Yan Kit
“ISIS”	ISIS Innovation Limited, a company incorporated on 27 November, 1987 in the United Kingdom under the Companies Act 1985 (as amended), and wholly owned by the Oxford University in the United Kingdom
“JAIC”	Japan Asia Investment Co., Ltd., a company whose shares are listed on the JASDAQ market, Japan. It specialises in the management of direct investment funds in Japan and other parts of the world
“JAIC HK”	JAIC International (Hong Kong) Company Limited, a company incorporated on 8 March, 1994 in Hong Kong under the Companies Ordinance with limited liability and a wholly owned subsidiary of JAIC
“JAIC Technology”	JAIC Technology Seed No. 1 Venture Capital Investment, L.P., a limited partnership established on 30 November, 2001 under the laws of Japan and was formed for the purpose of making related investments in innovative technology companies. It is owned by JAIC and other independent third parties. It is managed by JAIC
“Latest Practicable Date”	3 June, 2004, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Listing”	the trading of the Shares on GEM as from the Listing Date
“Listing Date”	the date when the Shares are first traded on GEM
“MCVIL”	MMFI CAPI Venture Investments Limited, a limited company incorporated on 10 April, 2000 in British Virgin Islands and was formed for the purpose of making equity related investments in companies with operations in China and Hong Kong. It is managed by JAIC HK

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“Ms. Margaret Tsui”	Ms. Yeung Tsui Mai Ling, Margaret, a Director, the wife of Dr. Yeung and an Initial Management Shareholder
“Noteholders”	holders of the Convertible Notes, or any one of them. They are The Applied Research Council, MCVIL, JAIC, JAIC Technology, Mr. Robert Owen, Mr. Russell Young, Mr. Tong Sui Bau, Mr. Lee Kam Lun, Kenyon and Ms. Jessica Pui Han Jook
“Offer Price”	the price of HK\$0.50 per Offer Share (excluding 1% brokerage fee, 0.005% transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee payable thereon) at which the Offer Shares are to be subscribed for and allotted and issued pursuant to the Share Offer
“Offer Shares”	the Placing Shares and the Public Offer Shares
“PDx Technology”	plasma nucleic acid technology for its use and conducting research and development. This is the platform technology that involves a core technology with a number of nucleic acids amplification techniques such as polymerase chain reaction that can be used to detect, with related component technologies in each or all of, the genetic markers including DNA, RNA, EB virus DNA or viral genomes found circulating in the blood plasma or serum and in other bodily fluids for screening, diagnosis and monitoring of diseases including cancer or pre-cancerous conditions, foetal related illnesses such as X-linked diseases, Rhesus D factor incompatibilities, Down’s syndrome and other critical illnesses such as organ transplant failure, stroke, trauma and pleural effusion. A platform technology is a core technology from which new related technologies are developed, but the PDx Technology itself is a name given to this broad term of definition and is not an individual invention
“Placing”	the conditional placing of the Placing Shares for cash at the Offer Price with professional, institutional and other investors on and subject to the terms and conditions stated in this prospectus
“Placing Underwriting Agreement”	a placing underwriting agreement relating to the Placing expected to be entered into between the Company, the executive Directors, the Initial Management Shareholders, First Shanghai Securities, First Shanghai Capital and the Placing Underwriters

DEFINITIONS

“Placing Shares”	a total of 57,600,000 new Shares (subject to reallocation between the Public Offer and the Placing as described in the section headed “Structure and conditions of the Share Offer” in this prospectus) being offered for subscription pursuant to the Placing
“Placing Underwriters”	the underwriter(s) of the Placing named in the paragraph headed “Underwriters” in the section headed “Underwriting” of this prospectus
“Plasmagene”	Plasmagene Limited, a company incorporated in Hong Kong under the Companies Ordinance on 23 March, 2001 with limited liability and an indirect wholly-owned subsidiary of the Company
“PRC” or “China”	the People’s Republic of China, which for the purposes of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Professor Lo”	Professor Lo Yuk Ming, Dennis, the Chinese University’s designated consultant to the Group under the Consultancy Agreement and a Shareholder
“Public Offer”	the conditional offer of the Public Offer Shares to members of the public in Hong Kong by way of an offer for subscription at the Offer Price, payable in full on application, on and subject to the terms and conditions stated in this prospectus and the Application Forms
“Public Offer Shares”	6,400,000 new Shares initially being offered for subscription in Hong Kong pursuant to the Public Offer (subject to reallocation between the Public Offer and the Placing as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Public Offer Underwriters”	the underwriters of the Public Offer named in the paragraph headed “Underwriters” in the section headed “Underwriting” of this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated 7 June, 2004 relating to the Public Offer made between the Company, the executive Directors, First Shanghai Securities, First Shanghai Capital, the Initial Management Shareholders and the Public Offer Underwriters

DEFINITIONS

“Qualified Listing”	the Listing as at the Listing Date pursuant to which the gross proceeds from the Share Offer are equal to or exceed HK\$40 million and the number of issued Shares at the Listing Date multiplied by the Offer Price exceeds HK\$200 million, calculated on the basis of assuming all Convertible Notes having been fully converted prior to the Listing
“Reorganisation”	the reorganisations of the Group in preparation for the Listing, details of which are set out in the paragraph headed “Group reorganisation” in the section headed “Further information about the Company” in Appendix V to this prospectus
“Right of First Refusal Agreement”	an agreement entered into between the Chinese University and the Company on 8 August, 2002 relating to the grant of a right of first refusal to the Company by the Chinese University in respect of certain technology and inventions of the PDX Technology, as amended and supplemented by agreements dated 31 October, 2003 and 16 April, 2004
“RMB”	Renminbi, the lawful currency of the PRC
“Second Post IPO Conversion”	the conversion of 30% of the aggregate nominal value of the Convertible Notes into 25,800,000 Shares to be allotted and issued to the Noteholders on the Second Post IPO Conversion Date pursuant to the terms of the Convertible Notes
“Second Post IPO Conversion Date”	the date on which the Second Post IPO Conversion shall take place, being the date falling twelve months after the Listing Date
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong as amended, supplemented to and modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholders”	holders of the Shares from time to time
“Share Offer”	the Placing and the Public Offer
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 20 April, 2004, the principal terms of which are summarised 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

DEFINITIONS

“Sponsor’s Agreement”	a sponsor’s agreement dated 7 June, 2004 entered into between the Company and First Shanghai Capital, pursuant to which First Shanghai Capital has agreed to act as the Company’s continuing sponsor for the period from the Listing Date until 30 June, 2006 for a fee agreed between them
“Spring Biotech”	Spring Biotech Limited, a company incorporated in the British Virgin Islands on 20 April, 2001 under the International Business Companies Act (Cap 291) and an indirect wholly owned subsidiary of Town Health and an Initial Management Shareholder
“sq.ft.”	square feet
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“The Applied Research Council”	The Applied Research Council is a company wholly owned by the Hong Kong government. It was incorporated on 11 August, 1992 in Hong Kong under the Companies Ordinance with limited liability. 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 that have commercial potential in the form of venture capital
“The Chinese University of Hong Kong Foundation Limited”	The Chinese University of Hong Kong Foundation Limited is a non-profit company limited by guarantee incorporated in Hong Kong on 9 March, 1990 under the Companies Ordinance, and whose objects are 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
“Town Health”	Town Health International Holdings Company Limited, a company incorporated in the Cayman Islands on 24 August, 1999 under the Companies Law with limited liability and whose shares are listed on GEM, and an Initial Management Shareholder
“Town Health group”	Town Health and its subsidiaries from time to time, including Spring Biotech, Spring Biotech (China) Limited and Town Health Bio-Medical Technology Limited

DEFINITIONS

“Track Record Period”	the two years ended 30 June, 2003 and the six months ended 31 December, 2003
“Unconditional Date”	the later of: (a) the date upon which the Underwriting Agreements become unconditional in all respects pursuant to the terms of these agreements; (b) the date that the rights of the Underwriters and the Lead Manager to terminate the Underwriting Agreements for any exceptional circumstances, including, without limiting the generality thereof, any event of force majeure, have ceased and are of no effect or validity whatsoever; and (c) the date three days before the Listing Date
“Underwriter(s)”	collectively the Placing Underwriters and the Public Offer Underwriters
“Underwriting Agreements”	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement relating to the Share Offer, details of which are set out in the section headed “Underwriting” in this prospectus
“U.S.”, “United States” or “U.S.A.”	the United States of America
“US\$”, “United States dollars” or “US cents”	United States dollars and cents, respectively, the lawful currency of the United States
“3 Ben”	3 Ben Genomics Hong Kong Ltd., a company incorporated in the Republic of Mauritius on 11 January, 2001 under the Mauritius International Companies Act 1994 with limited liability and an indirect wholly owned subsidiary of the Company

Unless otherwise specified in this prospectus, amount denominated in US\$ has been translated, for the purpose of illustration only, into Hong Kong dollars at the following rate:

$$HK\$7.80 = US\$1.00$$

The above exchange rate is for illustration purposes only and does not constitute a representation that any amounts have been, could have been or may be converted at the above rate or at any other rates.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meanings or usages of these terms.

“amniocentesis” or “chorionic villus sampling”	prenatal diagnostic methods used for detecting foetal abnormalities by sampling of foetal materials
“amniocentesis tests”	tests involving the withdrawal of a sample of the fluid, known as amniotic fluid, surrounding an embryo in the uterus by piercing the sac around it
“betaHCG”	beta Human Choionic Gonadotropin is the beta subunit of a hormone that is produced by placenta during pregnancy. betaHCG is recently found to be a slightly better marker than the whole HCG molecule itself in the diagnosis of Down syndrome fetus in pregnancy
“cancer”	malignant growth or tumour caused by abnormal and uncontrolled cell division
“chemosensitivity studies”	a study on the sensitivity of patients who have received chemotherapy treatment
“chemotherapy”	the prevention or treatment of disease, including cancer, by the use of chemical substances
“colorectal cancer”	cancer that arises in the lining of either the colon or the rectum
“community research programme”	a programme consisting of seminars given by qualified physicians and including the offering of post clinical trial testing services to the community at large, the test results of which will on one hand be followed up and to serve as primary data for further research activities
“CT scan”	computed tomography scan, a special radiographic technique used for scanning tumour tissue in cancer patients and is an alternative test to the PET scan
“cyclotron”, or “cyclotron facility”	particle accelerator that produces radioactive particles used for PET scanning purposes
“DNA”	deoxyribonucleic acid which is the genetic material of nearly all living organisms which controls heredity
“Down’s syndrome”	a type of foetal condition primarily resulting from genetic abnormality

GLOSSARY OF TECHNICAL TERMS

“EB virus” or “EBV”	Epstein-Barr virus, which is a virus belonging to the herpes virus group that causes glandular fever
“FDG”	2-fluro-deoxy-glucose, which is certain radio-pharmaceutical chemical for treating cancer
“foetus”	an unborn child from its eighth week of development
“genetic markers”	a recognizable genetic characteristic which can be used to identify a genetic locus. Examples of these include those found in DNA, RNA, beta-globin DNA and EB virus
“gestation”	the period of development of the foetus, from the time of fertilization of the ovum until birth
“HIV”	human immunodeficiency virus, a retrovirus responsible for AIDs
“HPL”	Human Placental Lactogen are among the hormones produced by the placenta during pregnancy that modulate the maternal and foetal metabolism, especially in insulin growth factor production. Abnormal levels in the maternal serum may be associated with high-risk pregnancy such as pre-eclampsia and diabetes, being abnormally low or high respectively
“Internet”	a global network of interconnected, separately administrated public and private computers which allows data to be transferred amongst the computers
“lymphoma”	a malignant tumour of the lymph nodes
“MRI”	magnetic resonance imaging, a special imaging technique used to visualise internal structures of the body
“nasopharyngeal carcinoma” or “nasopharyngeal cancer” or “NPC”	a cancer of the nasopharynx, an anatomical region at the back of the nose
“obstetrics”	a branch of medicine dealing with the care of women during pregnancy, childbirth, and the period during which they recover from childbirth
“oncology”	the study of cancer
“pancreatic cancer”	cancer developed at the pancreas, a gland below and behind the stomach

GLOSSARY OF TECHNICAL TERMS

“PET scan”	positron emission tomography scan, a highly specialised imaging technique that is sensitive in picking up active tumour tissue in cancer patients. This technique serves as an alternative to CT scan
“plasma” or “blood plasma”	the fluid in which blood cells are suspended in the body
“pleural effusion”	the leakage of fluid into the cavity between the lung surface and its capsule. Normally, there is only a small amount of fluid. In cancerous and certain other diseases, large amount of fluid is present and can cause shortage of breath and lung failure
“polymerase chain reaction” or “PCR”	a technique used for multiplying the amount of DNA in blood plasma or serum for facilitating certain diagnostic procedures
“pre-eclampsia”	pregnancy-induced high blood pressure
“prostate cancer”	a malignant tumour of the prostate gland, which is a male accessory sex gland below the bladder
“renal cell carcinoma”	the most common form of kidney cancer
“RhD” or “Rhesus D”	a human blood group system on the surface of red blood cells
“rhesus factor” or “Rh factor”	a group of antigens that may or may not be present on the surface of red blood cells. Most people have the rhesus factor, that is, they are rhesus factor positive. People who lack the factor are termed rhesus factor negative. Incompatibility between rhesus factor positive and rhesus factor negative blood is an important cause of a haemolytic disease of the newborn known as haemolytic disease
“RNA”	ribonucleic acid, a type of genetic markers
“R&D”	research and development
“SARS”	Severe Acute Respiratory Syndrome, an infection caused by the human corona virus which is extremely infectious by droplet spread and believed to be transmitted from wild animals to human. This infection caused an initial flu like symptom progressing into pneumonia and respiratory failure
“serum” or “blood serum”	the fluid that separates blood plasma
“stem cell”	an immortal cell that is able to produce all the cells within a human body

GLOSSARY OF TECHNICAL TERMS

“telomerase”	an enzyme consisting of RNA and protein
“Trisomy”, “Trisomy 21”	a medical condition which indicates the presence of an additional whole chromosome that in a cell causes Down’s syndrome
“tumour(s)”	an abnormal mass of tissue that results from excessive cell division which may be either benign meaning not cancerous, or malignant meaning cancerous
“X-linked diseases”	a family of genetic or inherited disease

RISK FACTORS

RISKS RELATING TO THE BUSINESS OF THE GROUP

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

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

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

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

Reliance on businesses conducted with an Initial Management Shareholder

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

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Reliance on a single technology

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

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

Testing services substitution and competition

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

Reliance on Dr. Yeung

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

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

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

Research and development risks

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

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Reliance on intellectual property licences owned by third parties

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

Delay in obtaining relevant overseas government approval

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

Uncertain ability to protect intellectual property rights

The patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions. Although the Group enjoys rights to use certain intellectual property rights through the licensing arrangements with ISIS, the Chinese University and F. Hoffmann-La Roche Limited, it may be possible for a third party to imitate or use the Group’s intellectual property rights without authorisation. Should such infringement occur, the Group may suffer significant losses caused by a reduction in the sales of its testing services and an increase in

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legal expenditure and management's time in relation to the protection of the intellectual property rights attached to the licensed patents. In addition, there can be no assurance that any patents licensed to the Group will not be challenged, and subsequently narrowed, invalidated or circumvented. In such events, the operations and performance of the Group could be adversely affected.

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

Limited operating history of the Group's cancer testing services

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

Reliance on financial support from Shareholders

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

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Legal validity and enforceability of electronically concluded contracts

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

Limited sales and marketing experience

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

Professional indemnity insurance

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

RISKS RELATING TO THE INDUSTRY

Technological changes resulting in product obsolescence

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

RISK FACTORS

RISKS RELATING TO HONG KONG AND THE PRC

Political and economic risks in Hong Kong

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

Legal and regulatory considerations in the PRC

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

Political and economic considerations in the PRC

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

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

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RISKS RELATING TO THE SHARE OFFER

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

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

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

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

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

Marketability and possible price volatility of the Shares

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

RISK FACTORS

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

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

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

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

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

Connected transactions

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

Nature of the connected transactions

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

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

Cap estimation

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

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

revenue is less than HK\$3 million up to 30 June, 2004. As stated in the relevant agreements, Spring Biotech agreed to use its reasonable endeavours to procure that the revenue will not be less than HK\$3 million. If Spring Biotech has not used its reasonable endeavours to achieve the target of HK\$3 million during the two years ending 30 June, 2004, the Group may consider not renewing the agreement with Spring Biotech. However, it is the intention of the Group and Spring Biotech to renew the existing agreement prior to its expiration for twelve months until 30 June, 2005 upon similar terms.

The waiver

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

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

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

DIRECTOR'S RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance and the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief (i) the information contained in this prospectus is accurate and complete in all material aspects and not misleading, (ii) there are no other facts the omission of which would make any statement in this prospectus misleading, and (iii) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Shares are offered under the Share Offer solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, and any of their respective directors or any other person involved in the Share Offer.

UNDERWRITING

This prospectus is published solely in connection with the Share Offer and together with the Application Forms set out the terms and conditions of the Share Offer. The Share Offer comprises initially 57,600,000 Placing Shares to be offered under the Placing and 6,400,000 Public Offer Shares to be offered under the Public Offer. Listing of the Shares on GEM is sponsored by First Shanghai Capital and the Share Offer is lead managed by First Shanghai Securities. Subject to the terms of the Underwriting Agreements, the Placing Shares are expected to be fully underwritten by the Placing Underwriters and the Public Offer Shares are fully underwritten by the Public Offer Underwriters. Particulars of the Underwriters and the underwriting arrangements are set forth in the section headed "Underwriting" in this prospectus.

APPLICATION FOR LISTING ON GEM

Application has been made to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue, Shares which are to be allotted and issued pursuant to the Capitalisation Issue, the Share Offer and any Shares which may be allotted and issued upon the Initial IPO Conversion, the First Post IPO Conversion, the Second Post IPO Conversion or upon any exercise of options which may be granted under the Share Option Scheme and pursuant to the Right of First Refusal Agreement.

No part of the Company's share or loan capital is listed or dealt in on any other stock exchange and at the date of this prospectus no such listing or permission to deal is being or is proposed to be sought.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

In compliance with the GEM Listing Rules, the Company must maintain at least 25% of the issued share capital of the Company in the hands of the public.

Offer Price

The Offer Price is HK\$0.50 per Share. Based on the Offer Price of HK\$0.50 per Share, plus brokerage fee of 1%, investor compensation levy of 0.002%, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005% in aggregate, the total price payable for subscription of one board lot of 4,000 Shares will be approximately HK\$2,020.24.

The Offer Shares to be offered in Hong Kong only

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus to the public in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in certain jurisdictions may be restricted by law.

No action has been taken to permit the Offer Shares to be offered to the public generally in the Cayman Islands and accordingly, no offer, or invitation to make an offer, may be made by or on behalf of the Company to the public generally in the Cayman Islands to subscribe for or acquire any of the Offer Shares.

Each person acquiring Offer Shares in the Share Offer will be required to confirm, or deemed by its acquisition of Offer Shares to have confirmed, that it is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

STAMP DUTY

All Offer Shares will be registered on the Company's branch register of members to be maintained in Hong Kong. Only Shares registered in the Company's branch register of members maintained in Hong Kong may be traded on GEM unless the Stock Exchange has otherwise agreed. Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription for, or about purchase, holding, disposal of or dealing in the Offer Shares or the exercise of any rights in relation to them, you should consult an expert. The Company, the Directors, the Sponsor, the Underwriters and their respective agents, advisers, or any other persons involved in the Share Offer do not accept responsibility for any tax effects on, or liabilities of, any person resulting from any subscription for, or purchase, holding or disposal of, or dealing in, the Offer Shares or the exercise of any rights in relation to the Offer Shares.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out under the section headed “Structure and conditions of the Share Offer” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of the dealings in the Shares on GEM or such other date determined by HKSCC. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

HONG KONG BRANCH REGISTER OF MEMBERS

All Shares in issue and to be issued pursuant to the Share Offer will be registered on the Company’s branch register of members to be maintained by the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited in Hong Kong. The Company’s principal register of members is maintained by M&C Corporate Services Limited in the Cayman Islands.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Address	Nationality
<i>Executive Directors</i>		
Dr. YEUNG Wah Hin, Alex	Flat B, 1/F. 1 Garden Terrace 8 Old Peak Road Hong Kong	Chinese
Ms. YEUNG TSUI Mai Ling, Margaret	Flat B, 1/F. 1 Garden Terrace 8 Old Peak Road Hong Kong	Chinese
Mr. CHO Kam Luk	Flat C, 2/F. La Noblesse 34-36 Oxford Road Kowloon Hong Kong	Chinese
Mr. CHENG Yan Tak, Angus Ronald	Flat B, 22/F Century Tower I 1 & 1A Tregunter Path Hong Kong	British
<i>Non-executive Director</i>		
Mr. LAU Kam Shan	1A, Block 2 Grand Garden 61 South Bay Road Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Address	Nationality
<i>Independent non-executive Directors</i>		
Dr. LOH Kai Tsu, Kevin	Flat 25, 8th Floor Tower 3 HK Parkview 88 Tai Tam Reservoir Road Hong Kong	American
Professor CHUNG Sheung Chee, Sydney	House 6 26th Street Hong Lok Yuen Tai Po New Territories Hong Kong	Chinese
Dr. NGAN Man Wong, Matthew	3A, Block 27 Baguio Villa 550-555 Pokfulam Road Hong Kong	Australian
Mr. CHAN Siu Wing, Raymond	Flat 1511, 15th Floor Tai Hang Terrace 5 Chun Fai Road Hong Kong	Australian

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	First Shanghai Capital Limited 19th Floor Wing On House 71 Des Voeux Road Central Hong Kong
Lead Manager and bookrunner	First Shanghai Securities Limited 19th Floor Wing On House 71 Des Voeux Road Central Hong Kong
Co-managers	Core Pacific-Yamaichi International (H.K.) Limited 36th Floor COSCO Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
	Guotai Junan Securities (Hong Kong) Limited 27th Floor Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	Kingsway Financial Services Group Limited 5th Floor Hutchison House 10 Harcourt House Central Hong Kong
	Phillip Securities (HK) Ltd. 11th Floor United Centre 95 Queensway Hong Kong
	Sun Hung Kai International Limited Level 12 One Pacific Place 88 Queensway Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to the Company as to Hong Kong law	Richards Butler 20th Floor Alexandra House 16-20 Chater Road Hong Kong
	Chui & Lau Room 42, 4th Floor New Henry House 10 Ice House Street Central Hong Kong
Legal advisers to the Company as to Cayman Islands law	Maples and Calder Asia 1504 One International Finance Centre 1 Harbour View Street Central Hong Kong
Legal advisers to the sponsor and the Underwriters	Dibb Lupton Alsop 41st Floor, Bank of China Tower 1 Garden Road Central Hong Kong
Auditors and reporting accountants	RSM Nelson Wheeler <i>Certified Public Accountants</i> 7th Floor, Allied Kajima Building 138 Gloucester Road Hong Kong
Property valuer	CB Richard Ellis Limited Suite 3401 Central Plaza 18 Harbour Road Wanchai Hong Kong
Receiving banker	Standard Chartered Bank 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Kowloon Hong Kong

CORPORATE INFORMATION

Registered office	Ugland House PO Box 309GT South Church Street Grand Cayman Cayman Islands
Head office and principal place of business in Hong Kong	5th Floor Club Lusitano 16 Ice House Street Central Hong Kong
Company website address	<i>www.plasma-gene.com</i> (contents of the website do not form part of this prospectus)
Company secretary	Ms. Leung Kwan Yu <i>ACCA HKSA</i>
Qualified accountant	Ms. Leung Kwan Yu <i>ACCA HKSA</i>
Compliance officer	Mr. Cheng Yan Tak, Angus Ronald
Audit committee	Dr. Ngan Man Wong, Matthew (<i>Chairman</i>) Professor Chung Sheung Chee, Sydney Dr. Loh Kai Tsu, Kevin Mr. Chan Siu Wing, Raymond
Authorised representatives	Dr. Yeung Wah Hin, Alex Flat B, 1st Floor 1 Garden Terrace 8 Old Peak Road Hong Kong Ms. Leung Kwan Yu <i>ACCA HKSA</i> Flat 1H, Block 3 Richland Gardens Kowloon Bay Kowloon Hong Kong
Principal banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

CORPORATE INFORMATION

**Principal share registrar and
transfer office**

M&C Corporate Services Limited
Ugland House
PO Box 309GT
South Church Street
Grand Cayman
Cayman Islands

**Hong Kong branch share registrar
and transfer office**

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queens' Road East
Hong Kong

INDUSTRY OVERVIEW

The information provided in this section is derived from various official, unofficial and private publications available to the Directors. Such information has not been prepared or independently verified by the Company, the Sponsor, the Underwriters or any of their respective affiliates or advisors.

BACKGROUND

Health care costs around the world have seen significant increases. It is estimated that health care now comprises 14% of the world's gross national product, which represents in excess of US\$1 trillion. In developed countries with higher per capita income, health care expenditures are also higher. It has also been observed where countries with higher health care spending have experienced an increase in the productivity of the workforce and hence a higher income and standard of living. Conversely, a higher income and standard of living would also increase the per capita health care expenditure. There is a significant correlation between the two. In countries of the developing world which depend on manual labour, this relationship is even stronger. Healthy people are able to work harder. With this in mind, countries such as Costa Rica, India and China have launched numerous healthcare improvement programmes.

IN VITRO DIAGNOSTIC MARKET

The Group's testing services can be categorised as "in vitro diagnostics". In vitro diagnostics, also known as IVD, are diagnostic tests which are carried out outside the environment of the human body, or patient, in an artificial environment such as a test tube.

The IVD markets have seen stagnant growth in the 1990's. However, a readjustment has occurred in recent years bringing about growth worldwide led by the emerging IVD markets of China and India. Theta Reports estimates that the worldwide IVD market has rebounded and will continue to grow by approximately 6% annually. Theta Reports is a division of PJB Publications, an independent publisher of business news and information services for the medical device and diagnostic, human and veterinary pharmaceutical, and crop protection industries.

Table 1 — Worldwide IVD sales by geographic region

Geographic region	2000 IVD Sales (US\$ million)	2005 IVD Sales (US\$ million)	Compound annual growth rate (%)
North America	11,170	14,360	6
Western Europe	6,900	8,500	5
Japan	2,850	3,285	3
Latin America*	1,040	1,715	13
China	300	600	20
Eastern Europe	250	400	12
India	170	400	27
Rest of the World	3,305	4,995	10
Total	25,985	34,255	6

* includes Mexico

Source: Theta Reports of April 2002

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In 2000, the growing IVD market in China totalled US\$300 million representing 1% of the worldwide IVD market share. Theta Reports expects this market share to grow at an annual rate of 20% to double its market share to 2% by 2005, indicating sales in the region of US\$600 million.

China's entrance into the World Trade Organisation will have a major impact in the country's IVD market. Among the main changes the World Trade Organisation will initiate is that soon foreign IVD companies will be able to form their own distribution networks in China, regulations regarding the importation of reagents for use in IVD testing will be relaxed, and tariffs on medical equipment will be reduced from a current average of 6.5% to 3.9% by January 2005.

The IVD market in Japan is mature with country sales ranking third worldwide in 2000 with a market share of 11%. Sales are expected to grow at an annual rate of 3% to US\$3.3 billion by 2005.

Table 2 — Worldwide IVD sales by product area

Product Area	2000 IVD Sales (US\$ million)	2005 IVD Sales (US\$ million)	Compound annual growth rate (%)
Clinical chemistry	6,535	6,930	1
Point-of-care: over-the-counter	3,910	6,310	12
Point-of-care: professional	2,280	3,200	8
Immunoassays: infectious diseases	1,860	2,990	12
Immunoassays: blood bank screening	490	560	3
Immunoassays: other	3,520	4,465	5
Microbiology/virology*	2,125	2,330	2
Histology/cytology	1,355	1,960	9
Haematology	1,300	1,400	2
Nucleic acid assays: infectious diseases	750	1,400	17
Nucleic acid assays: others	190	395	22
Coagulation	600	800	7
Blood typing/grouping	320	375	3
Flow cytometry	450	850	18
Radioimmunoassays	300	290	-1
Total	25,985	34,255	6

* *Infectious disease/molecular infectious clones panels, rapid microbiology tests, blood culture tests, and traditional microbiology supplies*

Source: Theta Reports of April 2002

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In 2000, the largest product area in the IVD market is the clinical chemistry diagnostics segment in which many of the Group's testing services would be categorised, encompassing a quarter of all IVD product sales. But the high growth product segments are expected to be in the areas of immunoassays, molecular tests, lipid profiles, cancer diagnostics and diabetes self-testing which would also relate to the Group's existing and future testing services. These areas of high growth are expected to experience double digit annual growth through to 2005.

IN VITRO DIANOSTIC USING GENETIC AND MOLECULAR REAL TIME PCR TECHNOLOGY

The business environment of in vitro diagnostic tests, either presented as a testing service or in a kit form using genetic materials and real time PCR technology for clinical diseases is only in its infancy of development. There have been some relatively simple PCR clinical tests in the market at this moment for infectious diseases such as tuberculosis (TB), hepatitis C and certain venereal diseases. To the best of the Group's knowledge, there are no such clinical products relating to the detection of cancer or foetal maternal diseases.

CANCER DIAGNOSTICS

As one of the leading causes of death, cancer is a disease many researchers are seeking to cure. Early screening of cancer is the number one factor in determining the long-term prognosis of a patient.

According to "Cancer Stat 2000" issued by Hong Kong Cancer Registry, Hospital Authority, during the life time in Hong Kong, the chance of developing a particular cancer assuming no other cause of death is 26.1% for men and 19.5% for women. Thus, approximately 1 of every 4 men and 1 of every 5 women are expected to develop cancer at some point during their life times. Similarly, in Hong Kong the risk of dying from cancer during life is 15.9% for men and 8.3% for women, representing 1 in 6 men and 1 in 12 women respectively.

Table 3 — All new cases of cancers in Hong Kong

Year	Male		Female	
	New cases	C.I.R*	New cases	C.I.R*
1995	10,296	333.8	7,971	259.5
1996	10,852	337.0	8,492	264.1
1997	11,086	342.6	8,835	271.5
1998	11,194	344.4	8,897	270.1
1999	11,329	347.0	9,197	275.2
2000	11,703	357.2	9,646	284.7

* C.I.R = Crude incidence rate per 100,000 persons

Source: Hong Kong Cancer Registry, Hospital Authority, March 2003

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Epstein-Barr virus (EBV) is a common virus and has been found to associate with nasopharyngeal carcinoma and stomach cancer. Publications by the Chinese University demonstrated that the EBV genome can be detected in blood plasma.

Nasopharyngeal cancer (or NPC) is a type of cancer found in the soft tissues behind the nasal cavity, which is relatively common in Hong Kong and Guangzhou. The incidence of nasopharyngeal cancer in Hong Kong is significantly higher than in other parts of the world, occurring more than 80 times as frequent, on a per capita basis, as compared to North America, western Europe and Japan. For this reason, nasopharyngeal cancer is often referred to as the “Cantonese Cancer”. In 1999, around 24 out of 100,000 males in Hong Kong were diagnosed with nasopharyngeal cancer. This figure represented about 7 percent of all cancers in Hong Kong for 1999.

Table 4 — All new cases of nasopharyngeal cancer in Hong Kong

Year	Male		Female	
	New cases	C.I.R.*	New cases	C.I.R.*
1995	830	26.9	306	10.0
1996	856	26.6	321	10.0
1997	804	24.9	342	10.5
1998	809	24.9	312	9.5
1999	798	24.4	320	9.6
2000	797	24.3	329	9.7

* C.I.R. = Crude incidence rate per 100,000 persons

Source: Hong Kong Cancer Registry, Hospital Authority, March 2003

NPC is highly radio-sensitive and therefore historically the mainstay treatment is radiotherapy. For patients presenting with early disease, radiotherapy alone achieves five-year survival rates of around 85%. However, more than 50% of the patients when being detected of the cancer are in advance disease stages, and for this group of patients the five-year survival figures are only around 50% after radiotherapy alone.

In Japan, stomach cancer is the second most common cancer in men and the most common cancer in women, with similar impact on the cancer mortality rate, please refer to table 5 below.

Table 5 — Mortality from malignant neoplasms by age group and sex in Japan (1999)

Site		Total
All cancers	Total	231.6
	Males	286.5
	Females	179.1
Esophagus	Total	8.0
	Males	13.8
	Females	2.4
Stomach	Total	40.4
	Males	53.4
	Females	27.9

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Site		Total
Colon	Total	18.5
	Males	19.3
	Females	17.8
Rectum	Total	9.7
	Males	12.3
	Females	7.1
Liver and intrahepatic bile duct	Total	27.0
	Males	38.3
	Females	16.1
Pancreas	Total	14.9
	Males	16.6
	Females	13.2
Trachea, bronchus and lung	Total	41.6
	Males	61.8
	Females	22.2
Breast	Total	7.1
	Males	0.1
	Females	13.9
Uterus	Total	8.0
	Females	8.0
Ovary	Total	6.4
	Females	6.4
Prostate	Total	11.4
	Males	11.4
Leukemia	Total	5.3
	Males	6.3
	Females	4.4

Source: Japan National Cancer Centre, February 2004

The relation of a portion of these stomach cancer cases with Epstein Barr virus has been well established. The effect of screening improves both the outlook of a 5 year survival and the stage of disease when diagnosed by 50%. Please refer to table 6a and 6b below.

Table 6a — 5-year relative survival (%) and standard error in patients detected by screening

	Total		Screening	
	Relative survival rate	Standard error	Relative survival rate	Standard error
Stomach	49.2	0.7	85.1	1.6

Source: Japan National Cancer Centre, February 2004

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Table 6b — Clinical stage in patients detected by screening

	Occasion of cancer detection	Localised	Regional	Adjacent	Distant	Total
			LN metastases	organ metastases	metastases	
Stomach	Screening (%)	71.4	20.0	3.9	4.7	100.0
	Total (%)	46.5	21.8	12.0	19.7	100.0

Source: Japan National Cancer Centre, February 2004

Similarly the incidence of stomach cancer in China and Hong Kong is high compared to western countries like Canada and the United States. Please refer to table 7 below.

Table 7 — International comparison of cancer mortality by sex and site

	Japan 1999	China 1994	Hong Kong 1995	Canada 1995	United States 1994
Males					
Total malignant neoplasms	286.5	142.3	194.5	213.7	220.7
Stomach	53.4	25.5	11.9	8.6	6.3
Females					
Total malignant neoplasms	179.1	90.2	119.8	177.2	190.5
Stomach	27.9	14.1	7.1	5.5	4.2

Source: Japan National Cancer Centre, February 2004

The business application of an in vitro diagnostic test suitable for a disease or diseases may depend on three major groups of factors.

The first group of factors relates to the incidence of new patients with the disease, the incidence of those that have survived the disease and the incidence of those that are prone to develop the disease. The incidence of new nasopharyngeal cancer cases in Hong Kong is slightly over 1,100 per year. The five-year survival rate of these cases is 85% for the earlier cases and about 50% for the more advanced cases. It can be estimated that there are more than 600 cases per year of nasopharyngeal cancer patients that survive after treatment and that are in need of consolidation treatment and long term observation. The total pool of actual nasopharyngeal cancer patients that need new or re-current testing and surveillance is therefore the sum of the new patients and the patients that survive in the previous five years, approximately 4,000 patients. The incidence of individuals that may develop or

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prone to nasopharyngeal cancer is difficult to calculate since it is hard to estimate all the patients with chronic ear, nose and throat symptoms, which are all parts of the characteristics of nasopharyngeal cancer and all those family clusters with a high incidence of nasopharyngeal cancer in their members. For the diagnosis of the EB virus associated with stomach cancer, it could be extrapolated from table 7 above that the incidence of new stomach cancer cases per year would be 50,000 in Japan, 320,000 in China and 650 in Hong Kong. Again, it would be difficult to estimate the number of individuals with family history or symptoms or signs of stomach cancer that may require an in vitro diagnostic test.

The second group of factors relates to the indications of the in vitro diagnostic test. For the detection of new patients and as a screening tool, a sensitive test with the lowest false positive is ideal. For the prognosis of a disease, a quantitative method that corresponds to the staging of the disease is important. For the monitoring of patients after treatment, a quantitative method that can more or less measure the real time amount of residual disease cells remaining in the body is essential.

The third group of factors relates to how well an in vitro diagnostic test can match the attributes of an ideal general population screening program, which would then determine the indication that can command the biggest market share. For this ideal screening test, the target disease should be a major health program, meaning that is a serious and common illness. It should be more treatable if detected early. It should be acceptable to those eligible, preferably by a non-invasive method. It should be inexpensive and affordable by the target population. It should have high sensitivity and specificity. It could be shown to reduce morbidity and mortality.

FOETAL MATERNAL AND DOWN'S SYNDROME DIAGNOSTICS

The market of diagnostic products for foetal maternal diseases depend on the fertility rate of woman in the designated countries. The total fertility rate per woman is the number of children that would be born to each woman if she were to live to the end of her child-bearing years. The total fertility rate per woman for different countries and different economic backgrounds is summarised in table 8 below:

Table 8 — Total fertility rate per woman

Country/economic backgrounds	Total fertility rate (per woman)	
	1970 - 1975	2000 - 2005
Australia	2.5	1.7
United States	2.0	2.1
Canada	2.0	1.5
Japan	2.1	1.3
United Kingdom	2.0	1.6
France	2.3	1.9
Germany	1.6	1.4
Hong Kong SAR	2.9	1.0
Singapore	2.6	1.4
Korea	4.3	1.4
China	4.9	1.8

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Country/economic backgrounds	Total fertility rate (per woman)	
	1970 - 1975	2000 - 2005
Developing countries	5.4	2.9
Least developed countries	6.6	5.1
Arab States	6.7	3.8
East Asia and the Pacific	5.0	2.0
Latin America and the Caribbean	5.1	2.5
South Asia	5.6	3.3
Sub-Saharan Africa	6.8	5.4
Central & Eastern Europe & CIS	2.5	1.4
OECD	2.5	1.8
High-income OECD	2.2	1.7
High human development	2.5	1.8
Medium human development	4.9	2.4
Low human development	6.8	5.6
High income	2.2	1.7
Middle income	4.6	2.1
Low income	5.7	3.7
World	4.5	2.7

Source: United Nations Development Programme — Human Development Report 2003

Foetal maternal diagnostic products are, generally speaking, catered to the common diseases that affect the mother and the foetus throughout the pregnancy period leading to delivery. Some of the more important foetal disorders are the inherited blood disorders such as RhD incompatibilities and Thalassaemias, a whole group of X-linked recessive diseases such as Hemophilia, mental retardation disorders such as Down's syndrome with three copies of the chromosome 21 in each cell of the foetus (trisomy 21), trisomy 18, foetal developmental problems due to pre-term delivery and diseases affecting both the mother and the foetus such as pre-eclampsia and diabetes. Chromosomal abnormalities are one of the major causes of some of the above diseases and despite of the recent advancement in non-invasive maternal blood tests and ultrasound studies, chorionic villus sampling (CVS) and amniocentesis are the most accurate but invasive ways to diagnose these abnormalities.

The total market for the foetal maternal and Down's syndrome diagnostics is indeed murky due to the many methods used at present and the medical opinions as to the best way to diagnose these conditions. As shown above, there are a variety of diseases with different pathologies making a unified consensus impossible. Maternal age over 35 is a high risk factor. In the United States there are a total of 4 million live births a year with over 500,000 in the maternal age group of over 35. The cost per invasive test such as amniocentesis, depending on the method, varies between US\$300 to US\$900. For the non-invasive test there are also a variety of methods but none of them can isolate placental tissue, genetic materials or hormones truly from the fetus itself. The Group believes that if one method that can isolate true foetal material for testing and which can be done in a non-invasive way, it may have the capability to capture practically all of the foetal maternal market as it stands now. A fair estimate of the total market is the cost of the test or tests times the average number it has to be used throughout pregnancy times the pregnancy rate of that country.

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According to a report by Vysis Inc. and Abbott Laboratories, the Directors believe that over 700,000 amniocentesis tests are performed in Europe and the United States per year. Abbott Laboratories, founded by a young Chicago physician, Dr. Wallace Calvin Abbott, in 1888, Abbott Laboratories is a healthcare company that discovers, develops, manufactures and markets innovative products and services that span from prevention and diagnosis to treatment and cure. Vysis, Inc., a wholly owned subsidiary of Abbott Laboratories, is a leading Genomic Disease Management company that develops, commercialises and markets DNA-based clinical products providing information critical to the evaluation and management of cancer, prenatal disorders and other genetic diseases. An amniocentesis is a test whereby a small amount of amniotic fluid is drawn from within the placental membrane surrounding the foetus. The amniotic fluid contains cells and genetic materials shed by the foetus. Amniocentesis can be used to detect foetal anomalies such as Down's syndrome, genetic diseases such as beta-thalassaemia. Often an amniocentesis test is recommended to women over 35 years of age due to the increased risk of carrying a Down's syndrome baby and is performed around 15 to 18 weeks into the gestation period. The medical community has observed that historically, 1 in 1,000 babies born are affected by Down's syndrome. However, amniocentesis tests are invasive and the test itself can pose a risk to the unborn baby. Pregnant women undergoing this test may experience psychological stress and an increased risk of miscarriage.

Besides chromosomal abnormalities, there are other common foetal disorders that have not been diagnosed or predicted by any existing methods of testing, such as the conditions of pre-eclampsia and pre-term delivery. Pre-eclampsia is a multi-system disorder specific to pregnant women, which usually subsides rapidly after delivery. It remains one of the most important causes of maternal and foetal mortality and morbidity in developed countries. The pathogenesis of this condition is not fully understood but a lot of evidence points to underlying pathological changes that occurs in the placental bed. Consequently placental hormones and their specifically activated translating RNAs (how genetic information is generating the proteins that work in the human body) may be a good source where the diagnosis can be based. Such placental hormones similarly may play an important role in the determination of pre-term delivery, which accounts for up to 11% of all births and a leading factor in neonatal morbidity and mortality.

In recent years, and with the advent of new information generated by research in this field, non-invasive method using the genetic materials circulating in the maternal blood plasma has been able to diagnose the RhD blood incompatibilities and X-linked recessive diseases with nearly 100% accuracy. Similar techniques were able to predict some of the DNA and RNA changes in trisomy 21 or Down's syndrome, Thalassaemias, pre-eclampsia and a host of other foetal maternal disorders.

A recent article with a randomised trial involving 534 pregnant women published in the journal of Lancet (24 January, 2004) further provides proof that even for the more invasive, risky and expensive methods such as CVS and amniocentesis, the cost effectiveness of such methods justify an expansion of these tests to a much larger group of pregnant women regardless of their age and risk level. It could be safe to conclude that, if there were new tests available that could replace these risky, invasive and costly foetal maternal procedures, they likely would be applicable to most, if not all pregnant women.

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The market for such new non-invasive foetal maternal diagnostic products could be estimated by the size of the pregnant women population in the targeted countries. In developed countries, the number of deliveries is about 1% of the total population per year. This figure will go up to over 2% in the less developed countries. For each targeted country, the accurate number of pregnant women per year could be deduced by the fertility rate as shown in the table above multiplying the female population of that country and divided by their life span.

REGULATORY REQUIREMENTS

Hong Kong

The Group's business and the laboratory scientists employed by the Group are required to register and have registered with the Medical Laboratory Technologists Board of the Supplementary Medical Professions Council pursuant to the Supplementary Medical Professions Ordinance (Chapter 359 of the Laws of Hong Kong) as the testing services provided by the Group have to be performed by experienced laboratory scientists and the Group's business falls within the definition of a medical laboratory of such ordinance. In order to be so registered and licensed, the Group's laboratory scientists are required to fulfil certain criteria in respect of relevant qualification in medical laboratory science or biomedical science and possession of sufficient practical experience. The Directors confirm that the Group's business is in compliance with the Hong Kong laws and regulations, and the Group has obtained all relevant permit and licences for it to conduct its testing business in Hong Kong. The Directors further confirm that the Group currently has no other business operation located elsewhere other than in Hong Kong.

Although the testing services of the Group may be considered as a tool used for the diagnosis of any form of diseases, the Directors confirm that this tool does not fall within the ambit of regulation by the Department of Health or the Medical Council of Hong Kong under the Medical Registration Ordinance (Chapter 161 of the laws of Hong Kong) and Medical Clinics Ordinance (Chapter 343 of the Laws of Hong Kong) as these ordinances have been implemented for the registration of medical practitioners and non-profit making medical clinics in Hong Kong which are related to direct care of patients in premises and not related to the Group's business of laboratory testing services. The Group has received confirmation from the relevant government authority that the Medical Clinics Ordinance only applies to clinics that are non-profit making or non-profit sharing in nature. Chui & Lau, one of the Company's legal advisers as to Hong Kong laws have advised that the Group has complied with the requirements under the Supplementary Medical Professions Ordinance (Chapter 359 of the Laws of Hong Kong). As further advised by Chui & Lau, they believe that the Group's testing laboratory should not fall within the ambit of the Medical Clinics Ordinance so as to require registration of its testing laboratory as a "medical clinics" under the Medical Clinics Ordinance and that the Group's operation should not fall within the ambit of the Medical Registration Ordinance or that its personnel would have to be registered under the Medical Registration Ordinance.

As at the Latest Practicable Date, a director of Plasmagene and two technicians working at its laboratory are registered under Part I in April 1991 and Part II in July 2001 and November 2002 of the Register pursuant to the Supplementary Medical Professions Ordinance (Chapter 359 of the Laws of Hong Kong) respectively.

The PRC

Under PRC law, any entity or individual intending to conduct medical diagnosis and treatment activities has to obtain a medical treatment institution practice licence (“Practice Licence”) from the Regional Health Administrative Departments at or beyond county level (the “Regional Departments”) in order to establish a corresponding type of medical treatment institution. Otherwise, any entity or individual without such a licence is prohibited from conducting any kind of diagnosis and treatment activities within the PRC.

The PRC government exercises extensive supervision and administrative control over the medical treatment industry in the PRC and the Group’s business will fall within the definition of diagnostic and treatment activities under PRC law. The Ministry of Health (“MOH”) and the Regional Departments are each empowered under PRC law to supervise and regulate the operations and activities of medical treatment institutions at a national and regional level, respectively, under the Regulations of Medical Treatment Institution (the “Regulations”) and the Implementation Rules for the Regulations of Medical Treatment Institution (the “Rules”). Accordingly, the Group’s intended expansion into the PRC must comply with the provisions of such Regulations and Rules.

The PRC government has, at present, further opened up the medical treatment industry to foreign investors on a limited basis. Pursuant to PRC law recently implemented, foreign investors who intend to establish a medical treatment institution within the PRC have to form joint ventures with PRC counterparts. A medical treatment institution solely funded by non-PRC entities will currently not be approved. According to the regulations of joint ventures, the percentage of shareholding for Chinese party shall not be less than 30%.

The establishment of such joint ventures will require applications to the MOH and subsequently to the Ministry of Commerce (“MOC”) for each of their approval. Once the approvals are granted and the approval certificates are issued, applicants may register the joint venture entity at the administration of industry and commerce, and apply to the specific health department for the Practice Licence in accordance with the conditions and procedures specified by the Regulations and Rules. Any entity operating diagnosis and treatment programmes by entering into contracts with foreign entities without the approval from the MOH and MOC will be deemed as illegal and subject to sanctions under the Regulations and Rules. The sanctions imposed including cessation of operation, confiscating illegal earnings, medicines and medical appliances and imposing fines.

In considering the Group’s expansion plans to introduce its testing services into the PRC, the Directors intend to comply with all PRC laws and regulations. The Group has commenced the preparation work for a new submission of the *EBgene* and *EBeasy* test kits to be approved by the State Food and Drug Administration (SFDA) of PRC and the submission is expected to be made in the second quarter of 2004. The Group is not expected to operate any treatment or testing facility in the PRC and the test kit will be shipped as a finished commercial product if SFDA approval is obtained. As far as the Directors understand, the usual time for it to be processed is approximately six months to one year.

Japan

The testing services the Group intends to offer in Japan will be governed by the Law Concerning the Clinical Testing Technicians and the Hygienic Testing Technicians etc. (Law No. 76, 1958 as amended) and the related rule and ordinance. The Group's testing services must be performed by a clinical testing technician or a hygienic testing technician respectively licensed by the Minister of Health, Labour and Welfare under the instruction and the supervision of medical professionals. The clinical testing technicians and hygienic testing technicians are required to pass the national examination for such licence or have certain educational qualification in order to obtain the relevant licence. Any laboratory which the Group intends to set up in Japan must be registered with the relevant municipal government in the relevant region where such laboratory is located before it may commence testing services in Japan. In addition, the Ministry of Health, Labour and Welfare of Japan sets certain requirements for the registration of a laboratory under the Ministerial Ordinance which must be fulfilled to ensure that the relevant laboratory in fact has sufficient capacity to conduct proper testing activities. In the event of failing to meet such criteria, registration of the relevant laboratory will not be granted. Furthermore, the registered laboratory will be under the continuing supervision of the relevant municipal government in the region in which such laboratory is located once registration has been approved. The Directors would comply with the laws, regulations and rules in Japan in all material respects should the Group introduce its services to the Japanese market.

Australia

The sale and use of the testing services of the Group will most likely require some regulatory approvals in Australia, prior to their launch in that country. Certain regulatory bodies may impose standards and requirements in respect of diagnostic tests, the provision of medical and pathology laboratory services as well as requirements in respect of government reimbursement for the provision of such services to the Australian public.

Australia has in place a universal healthcare system, Medicare, under which the provision of medical services to Australian residents are subsidised and in some circumstances fully paid for by the Australian Commonwealth government. In respect of medical and pathology services the Australian Commonwealth government fully subsidises a medical or pathology test provided it qualifies as a Medicare benefit. Qualification as a Medicare benefit is usually critical to the commercial success of any diagnostic tests and services in Australia, particularly if the test is a specialist test commonly ordered by medical practitioners or medical specialists.

Under the Health Insurance Act 1973 (the "Health Insurance Act"), certain approved administrative arrangements must be in place before Medicare benefits can be paid for a pathology service and applications and undertakings must be submitted to, and accepted by, the responsible Minister in order to qualify for such arrangements. Section 16A of the Health Insurance Act states that the pathology service must be provided in an accredited pathology laboratory in order to access payment through the Medicare system. Such accreditation will be through the National Association of Testing Authorities ("NATA") on the basis of the laboratory's capacity to perform a specific range of services for example biochemical or histological testing to ensure the competency and the accuracy

INDUSTRY OVERVIEW

of the laboratory and the tests undertaken. Whilst the method or process for performing tests may be part of determining the accuracy and competency of the laboratory, the process itself need not be approved by any such body. Accordingly, the accreditation process is effectively results based in that so long as the process is accurate in producing a result it is available for use by a laboratory.

NATA accredits medical testing and imaging laboratories against the internationally recognised standard IOS/IEC 17025:1999. The laboratories are accredited by technical and scientific experts after application documentation has been lodged in accordance with NATA Accreditation Requirements (“NAR”), depending upon the category of laboratory and the accreditation being applied for. Accreditation is an ongoing requirement for all laboratories in Australia.

For the Group’s testing services to qualify as a Medicare benefit, a submission detailing various information about the diagnostic tests must be made to the Australian Health Insurance Commission (the “HIC”) which will then consider the application and determine whether the particular test will be listed as a Medicare benefit and the subsidy which the Australian Commonwealth government will pay. The Group intends to use all reasonable endeavours to comply with all regulations and accreditation criteria to qualify as a Medicare benefit in all material respects when required to do so.

Whilst the Group’s testing services are at present marketed in Hong Kong only, it is intended that the provision of such testing services be extended to other countries or regions in the future. Each of the Group’s testing services may therefore be regulated according to the country or region in which it is sold or provided and subjected to local and foreign laws and regulations which may affect its research and development capabilities including those governing environmental matters. The Group will endeavour to comply with all laws and regulations applicable to its business in all material respects and obtain all licences and permits required to operate its business in the country or region in which it proposes to enter and market its testing services.

HISTORY AND DEVELOPMENT

The Group was founded by Dr. Yeung and Ms. Margaret Tsui in January 2001 and has engaged in the medical business relating to diagnosis, and particularly relating to diagnosis of cancerous, prenatal and other major diseases.

On 11 January, 2001, 3 Ben was incorporated in the Republic of Mauritius to engage in research and development studies on cancer diagnosis and treatment using technology developed by Dr. Yeung. On the same date, one subscriber share of US\$1.00 was allotted and issued to each of Unique Prosperity Limited and Century Year Company Limited for cash at par which were both subsequently transferred to New Oxford Management Limited on 9 June, 2001 for cash at par.

On 16 January, 2001, 3 Ben entered into an agreement with ISIS whereby ISIS agreed to supply to 3 Ben the PDx Technology for the purposes of conducting a technical and commercial evaluation of the technology and granted an option to 3 Ben or its nominee the right to take a licence in respect of the PDx Technology in certain countries.

In March, 2001, the Chinese University invited the Group to obtain the licence for the right to use its research findings on the analysis of certain genetic members in blood plasma or serum for prenatal diagnosis covering X-linked diseases, foetal abnormalities and pregnancy associated conditions. The Group saw this as an opportunity to further strengthen its position in the market and responded to such invitation. Plasmagene was finally granted an exclusive licence by the Chinese University on 4 June, 2001.

On 23 March, 2001, Plasmagene, the major operating subsidiary of the Group, was incorporated in Hong Kong. On the same date, two subscriber shares were transferred to Dr. Yeung and Mr. Wong King Yeung for cash at par. On 30 August, 2001 the authorised share capital of Plasmagene was increased from HK\$10,000 to HK\$4,000,000 by the creation of an additional 3,990,000 shares of HK\$1.00 each by written resolution.

On 29 May, 2001, Plasmagene was granted a non-exclusive licence by F. Hoffmann - La Roche Limited, a drug manufacturer based in Switzerland to use the polymerase chain reaction technique to facilitate the detection of a genetic marker known as EB virus DNA in blood plasma or serum. Normally, a blood sample consists of a limited amount of DNA that can be used for diagnostic purposes. With the use of the polymerase chain reaction technique, the amount of DNA in a blood sample can be multiplied millions of times, and thereby facilitating the diagnostic study and detection of certain cancerous diseases associated with the EB virus.

On 13 July, 2001, 3 Ben allotted and issued 53 and 45 shares of US\$1.00 each to each of New Oxford Management Limited and Spring Biotech respectively. On 21 November, 2001, New Oxford Management Limited transferred 5 shares in 3 Ben (representing 5% of the issued share capital) to Century Year Company Limited.

HISTORY AND DEVELOPMENT

By August 2001, the Group's laboratory at Room 301, Institute of Biotechnology Administration and Research Building, 2 Biotechnology Avenue, 12 Miles, Tai Po Road, Shatin, New Territories, Hong Kong began operations. Research and implementation of diagnostic services developed from the PDx Technology were carried out at the laboratory. On 31 August, 2001, Plasmagene allotted and issued an aggregate of 3,999,998 shares of HK\$1.00 each to New Oxford Management Limited (a wholly owned subsidiary of Century Year Company Limited which in turn was then wholly and beneficially owned by Dr. Yeung and Ms. Margaret Tsui) as to 2,355,998 shares, Vanbarry Corporation as to 494,000, Mr. Cheung Lam Hung as to 570,000 shares, Ms. Mabel Leung as to 380,000 shares, Professor Lo as to 160,000 shares and The Chinese University of Hong Kong Foundation Limited as to 40,000 shares. Following such issues of shares in Plasmagene, it was beneficially owned as to 58.9% by New Oxford Management Limited, 14.25% by Mr. Cheung Lam Hung, 12.35% by Vanbarry Corporation, 9.50% by Ms. Mabel Leung, 4.00% by Professor Lo and 1.00% by The Chinese University of Hong Kong Foundation Limited.

In November 2001, the Group launched its first testing service known as *EBgene* in Hong Kong. Since its launch, this line of product has generated steadily increasing revenue for the Group. Therefore, the Directors expect this new line of product to be well received by the market, including public health organisations and oncologists in Hong Kong.

Under a letter of authorisation dated 1 January, 2002, Spring Biotech (China) Limited was authorised by Plasmagene as its sole agent to use the technology licensed to it by Plasmagene in the PRC. The authorisation was subsequently replaced by an agreement dated 25 February, 2002 entered into between Plasmagene as the sub-licensor and Spring Biotech (China) Limited, an indirect wholly owned subsidiary of Town Health, as the sub-licensee whereby Plasmagene granted to Spring Biotech (China) Limited an exclusive sub-licence to use the PDx Technology for production, sale and other commercial exploitation of any product and services developed from such technology for detecting cancerous diseases in the PRC. The agreement was for a term of three years expiring on 24 February, 2005. The agreement was terminated by mutual agreement on 2 March, 2004.

Later in January 2002, the Group launched its second testing service known as *EBeasy*, which like *EBgene*, is based on detection of EB virus DNA in blood plasma. This testing service is a symptomatic screening test which gives either a positive or negative result in the detection of EB virus associated cancer. It has the same sensitivity and specificity in detecting EB virus associated cancer as that of *EBgene*. The *EBeasy* test is done in a batch, meaning that there may be a few days' delay in reporting the test results. *EBeasy* is a lower priced test than *EBgene* and is prescribed as a routine test to facilitate diagnosis by physicians in their daily practice. Studies into the underlying technologies of *EBgene*, laboratory test trials, and regulatory requirements are also carried out prior to its launch.

Celltech was incorporated in Hong Kong on 25 January, 2002. On the same date, one subscriber share of HK\$1.00 par value was allotted and issued to each of Honorway Secretaries Limited and Honorway Management Limited for cash at par which were subsequently transferred to each of New Oxford Management Limited and Spring Biotech, respectively on 22 February, 2002 for cash at par. On 22 February, 2002, Celltech allotted and issued 48 and 50 shares of HK\$1.00 each to each of New Oxford Management Limited and Spring Biotech respectively for cash at par. It is currently dormant.

HISTORY AND DEVELOPMENT

On 15 March, 2002, the Group was granted an exclusive worldwide licence by the Chinese University pertaining to the prolonged efforts of Professor Lo and his collaborators in the finding of using EB virus DNA as a test for stomach cancer.

On 27 March, 2002, Mr. Chung Hil Lan Eric acquired 180,000 shares in Plasmagene from Ms. Mabel Leung and Mr. Cheung Lam Hung acquired 332,904 and 67,096 shares in Plasmagene from New Oxford Management Limited and Vanbarry Corporation respectively. Subsequent, Mr. Cheung Lam Hung disposed his entire 970,000 shares in Plasmagene to Spring Biotech on the same date.

On 23 April, 2002, the Group formed a strategic alliance with the Town Health group to jointly launch a community research programme through entering into an agreement between Spring Biotech and Plasmagene whereby Plasmagene would provide consultancy services to Spring Biotech in respect of tests for EB virus associated stomach cancers, early liver cancer and nasopharyngeal carcinoma. Later in May and June 2002, the Group and the Town Health group jointly launched two additional community research programmes offering blood tests for detection of liver cancer for hepatitis carriers. The programmes were well received with around 600 members of the public enrolling in the programme.

On 30 April, 2002, Chemosino International Limited was incorporated in the British Virgin Islands.

On 21 May, 2002, the Group was granted a licence by the Chinese University to use a special methodology known as DNA methylation analysis to facilitate the finding of the presence of DNA in blood plasma or serum for detecting foetal maternal diseases.

On 20 June, 2002, Mr. Chung Hil Lan Eric disposed his entire 180,000 shares in Plasmagene to Spring Biotech.

On 31 July, 2002, the Group was granted an exclusive licence by the Chinese University to use a special methodology to quantify a genetic marker known as beta-globin DNA in a blood sample for developing diagnostic tests for stroke. Given that stroke is a common and devastating disease especially amongst Chinese populations, this licensed methodology is expected to attract a high demand in Hong Kong and overseas. On the same date, the Group was granted an exclusive worldwide licence by the Chinese University pertaining to the use of a specific methodology to isolate certain genetic markers such as RNA and DNA in the blood plasma or serum to facilitate detection of prenatal and cancerous diseases. The Directors expect that the new methodology will assist the Group in broadening the types of testing services to be offered for instance, test for liver and prostate cancer and test for Down's syndrome.

In August 2002, the Group launched its third testing service called *EBcombo*, which combined the traditional methodology of testing EB virus associated cancer using antibodies that shows the history of infection and *EBeasy* which shows the presence or absence of cancer on a real time basis.

On 6 August, 2002, 1 share of US\$1.00 each was allotted and issued to Dr. Yeung for cash at par which was subsequently transferred by Dr. Yeung to the Company for cash at par on 14 August, 2002.

HISTORY AND DEVELOPMENT

On 15 August, 2002, the Group was granted a licence by the Chinese University (please refer to the description of the licence numbered 7 in the table under the subsection headed “Intellectual property” in this section for further details of this licence) to use the latter’s research findings for analysing a genetic marker known as beta-globin DNA to diagnose the cause of a medical condition known as pleural effusion, which refers to a large amount of fluid present at the lung surface that may cause shortage of breath and lung failure. It is known that this condition may be caused by cancer, infection and heart failure.

On 6 September, 2002, the authorised share capital of Plasmagene was increased from HK\$4,000,000 to HK\$15,000,000 by the creation of an additional 11,000,000 shares of HK\$1.00 each. On the same date, 8,000,000 shares of HK\$1.00 each in Plasmagene was allotted and issued as to 4,046,192 shares to New Oxford Management Limited, as to 2,300,000 shares to Spring Biotech, as to 853,808 shares to Vanbarry Corporation, as to 400,000 shares to Ms. Mabel Leung, as to 320,000 shares to Professor Lo and as to 80,000 shares to The Chinese University of Hong Kong Foundation Limited on capitalisation of Shareholders’ loan in an aggregate amount of HK\$8,000,000 owned by Plasmagene to each of shareholders. Following the issue of shares in Plasmagene, it was beneficially owned as to 50.58% by New Oxford Management Limited, 28.75% by Spring Biotech, 10.67% by Vanbarry Corporation, 5% by Ms. Mabel Leung, 4% by Professor Lo and 1% by The Chinese University of Hong Kong Foundation Limited.

On 7 September, 2002, a written resolution was passed by all shareholders of Celltech approving the subdivision of the nominal value of the entire share capital of Celltech from HK\$1.00 each to HK\$0.01 each. On 7 September, 2002, a written resolution was passed by all shareholders of 3 Ben, approving the subdivision of the nominal value of the entire share capital of 3 Ben from US\$1.00 each to US\$0.01 each.

In September 2002 and June 2003, the Group underwent a corporate reorganisation involving the setting up of a new holding company of the Group for the purposes of its Listing and to facilitate future fund raising activities. As a result of the Reorganisation, the Group’s existing organisational structure was established, the Company became the holding company of the Group, and Ms. Margaret Tsui, Dr. Yeung, and other Initial Management Shareholders together with Professor Lo and The Chinese University of Hong Kong Foundation Limited became Shareholders.

On 25 November, 2002, Plasmagene was granted a licence by the Chinese University to use the gastric disease detection system for detecting a genetic marker known as EB virus DNA in stomach cancer. A new product to be developed from this licensed methodology known as EB gastric for detecting stomach cancer is expected to be launched in the third quarter of 2004 in Japan where there has been a high number of such diseases. Pre-launch commercialisation work had not commenced.

In November and December 2002, the Group and Spring Biotech jointly conducted a community research programme for screening test for cancer. The programme was successful with a high participation by volunteers who took blood samples for trial tests for the screening test for cancer to be carried out in January 2003. These trial tests were carried out by the Group’s laboratory personnel.

HISTORY AND DEVELOPMENT

The trial test results from the programme served as primary data for further research activities. As Spring Biotech is an Initial Management Shareholder, the community research programme jointly conducted with Spring Biotech will constitute a connected transaction for the Company under the GEM Listing Rules after the Listing.

In December 2002, the Company issued to the Noteholders Convertible Notes of an aggregate principal amount of HK\$21.5 million. These Noteholders include The Applied Research Council, MCVIL, JAIC, JAIC Technology, and a group of five individual investors.

In February 2003, the laboratory of the Group was relocated from Shatin, the New Territories to Central, Hong Kong.

In March 2003, the Group was granted an exclusive license by the Chinese University in relation to the PDx Technology which specifies which RNA (hCG (human chorionic gonadotropin) and HPL (human placental lactogen)) are used to identify foetal diseases including pre-eclampsia, trisomy 18 and Down's syndrome. The Group's foetal maternal tests would be based on this license. The test for Down's syndrome is expected to be launched in the third quarter of 2004 in Hong Kong and the PRC.

On 6 June, 2003, the Group entered into a research collaboration agreement with the Chinese University for the conduction of a research regarding the treatment and diagnosis of SARS.

On 15 October, 2003, the Group was granted by the Chinese University a non-exclusive licence regarding the use of technology for early diagnosis of SARS.

In early November, 2003, the Group has successfully completed the development of a kit form of the test *EBgene* in the Group' laboratory. The kit form comprised of a detail user manual and all the necessary reagents for a simple and off the shelf testing of EB virus DNA by customers.

On 28 November, 2003, the Group has filed for pre-marketing approval registration of the test kit of *EBgene* to the Food and Drug Administration of the US followed two weeks later by a similar application to the State Food and Drug Administration of the PRC. This would pave the way for overseas sales of this product if these applications were to be successful.

In January 2004, the Group has prepared and sent application for a humanitarian utilization device classification from the Food and Drug Administration on *EBgene* for the diagnosis of nasopharyngeal cancer.

On 2 March, 2004, the Group and Spring Biotech (China) Limited mutually agreed to terminate the licencing agreement dated 25 February, 2002 due to a change in the marketing strategy of the Group in respect of the PRC market from a focus of operating testing services in the PRC to a focus on the sale of test kits.

NATURE OF BUSINESS

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

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

The Directors consider that the testing services currently offered by the Group for detecting cancerous diseases at an early stage to be an important contribution to the treatment of cancer in medical science since early detection allows for more aggressive treatment and enhances the likelihood of successful treatment of these diseases. Currently, the Group conducts research activities into developing a number of future testing services which are based on the PDx Technology. Examples of these include detection tests for screening early liver cancer, which are at the final development stage of research to affirm its usefulness for commercial exploitation; diagnosis of Down's syndrome and other foetal diseases that will be used as alternative non-invasive tests to those currently available in the market; and tests for assessing medical conditions of patients suffering from organ transplant failure, stroke, trauma and pleural effusion. (Please refer to the sub-section headed "Future testing services" in the section headed "Statement of business objectives and strategies" for further details.)

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

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

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

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

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

BUSINESS DEVELOPMENT AND SCIENTIFIC DEVELOPMENT OF THE PDx TECHNOLOGY

For many years the detection of prenatal diseases has been carried out through techniques that are often invasive and in the case of detection of Down's syndrome, commonly used techniques available on the market present a risk of miscarriage. According to an article issued by Stanford University School of Medicine, the level of risk of miscarriage is approximately 0.5% for all women undergoing amniocentesis.

During the period from 1988 to 1997 which was the period of Professor Lo's employment with Oxford University, the United Kingdom, Professor Lo and his collaborators conducted research which ultimately led to their subsequent discovery of a non-invasive technique to detect prenatal diseases using maternal blood plasma or serum and it was ISIS, a company wholly owned by Oxford University, which filed and owned the related patent. This formed one of the earliest patents of the PDx Technology which was later licensed to the Group by ISIS for further research and commercial exploitations. Later in 1997, Professor Lo left Oxford University and worked for the Chinese University where he and his collaborators developed other components of the PDx Technology that can be commercially applied as a test for detecting cancer and monitoring medical conditional of patients suffering from other major diseases like stroke and trauma. The Chinese University filed and owns the patents in respect of these subsequent discoveries, which were then licensed to the Group. Since then, Professor Lo's research activities relating to the PDx Technology covered both the foetal maternal field, focusing on devising non-invasive methods for detecting Down's syndrome and other foetal abnormalities and the oncology field specialising in the early detection of EB virus associated cancers and liver cancer. In line with the Group's objective of becoming one of the medical diagnostic services providers in respect of major diseases using non-invasive techniques, the Group successfully commercialised a number of cancer testing services developed from the PDx Technology transferred or licensed to it by ISIS and the Chinese University. Concurrently, the PDx Technology has been used to develop other diagnostic tests for monitoring medical conditions of patients such as tests for organ transplant failure, stroke, trauma and pleural effusion.

Plasmagene is one of the companies in the world to offer the use of blood tests in the diagnosis of cancerous diseases using the PDx Technology.

The Group advanced its research capabilities in cancer diagnosis through its cooperation with the Chinese University in conducting research into developing detection tests for cancer using the PDx Technology transferred or licensed to the Group by ISIS and the Chinese University. (Please refer to the subsection headed "Active business pursuits" for further details of the Group's cooperation with the Chinese University and its business development from 1 January, 2001 to the Latest Practicable Date.)

The EB virus associated cancer tests based on the PDx Technology are applicable to nasopharyngeal carcinoma and possibly to a wide variety of other common cancers. The nasopharyngeal carcinoma test is useful as a diagnostic, prognostic and monitoring tool, and is recommended by doctors to both patients at risk as well as actual patients under treatment. The foetal maternal products may be used for the non-invasive diagnosis of a variety of foetal and maternal diseases that are common to most pregnancies. According to the statistics from the Hong Kong Cancer Registry of the Hospital Authority of Hong Kong, the number of new cancer cases in Hong Kong were

on an upward trend from 1995 to 2000 and reached a total of 21,349 cases in 2000. According to data published by the United Nations Development Programme, the total fertility rates (per woman) for 2000 to 2005 is projected to be 2.7 children for the world, 1 child for Hong Kong and 1.8 children for the PRC. Accordingly, the Directors consider that the potential market for the Group's products is enormous.

ACTIVE BUSINESS PURSUITS

The following paragraphs describe the active business pursuits undertaken by the Group from 1 January, 2001 to the Latest Practicable Date.

Period from 1 January, 2001 to 30 June, 2001

Strategic and research development

On 11 January, 2001, 3 Ben was incorporated in the Republic of Mauritius to engage in research and development studies on cancer diagnosis and treatment using technology contributed by Dr. Yeung. On 16 January, 2001, 3 Ben entered into an agreement with ISIS whereby ISIS agreed to supply to 3 Ben the PDx Technology for the purposes of conducting a technical and commercial evaluation of the technology and granted an option to 3 Ben or its nominee the right to take a licence in respect of the PDx Technology in certain countries.

From January to June 2001 the Group, led by Dr. Yeung, studied into the technical aspects and potential commercial use of the PDx Technology. The evaluation process involved research into the regulatory requirements, potential market size and analysing publications and other related academic materials to determine if the technology is suitable for commercialisation and application to human diseases. In particular, related scientific data extracted from publications were compiled and reviewed by Dr. Yeung, and which later formed the subject of discussions between Dr. Yeung and Professor Lo. Preliminary trial demonstrations of applying the PDx Technology for practical use were conducted at the laboratory of the Chinese University under the supervision of Professor Lo and was demonstrated to Dr. Yeung. Questions from Dr. Yeung relating to the assessment of the technology were answered satisfactorily by Professor Lo. In assessing the market potential of testing services to be developed from the PDx Technology, Dr. Yeung and another Director, Mr. Cheng Yan Tak, Ronald Angus compiled and analysed relevant data regarding countries which have high occurrence of cancer and foetal diseases, the size of population who may have these diseases and the estimated penetration rate of testing services. Dr. Yeung also consulted Ms. Vicky Chu ("Ms. Chu") on the regulatory requirements to establish a laboratory for conducting diagnostic testing services in Hong Kong. Ms. Chu is a licensed medical laboratory technician in Hong Kong and a director of Plasmagene. The results of the evaluation were satisfactory and showed that the PDx Technology could be applied to detect a variety of foetal diseases such as Down's syndrome and foetal distress and possibly, cancerous diseases.

Dr. Yeung used some of the data generated during his pursuit of the EB virus detection system to support the submission of a broad claim by Professor Lo of the patent for the EB virus test for stomach cancer and other non-head and non-neck cancers besides nasopharyngeal cancer in major countries and regions including the United States, Europe, Japan and China. The Group does not,

however, own the patent rights. The Group has paid an application fee to complete the application process in such a patent in the United States recently. All necessary documents have been filed in respect of such application. The grant of the patent is pending. Pursuant to an exclusive licence agreement (as described in the licence numbered 8 in the table under sub-section headed “intellectual property” in this section), the Group agreed to reimburse the Chinese University for expenses incurred for such patent application.

After completion of the evaluation process, the Group and the Chinese University entered into further negotiations concerning the proposed licensing and transfer of the PDx Technology, the related licensing agreement and future cooperation. A firm of solicitors in England and Hong Kong was also retained by the Group from February 2001 to June 2001 to advise on the proposed licensing arrangements, and legal fees of some HK\$544,419 were incurred during this period. On 22 June, 2001, Plasmagene (which was incorporated in 23 March, 2001) was granted an exclusive licence by ISIS to use the PDx Technology in the area of invasive pre-natal diagnosis for its research work. This licence covers Australia, Japan, Hong Kong and China and no limitation on the commercialisation of such the PDx Technology.

In March, 2001, the Chinese University invited Plasmagene to submit a letter of intention to bid for the license of the right to use its research findings on the analysis of certain genetic members in blood plasma or serum for prenatal diagnosis covering X-linked diseases, foetal abnormalities and pregnancy associated conditions. The Group saw this as an opportunity to further strengthen its position in the market and pursue to respond to such invitation. Discussions with the Chinese University on the terms of the licence followed and legal documents were prepared. Finally, on 4 June, 2001, Plasmagene was granted an exclusive licence by the Chinese University. (Please refer to the description of the licence numbered 2 in the table under the sub-section headed “Intellectual property” in this section for further details of this licence.)

Throughout this period, potential members of staff in administration and marketing departments of the Group were recruited and they started to prepare drafts of the complete business plans, financial structure and forecast, selection of the Group’s site and the ordering of equipment for a complete genetic laboratory. This work was in addition to the secretarial and accounting work required for the documentation and signing of licenses that formed the backbone of the PDx Technology platform during this time period. Most of the work was undertaken by staff members who were engaged on a contractual basis and not on the Group’s payroll, although most of them were hired back formally after the Group’s premises was properly set up in August of 2001.

On 29 May, 2001, Plasmagene was granted a non-exclusive licence by F. Hoffmann - La Roche Limited, a drug manufacturer based in Switzerland to practise the polymerase chain reaction technique to facilitate the detection of a genetic marker known as EB virus DNA in blood plasma or serum. Normally, a blood sample consists of a limited amount of DNA that can be used for diagnostic purposes. With the use of the polymerase chain reaction technique, the amount of DNA in a blood sample can be multiplied millions of times, and thereby facilitating the diagnostic study and detection of certain cancerous diseases associated with EB virus.

Pursuant to the Consultancy Agreement, Professor Lo acts as the Chinese University's designated consultant to Plasmagene and advised on the establishment of a laboratory to conduct prenatal and cancer diagnostic services developed from the PDx Technology. The Chinese University would also assist the training of appropriate laboratory personnel and advise on the maintenance of systems at the laboratory. From June 2001 to July 2001, the Group selected and refurbished the site location, purchased laboratory equipments and hired research staff for the Group's laboratory to conduct diagnostic testing services. An independent contractor was engaged to carry out the refurbishment works. No written agreement was entered into by the Group with respect to the refurbishment of the Group's laboratory.

Staff

As at 30 June, 2001, the Group had two full-time employees, namely, Dr. Yeung and Ms. Margaret Tsui. Dr. Yeung and Ms. Margaret Tsui were responsible for the day-to-day operations of the Group, and Dr. Yeung was also responsible for research and development.

Funding arrangements

The operation of the Group during this period was funded by internal resources and loans from Ms. Margaret Tsui.

Period from 1 July, 2001 to 30 June, 2002

Strategic development

By August 2001, the set up of the Group's laboratory at Room 301, Institute of Biotechnology Administration and Research Building, 2 Biotechnology Avenue, 12 Miles, Tai Po Road, Shatin, New Territories, Hong Kong was completed. Research and implementation of diagnostic services developed from the PDx Technology were carried out at the laboratory.

Under a letter of authorisation dated 1 January, 2002, Plasmagene authorised Spring Biotech (China) Limited as its sole agent to use the technology licensed to it by Plasmagene in the PRC. The authorisation was subsequently replaced by an agreement dated 25 February, 2002 entered into between Plasmagene as the sub-licensor and Spring Biotech (China) Limited, an indirect wholly owned subsidiary of Town Health, as the sub-licensee whereby Plasmagene granted to Spring Biotech (China) Limited an exclusive sub-licence to use the PDx Technology for production, sale and other commercial exploitation of any product and services developed from such technology for detecting cancerous diseases in the PRC. The agreement was for a term of three years expiring on 24 February, 2005. (Please refer to the sub-section headed "Connected transactions" in this section for further details.)

Celltech was incorporated in Hong Kong on 25 January, 2002. It is currently dormant and is expected to undertake research and development work on stem cell technology for treating cancer patients who receive chemotherapy treatment, and replacing damaged organs and tissues in various major diseases.

On 15 March, 2002, the Group was granted an exclusive worldwide licence by the Chinese University pertaining to the prolonged efforts of Professor Lo and his collaborators in the finding of using EB virus DNA as a test for stomach cancer.

On 23 April, 2002, the Group formed a strategic alliance with the Town Health group to jointly launch a community research programme through entering into an agreement between Spring Biotech and Plasmagene whereby Plasmagene would provide consultancy services to Spring Biotech in respect of tests for EB virus associated stomach cancers, early liver cancer and nasopharyngeal carcinoma. The programme consists of seminars and new cancer screening tests based on the PDx Technology for the detection of EB virus associated stomach cancer and early liver cancer. These new genetically based tests, which were marketed as *EBeasy* and *EBgene* were offered free of charge to the public during the launch of the programme. The test results would on one hand be followed up by the patients' doctors at the medical centres of Town Health and on the other hand, serve as primary data for use by the Group in its research into early detection methodologies for stomach cancer. Later in May and June 2002, the Group and the Town Health group jointly launched two additional community research programmes offering blood tests for detection of liver cancer for hepatitis carriers. The programmes were well received with around 600 patients who enrolled in the programme.

On 21 May, 2002, the Group was granted a licence by the Chinese University to use a special methodology known as DNA methylation analysis to facilitate the finding of the presence of DNA in blood plasma or serum for detecting foetal maternal diseases. (Please refer to the description of the licence numbered 4 in the table under the subsection headed "Intellectual property" in this section for further details of this licence.)

Research development and technology advancement

By March 2002, Professor Lo and his collaborators at the Chinese University discovered, that the detection of a genetic marker known as beta-globin DNA in blood plasma can be used to assess the medical condition and chances of recovery for stroke patients. The Group has verified successfully this beta-globin test in its laboratory during this period.

The usefulness of the Group's test for the diagnosis of X-linked diseases was confirmed by a medical publication issued in May 2002 in the *New England Journal of Medicine* authored by research scientists in France.

Product commercialisation

The Group concentrated on the recruitment of scientific staff and the organisation and fine-tuning of the laboratory equipment. Two members of the scientific team of the Group were sent to be trained in Professor Lo's department in the latter part of July 2001. The Group's staff received (i) training for running of PCR, real time PCR reactions and the foetal RNA detection system; (ii) education in the understanding of the EB virus DNA detection system; (iii) training in analytical performance and quality control; (iv) clinical sample testing and the theory behind how a test can be applied clinically; and (v) different methodologies that are advanced techniques in this field.

Equipment arrival, installation, custom fitting and actual construction of the genetic laboratory continued throughout the beginning of this period until the opening of the laboratory on 19 August, 2001.

From August to November 2001, the Group carried out trial laboratory tests on *EBgene* developed from the PDx Technology followed by field tests and community research programme. This new testing service gives a precise and real time monitoring of nasopharyngeal cancer patients, and is therefore expected to be used extensively in the diagnosis, prognostication and follow up of such patients. This testing service had undergone clinical testing at the teaching hospital of the Chinese University for over three years prior to its launch. The test results showed the usefulness of *EBgene* for the diagnosis of nasopharyngeal cancer, with no side effects as the testing service only involves a blood test. The Group considers this was an important milestone which laid the foundation for the Group in commercialising EB virus associated cancer testing services.

The Group has put considerable effort before the launching of the *EBgene* into the market. There were major steps to be performed and completed to convert the test from a research tool into a commercial product. Besides the intensive training done by Professor Lo's department, the first step was to change the formulation of the test so that it could be used by the new ABI 7900 series of sequence detection system instead of the older ABI 7700 system. The ABI 7700 (now discontinued) and the newer ABI 7900 are sequence detection systems that can detect genetic sequences by polymerase chain reaction (both models are PCR machines with proprietary hardware and software modifications). They are the machines in which the PDx Technology is based and which the Group would use to perform its tests. The commercial use of these machines would be governed by the licence numbered 1 in the table under the sub-section headed "Intellectual property" in this section. The change in formulation for the new machine, including (a) reduction or adjustment of the different reagents used; (b) optimisation of the standards; (c) changing of source suppliers and (d) adaptation of the new formulation to the new machine, is an important commercialisation step, as it resulted in: (i) quicker turn around time and saving of labour costs because the time for a run of the machine in the new system is much shorter than the old one by more than an hour; (ii) more samples on each run (an increase from 96 to 384 wells plate on each block) can be achieved, making it suitable for bulk analysis in the future and (iii) less down time because of the more stable software that comes with the new machine. New formulation changes represented changes from ABI 7700 system to ABI 7900 system, these include the analytical performance in different conditions to test the machine and reagents. The old ABI 7700 system used a smaller number of wells in each plate and an older laser excitation technique. After numerous trials and efforts, the Group has accomplished the development of an equivalent formulation to fit a faster and commercially friendlier machine. In addition, the Group's internal control showed that the new formulation has an improved sensitivity.

In addition to the above, it was the Group's realisation that the cost of performing the test was too expensive if it were performed in the manner indicated in the original publications. Cost reduction was an important agenda. By working closely and with parallel testing samples performed at Professor Lo's department but with the reduction of certain expensive reagents, some minor changes of formulation and the use of a higher plate block in the ABI 7900 system, the Group worked to reduce the actual cost of the *EBgene* and *EBeasy* tests to a level that would be affordable to most nasopharyngeal cancer patients but that the quality of the test was not compromised at the end.

As a summary, the Group has finally accomplished the goal of cost reduction by (i) quicker turn around time and less labour cost incurred because the ABI 7900 system is a much faster machine; (ii) more samples per run (384 as opposed to 96 in the previous machine); (iii) cost cutting on reagents because of the reduction of materials used in new formula, by using a new supplier and by bulk purchase; and (iv) reducing machine downtime with a more stable software and hardware in the ABI 7900 system. All of the above work relating to the commercialisation and enhancement of the EB virus test were performed by the Group's scientific team comprising Dr. Yeung and three full-time staff.

In commercialising *EBgene*, the Group undertook studies into related technologies involving research and analysing the academic materials to determine that the technologies are suitable for commercialisation. In particular, the Group reviewed related literature to compare the sensitivity and specificity of *EBgene* with other tests available in the market. Such review indicated that *EBgene* achieved a sensitivity of over 96% and specificity of around 93% as compared to about 80% for the existing antibody test for nasopharyngeal cancer. An informal survey was also undertaken to assess these findings by applying *EBgene* on a trial basis to patients with nasopharyngeal cancer known to Dr. Yeung. The survey conducted by Dr. Yeung was done by requesting the permission of certain of his former nasopharyngeal carcinoma patients to have free blood tests performed by Professor Lo's team in the Department of Chemical Pathology of the Chinese University. The test results were compared to the clinical conditions of the patients at the time. The results of the survey were satisfactory and consistent with the Group's earlier research work described above.

The cancer testing service was named as *EBgene* since it detects a genetic marker known as EB virus DNA in the blood plasma of nasopharyngeal cancer patients. *EBgene* was launched to the market in November 2001.

Product development

Even at this early stage of the *EBgene* product development, the Group tried to increase the sensitivity of the test so that nasopharyngeal cancer patients at an early stage or those patients that are prone to relapse may benefit. This notion eventually led to the development of *EBsens* and *EBonco* in the latter part of 2003. These tests are based on the same the PDx Technology and that they all fall within one focused line of business of the Group.

Dr. Yeung had also consulted Professor Lo in designing how the results of *EBgene* should be presented to users that are mainly doctors and laboratories. A special reporting format for recording the test results was designed for this purpose. This step is important as the cancer test should give the necessary and relevant information for doctors to explain the test results to their patients. Operating procedures for laboratory technicians were also set up during this period. Regulatory requirements were reviewed to ensure that the testing service can be used commercially and are marketable.

In November 2001, the Group launched its first testing service known as *EBgene* in Hong Kong. Since its launch, this line of product has generated steadily increasing revenue for the Group.

Later in January 2002, the Group launched its second testing service known as *EBeasy*, which like *EBgene*, is based on detection of EB virus DNA in blood plasma. This testing service is a symptomatic screening test which gives either a positive or negative result in the detection of EB virus associated cancer. It has the same sensitivity and specificity in detecting EB virus associated cancer as that of *EBgene*. The *EBeasy* test is done in a batch, meaning that there may be a few days' delay in reporting the test results. *EBeasy* is a lower priced test than *EBgene* and is prescribed as a routine test to facilitate diagnosis by physicians in their daily practice. Studies into the underlying technologies of *EBgene*, laboratory test trials, and regulatory requirements are also carried out prior to its launch.

The launch of *EBgene* and *EBeasy* demonstrated the value added to the original research grade test performed at research laboratories. The original EB virus test performed at Professor Lo's laboratory was transferred to the Group. The original version was then changed by the Group substantially in the formulations and methodology to yield two different versions of the test, *EBgene* and *EBeasy*. These two versions were catered to different needs. With the Group's effort, the costs for performing the two tests were also reduced to a substantially lower level than the original EB virus test. Later, the two tests were also developed into test kits that can be sold to other laboratories.

The Group has performed product enhancement and development work after the first product launch. The concept of a more sensitive and more cancer specific for chronic active EB virus carriers test with the EB virus DNA real time PCR detection was conceived. The Group started to see that there is a continual need to develop test that can detect the cancer causing tendency of normal individuals carrying the virus. Since over 95% of the population carries such a virus in their memory B lymphocytes, the Group believed that tests of this kind could be a great scientific and commercial success. This led to latter on research on the development of future products such as *EBsens* and *EBonco*.

The first reporting form of *EBgene* was designed by Dr. Yeung with the advice from Professor Lo so that the scientific interpretation of the results could be conveyed to physicians that are not familiar with the most up to date literature on this topic. This reporting form had gone through multiple changes to accommodate new and important information and publications related to this area. The significance of a good reporting form with its recommendations helps the doctor ordering the test in making the diagnosis and the decision for further follow up procedures of the patient. Not only may the Group's business benefit by the need of further follow up with re-testing in some cases, the satisfaction resulting from a good medical practice may encourage doctors to use the Group's products subsequently.

The pre-launching laboratory and clinical preparation of the second product, namely *EBeasy*, a modified and simpler version of *EBgene* which is marketed as a non-expensive screening tool. The official launching of *EBgene* was in late January to February of 2002. Collection of feedback from doctors and clinical test results of the *EBgene* and *EBeasy* tests were used to substantiate further product development and enhancement. Decision was made to add a frequently used old EB virus antibody test with *EBeasy* and to promote this combination as *EBcombo*. The project was co-developed with another laboratory that would provide the EB virus antibody test for the Group.

Sales and marketing

Prior to the introduction of *EBgene* to the market, the Group promoted this new testing service through various marketing channels, including press advertisements, organizing seminars for the public and telephone contacts with local laboratories and doctors. Letters, journal abstracts, updated materials and postcards on the Group's testing services were also mailed to local laboratories and physicians at regular intervals. These promotional materials contain information on what the testing service entails, and procedures for delivering blood test results to the Group's laboratory.

Educational seminars to patients and the general public were also conducted during the period of July 2001 to December 2001. Volunteers were recruited for providing clinical samples that the Group performed for free so that some of the quality control, analytical and adaptation steps as described could be realised. Doctors in Hong Kong were also informed about the *EBgene* and *EBeasy* tests through postcards, flyers and other marketing or educational materials.

In November 2001, the Group recruited two full-time marketing personnel to conduct market surveys by contacting the hospitals and doctors from time to time to understand the needs of patients with cancerous or prenatal diseases. The Group's sales campaigns were successful as evidenced by the steady increase of the Group's sales of testing services during the Track Record Period.

The Group's sales and marketing strategies during this period had focused on offering test as a laboratory service only in Hong Kong, such as local medical doctor communities, hospital laboratories, private laboratories, individual citizens that are prone to EB virus associated cancer and cancer patients such as nasopharyngeal carcinoma, stomach cancer and lymphomas.

With the aims of achieving the said sales and marketing strategies, the Group has (i) made doctors' announcement following first launch of *EBgene* and placed advertising in newspapers, (ii) conducted direct marketing to private laboratories so that they can in turn market the service to doctors that have been using them in the past; (iii) conducted direct marketing to individual doctors and specialists, such as ear, nose and throat (ENT) doctors; (iv) sent mailings to the medical communities with letters, flyers and postcards describing the *EBgene* and *EBeasy* tests in March and June 2002 and to patients; and (v) held several public education seminars during December 2001 to May 2002.

Customers

The Group's major customers are laboratories and hospitals in Hong Kong. Other customers also include doctors, clinics of local universities and clinical research programmes conducted between the Group and other healthcare organisations. During the year ended 30 June, 2002, the Group's turnover amounted to HK\$525,545 which comprised of *EBgene* of HK\$248,575, *EBeasy* of HK\$223,770 and other future tests under research and development of HK\$53,200. The Group's sales to its largest customer and five largest customers were HK\$162,660 and HK\$358,660, respectively, representing approximately 31.0% and 68.2% of the Group's sales for the year ended 30 June, 2002. Sales to Spring Biotech amounted to HK\$162,660 during the year ended 30 June, 2002, representing approximately 31.0% of the Group's sales for the corresponding period.

BUSINESS

Under the community research programme, sales to Spring Biotech are mainly *EBeasy* and some of the future tests (as described under the section headed “Future testing services” in the section headed “Statement of business objectives and strategies”) which are still under research and development.

Save for the sales to Spring Biotech, none of the Directors, their associates or any of the shareholders of the Company who owns more than 5% of the issued share capital of the Company had any interest in any of the five largest customers of the Group.

Set backs

Two of the scientific staff of the Group were replaced as they did not meet the level of expectation of the Group in the commercialisation and product development work.

It was more difficult than expected to set up sales and marketing channel to doctors working in the public sector since their patients were used to free blood tests.

Staff

All of the employees of the Group were stationed in Hong Kong. As of 30 June, 2002, the Group had 7 full-time employees who were engaged in the following functions:

Management	1
Sales and marketing	2
Research and development (including implementation of laboratory tests for the provision of the Group’s testing services)	3
Administration and finance	<u>1</u>
Total	<u><u>7</u></u>

Funding arrangements

The Group’s operation during this period was funded by internal resources and loans from certain Shareholders and New Oxford Management Limited, a connected person of the Company. These loans were unsecured, interest free and with no fixed repayment terms. (Please refer to notes 18 and 20 to the accountants’ report in Appendix I to this prospectus for further details of the Shareholders’ loans and loans from New Oxford Management Limited.)

In April 2002, the Group sponsored the Chinese University in relation to a research project focusing on non-invasive detection of Down’s syndrome, which is one of the future testing services of the Group. The results of the research project helped expand the usefulness of the PDx Technology already licensed to the Group. Particularly, the Group’s research team, would use such results together with its own research efforts, for developing and commercialising testing service for detecting Down’s syndrome. (*Note:* The results of the research project and methods for detecting Down’s syndrome were licensed by the Chinese University to Plasmagene in March 2003.) Professor Lo acted as the

coordinator of the research project. The Group contributed to this project a total sum of HK\$375,000 in 2002 and 2003 and will contribute a further sum of HK\$125,000 in 2004, representing approximately 10% of the total monetary contribution received by the Chinese University for the project. Please refer to the subsection titled “Future testing services” in the section headed “Statement of business objectives and strategies” for further details of the Group’s test for Down’s syndrome.

Period from 1 July, 2002 to 30 June, 2003

Strategic development

The technology of using beta-globin DNA in blood plasma for the assessment of stroke was later licensed by the Chinese University to the Group and formed the basis for the Group’s stroke test.

During the period from July 2002 to June 2003, the Group started negotiations with major laboratories in Japan and in Australia with a view to introducing the Group’s existing cancerous testing services and foetal sex and X-linked diseases testing services in these countries. As at the Latest Practicable Date, these negotiations were at a preliminary stage. Due to the lack of funding and the outbreak of SARS, negotiations in those countries were halted temporarily. However, all the leads have been identified and expansion efforts can resume any time after new funding injection. (Details of the regulatory requirements in respect of these jurisdictions are set out in the sub-section headed “Regulations requirements” in the section headed “Industry overview” of this prospectus.)

On 31 July, 2002, the Group was granted an exclusive licence by the Chinese University (please refer to the description of the licence numbered 5 in the table under the subsection headed “Intellectual property” in this section for further details of this licence) to use a special methodology to quantify a genetic marker known as beta-globin DNA in a blood sample for developing diagnostic tests for stroke. (Please refer to the subsection headed “Future testing services” in the section headed “Statement of business objectives and strategies” for further details of this future testing service.) Given that stroke is a common and devastating disease especially amongst Chinese populations, this licensed methodology is expected to attract high demand in Hong Kong and overseas. On the same date, the Group was granted an exclusive worldwide licence by the Chinese University (Please refer to the description of the licence numbered 6 in the table under the subsection headed “Intellectual property” in this section for further details of this licence) pertaining to the use of a specific methodology to isolate certain genetic markers such as RNA and DNA in the blood plasma or serum to facilitate detection of prenatal and cancerous diseases. The Directors expect that the new methodology will assist the Group in broadening the types of testing services to be offered for instance, test for liver and prostate cancer and test for Down’s syndrome.

On 15 August, 2002, the Group was granted a licence by the Chinese University (please refer to the description of the licence numbered 7 in the table under the subsection headed “Intellectual property” in this section for further details of this licence) to use the latter’s research findings for analysing a genetic marker known as beta-globin DNA to diagnose the cause of a medical condition known as pleural effusion, which refers to a large amount of fluid present on the lung surface that may cause shortage of breath and lung failure. It is known that this condition may be caused by cancer, infection and/or heart failure.

In September 2002 and June 2003, the Group underwent a corporate reorganisation involving the setting up of a new holding company of the Group for the purposes of its listing on GEM and to facilitate future fund raising activities. As a result of the Reorganisation, the Group's existing organisational structure was established, the Company became the holding company of the Group, and Ms. Margaret Tsui, Dr. Yeung, and other Initial Management Shareholders together with Mr. Wong Kim Wing, Professor Lo and The Chinese University of Hong Kong Foundation Limited became Shareholders.

On 25 November, 2002, Plasmagene was granted a licence by the Chinese University (please refer to the description of the licence numbered 8 in the table under the subsection headed "Intellectual property" in this section for further details of this licence) to use the gastric disease detection system for detecting a genetic marker known as EB virus DNA in stomach cancer. A new product to be developed from this licensed methodology known as *EB gastric* for detecting stomach cancer is expected to be launched in the third quarter of 2004 in Japan where there has been a high number of such diseases. Pre-launch commercialisation work had not commenced as at the Latest Practicable Date, but the Group aims to contract with a Japanese agent before the end of June 2004. (Please refer to the subsection headed "Future testing services" in the section headed "Statement of business objectives and strategies" for further details of this future testing service.)

In December 2002, the Company issued to the Noteholders Convertible Notes of an aggregate principal amount of HK\$21.5 million. Such 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, which amounted to HK\$21.1 million, 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 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 Initial IPO Conversion will take place prior to the Listing Date, unless the Noteholders have given notice requiring early redemption, and result in a total of 25,800,000 Shares being issued to the Noteholders. (Please refer to the subsection headed "Convertible Notes" in the section headed "Share capital" for further details of the terms of the Convertible Notes.)

On 6 June, 2003, the Group entered into a research collaboration agreement with the Chinese University to conduct research regarding the treatment and diagnosis of SARS. Pursuant to the research collaboration agreement, each party thereto has to keep all the research materials confidential. Inventions made pursuant to such agreement may be owned by the Chinese University alone (if solely developed by the University) or the Company alone (if solely developed by the Company) or jointly owned with the percentage of each party to be mutually agreed in good faith with a subsequent agreement later. It is contemplated under such agreement that the research work would be completed within 18 months and it may be terminated unconditionally by either party upon 30 days' notice to the other party. On 15 October, 2003, the Group was granted by the Chinese University a

non-exclusive licence regarding the use of technology for early diagnosis of SARS which was developed by the Chinese University on its own. (Please refer to the description of the licence numbered 10 in the table under the subsection headed “Intellectual property” in this section for further details of this licence.) The Group also filed its own patent application in relation to a sensitive methodology for the detection of SARS. With a decline in the occurrence of SARS, the research collaboration on SARS is currently inactive.

Products and services development

In August 2002, the Group launched its third testing service called *EBcombo*, which combined the traditional methodology of testing EB virus associated cancer using antibodies that shows the history of infection and *EBeasy* which shows the presence or absence of cancer on a real time basis. Before this testing service was introduced to the market, the Group studied related publication and other academic materials to compare *EBcombo* and other tests available in the market in terms of its sensitivity and specificity in detecting cancer. An informal survey was also undertaken to assess these findings by applying *EBcombo* on a trial basis to patients suffering from nasopharyngeal cancer known to Dr. Yeung. The survey conducted by Dr. Yeung was done by requesting the permission of certain of his former nasopharyngeal carcinoma patients to have free blood tests performed by Professor Lo’s team in the Department of Chemical Pathology of the Chinese University. The test results were compared to the clinical conditions of the patients at the time. The results were satisfactory. The steps involved in analysing *EBcombo* before its launch were relatively more simple since *EBcombo* consisted of two testing services that had been successfully commercialised for some time. By combining these technologies, *EBcombo* shows both history of EB virus infection and detects cancer as in real time and is therefore expected to give an enhanced degree of accuracy and this testing service is recommended for periodic screening. The *EBcombo* is offered to most of the major private laboratories in Hong Kong. *EBcombo*, like *EBgene* and *EBeasy*, is also based on the PDx Technology and it falls within one focused line of business of the Group.

In tandem with the growing number of the Group’s marketable testing services, the Group provided customer support services through a hotline attended by three staff members (including one senior management staff member) with biosciences background to answer questions from doctors and patients relating to the Group’s testing services.

Research development and technology advancement

In July 2002, building on the Group’s success in detecting the smallest amount of abnormal DNA in the blood plasma of liver cancer patients, the Group’s research team extended its research into applying the test to prostate cancer patients.

By October 2002, the sensitivity of the Group’s test for liver cancer was improved by ten times as a result of advancement in the underlying technology.

In November and December 2002, the Group and Spring Biotech jointly conducted a community research programme for screening test for cancer. The programme was successful with a high participation by volunteers who took blood samples for trial tests for the screening test for cancer to be carried out in January 2003. These trial tests were carried out by the Group’s laboratory personnel.

The trial test results from the programme served as primary data for further research activities. As Spring Biotech is an Initial Management Shareholder, the community research programme jointly conducted with Spring Biotech is a continuing connected transaction for the Company under the GEM Listing Rules. (Please refer to the subsection headed “Connected transactions” in this section for further details.)

In February 2003, the laboratory of the Group was relocated from Shatin to Central, Hong Kong. The relocation was mainly because Shatin was too far from the city centre such that pick-up of blood samples had been an inconvenience as sales increase with requests from far away places in Hong Kong.

In March 2003, the Group was granted an exclusive license by the Chinese University in relation to the PDx Technology which specifies which RNA (hCG (human chorionic gonadotropin) and HPL (human placental lactogen)) are used to identify foetal diseases including pre-eclampsia, trisomy 18 and Down’s syndrome (Please refer to the description of the licence numbered 9 in the table under the subsection headed “Intellectual property” in this section for further details of this licence). The Group’s foetal maternal tests would be based on this license. The test for Down’s syndrome is expected to be launched in the third quarter of 2004 in Hong Kong and the PRC. (Please refer to the subsection headed “Future testing services” in the section headed “Statement of business objective and strategies” for further details of this future testing services.)

Both the foetal maternal test using the foetal RNA and the SARS test are based on the PDx Technology and they therefore fall within one focused line of business of the Group.

Product development and enhancement work performed by the Group for existing and future products during this period includes (i) the launching of the combination test *EBcombo* had been made; (ii) the provision of a hotline had been made by the Group that is attended by one of the Group’s scientific staff to answer any questions from patients and doctors on the science and service of the Group’s existing products; (iii) the improvement of the sensitivity of the methylation specific PCR test for liver cancer (a future test for a genetic alteration in liver cancer) was achieved by using proprietary methodologies; (iv) improvement of the sensitivity of SARS testing was also achieved by using a proprietary technique, the methodology of such resulted in a patent filed by Dr. Yeung and later transferred to the Group; (v) further enhancement of the EB virus line of products by the first description of *EBsens* and *EBonco* was achieved, the methodology of which was a result of a patent filed by Dr. Yeung and later transferred to the Group; and (vi) further new revisions to the reporting format of *EBgene* and *EBeasy* were made to reflect new clinical materials and indications.

Funding arrangements

The operation of the Group during this period was funded by internal resources, Shareholders’ loans and subscription monies from the issue of the Convertible Notes to the nine Noteholders. In December 2002, the Company issued to the Noteholders Convertible Notes of an aggregate principal amount of HK\$21.5 million. The net proceeds from the issue of Convertible Notes amounted to approximately HK\$21.1 million after deduction of expenses payable by the Company in relation to

the issue of 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, which amounted to HK\$21.1 million, 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 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 Initial IPO Conversion will take place prior to the Listing Date, unless the Noteholders have given notice requiring early redemption, and result in a total of 25,800,000 Shares being issued to the Noteholders. (Please refer to the subsection headed "Convertible Notes" in the section headed "Share capital" for further details of the terms of the Convertible Notes.)

For the period between July to November 2002, additional loans from Shareholders and New Oxford Management Limited, a connected person of the Company, of approximately HK\$3.7 million were raised by the Group; of which HK\$0.6 million due to Spring Biotech will be settled on 17 June, 2004 and the remaining of HK\$3.1 million together with the Group's loans from Shareholders of HK\$2.7 million and New Oxford Management Limited of HK\$2.2 million, totalling approximately HK\$8 million was fully capitalized as part of the Reorganisation into shares of the Company's subsidiaries. (Details of such capitalisation of the Shareholders' loans of the Group are set out in the section headed "Changes in the share capital of the subsidiaries of the Company" in Appendix V to this prospectus.)

Sales and marketing

As part of its sales and marketing strategy, the Group focused on increasing awareness of the public and the medical community of its new cancer testing services that may detect up to 10% of all cancers locally via a blood test carried out annually. During August 2002, the Group stepped up its marketing efforts on promoting its third product known as *EBcombo* to local laboratories and physicians through newspaper advertisements and seminars. The Group invited a number of medical laboratories in Hong Kong to distribute the Group's testing services.

The Group's sales and marketing strategies during this period focused on conducting further exploration of the EB virus series of tests as laboratory services in Hong Kong and a further expansion of the network of laboratories that offer this service. Because of the drop in price in the real time PCR machine and the expansion of the number of hospitals that can now own such a machine in Hong Kong and the PRC, a new marketing strategy would be adopted to develop kits for existing products such as *EBgene* and *EBeasy* for shipment to these hospitals. The reason for such a change of strategy was that it would be very costly to open a chain of laboratories to do the service for only a few specialised products. Previously, when there were very few hospitals owning real time PCR machines, it seemed to be the only choice for the Group. However, the Group presently has the opportunity to let each individual hospital to do its own tests and market its own services with an advantage that these

hospitals would market the services to their own doctors without the Group doing so. To reinforce the sales and marketing strategies as mentioned, the Group also decided that it would also be best to use data and expertise collected during the first two years to apply for FDA approval, the success of which could galvanise the local, PRC and Japanese market as well as paving the road for a global market expansion later on.

With an aim of achieving the above-mentioned sales and marketing strategies, the Group had (i) collected scientific data and initiated the first preparation in filing for FDA approval for the *EBgene* test kit; (ii) made further advertising in newspapers; (iii) arranged to meet with other local laboratories to join in and market tests from the Group; (iv) conducted direct marketing by mailings to all doctors in Hong Kong for medical indications of *EBgene* and *EBeasy* and patients; and (v) held a medical professional seminar given by Dr. Yeung to the Chinese Doctors Association on 6 October, 2002 and by Professor Lo to Hong Kong Medical Association CME with over 200 Hong Kong doctors on 14 January, 2003, and a number of public education seminars during September 2002 to May 2003.

Customers

The Group's major customers are laboratories and hospitals in Hong Kong. Other customers also include doctors, clinics of local universities and clinical research programmes conducted between the Group and other healthcare organisations. During the year ended 30 June, 2003, the Group's turnover amounted to HK\$1,339,250 comprised of *EBgene* of HK\$477,660, *EBeasy* of HK\$524,940, *EBcombo* of HK\$31,770 and other future tests under research and development of HK\$304,880. The Group's sales to its largest customer and five largest customers were HK\$483,380 and HK\$844,980, respectively, representing approximately 36.1% and 63.1% of the Group's sales for the year ended 30 June, 2003. Sales to Spring Biotech amounted to HK\$483,380 during the year ended 30 June, 2003, representing approximately 36.1% of the Group's sales for the year.

Under the community research programme, sales to Spring Biotech are mainly *EBeasy* and some of the future tests (as described under the section headed "Future testing services" in the section headed "Statement of business objectives and strategies") which are still under research and development.

Save for the sales to Spring Biotech, none of the Directors, their associates or any of the Shareholders who owns more than 5% of the issued share capital of the Company had any interest in any of the five largest customers of the Group.

Set backs

The location of the Group's laboratory was too far from the city centre (being in Shatin), such that pick-up of samples had been a problem as sales increase with requests from far away places in Hong Kong.

One major breakdown for three weeks of the Group's main PCR machine had resulted in delays for delivery of some of the test results to doctors for their diagnosis.

The SARS crisis had severely affected the sales of the Group as many doctors had refrained from seeing patients at the time. This condition lasted approximately three months.

Staff

All of the employees of the Group were stationed in Hong Kong. As at 30 June, 2003, the Group had 11 full-time employees who were engaged in the following functions:

Management	2
Sales and marketing	3
Research and development (including implementation of laboratory tests for the provision of the Group's testing services)	3
Administration and finance	3
 Total	 11

Period from 1 July, 2003 to the Latest Practicable Date

During the period from July 2003 to the Latest Practicable Date, the Group continued negotiations with major laboratories in Japan and in Australia (please refer to sub-section headed "Regulatory requirements" under the section of "Industry overview" for details on regulatory compliance issues) with a view to introducing the Group's existing cancerous testing services and foetal maternal diseases testing services in these countries. As at the Latest Practicable Date, these negotiations were still at a preliminary stage. (Details of the regulatory requirements in respect of these jurisdictions are set out in the sub-section headed "Regulations requirements" in the section headed "Industry overview" in this prospectus.)

The Group is also seeking complimentary technologies that have market potential while increasing the business opportunities of the Group's products at the same time.

Research development

The Group continued its research to see if the reactivation of EB virus in the human body is correlated to the formation of cancer cells other than EB virus associated cancers like nasopharyngeal cancer, stomach cancer and lymphomas. As at the Latest Practicable Date, the research was at a preliminary stage. Through seminars held with the public, the Group also performed community research on its tests for liver cancer and general screening test for cancer.

As mentioned before, seminars for doctors, patients and the general public had led to recruitment of individuals participating in some of the Group's community research programmes. The results of the *EBeasy* test had enabled the Group to assemble data for good positive and negative predictive values for the general population that are valuable in expanding the indications of its use. In addition, substantial progress had been made in the development of *EBsens*. *EBsens* is a newly developed test that incorporates proprietary methodology developed exclusively by the Group that can increase the sensitivity of the *EBgene* test many folds over the existing one. This product is targeted to be available

by the second half of 2004. Research performed in the sub-typing of the EBV genome also showed that one or two sub-types are statistically more common in the EB virus associated cancers in Hong Kong and elsewhere in the world. The Group had performed a first series of research into the development of *EBonco*, a product that will show the sub-types of the circulating EBV genomes in patients that are chronically reactivating the virus. The use of *EBonco* may have the ability to predict which segment of the population is more prone to develop EB virus associated cancers such as nasopharyngeal cancer, EB virus associated stomach cancers and lymphomas.

The Group took a major step in product development when the Group assembled the *EBgene* and *EBeasy* tests in kit form. Each test kit consists of (i) a properly labelled box with clinical indications of use; (ii) sufficient storage and expiration instructions; (iii) lot and product number; (iv) a fully user friendly manual so that any well-trained technician can use the kit without further instructions from the Group; (v) a small summary of materials and contents pasted on the flip side of the cover; (vi) colour-coded tubes for the different master mixes, standards and reagents; and (vii) scientific data and references. The Group has also assembled similar kit forms of the foetal maternal tests. Previously, when the Group only provides testing services, only a tube was supplied for collection of blood samples.

On the other side, the Group has initial success in setting up a more sensitive form of *EBgene*, which was named *EBsens* and would be ready to launch some time in the second half of 2004. Furthermore, the Group has started the initial experimentation of the product enhancement in determining whether chronic active carriers of the EB virus could have increased cancer tendency by the test *EBonco*. Preparation and testing work is estimated to continue throughout the latter part of 2004.

Funding arrangement

As at 31 December, 2003, the Group had cash and bank balances of approximately HK\$15.0 million. The Group has put such surplus cash into saving and/or fixed deposits with financial institutions in Hong Kong. The minimal interest income of HK\$21,221 for six months ended 31 December, 2003 was due to the generally prevailing low interest rate. Under the terms of the Convertible Notes, before Listing, the Group cannot purchase or acquire whether for cash, securities, or other consideration, of any other entity or business, or the invest in or purchase any securities or equity interest in any other entity, except for the establishment of a wholly owned and controlled subsidiary companies in Hong Kong or overseas. As at the Latest Practicable Date, out of the net proceeds of the issue of the Convertible Notes which amounted to HK\$21.1 million, 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. As to the remaining portion of the net proceeds from the Convertible Notes subscription of approximately HK\$13.2 million, the Directors expect that approximately HK\$10.0 million will be used for 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.

Sales and marketing

The Group continued its efforts on promoting its new cancer and foetal maternal testing services by introducing it to the public and the medical community. The Group offered its foetal maternal tests free of charge to the public through a seminar held in August 2003. The initial free of charge for the foetal material products was only for marketing and community research purposes at the initial stage only. This will help to let the community doctors to use and understand the Group's testing services before it is launched. The foetal maternal testing services are expected to be formally launched in Hong Kong in September 2004 as test for Down's Syndrome.

As mentioned above, the first kit form of the test *EBgene* was developed in November 2003. It was marketed to a few local hospitals with available PCR machines. This was followed three weeks later by the first sale to a local private hospital that will use *EBgene* and *EBeasy* as the test for nasopharyngeal carcinoma as well as a screening tool for all their physical examinations. The kit form of *EBgene* and *EBeasy* is also based on the PDx Technology and in the same focused line of business of the Group.

On 28 November, 2003, the Group filed for pre-marketing approval registration of the test kit of *EBgene* to the Food and Drug Administration (FDA) of the US and commenced the preparation for a similar application to the State Food and Drug Administration (SFDA) of the PRC. The target date for filing to the SFDA is 31 July, 2004. This would pave the way for overseas sales of this product if these applications were to be successful. The Group expected the date of grant of such application (both FDA & SFDA) to be one year after the submission of application.

The Group's sales and marketing strategies during this period focused on (i) the marketing of the kit form of the tests wherever there are hospitals that own real time PCR detection systems in Hong Kong, the PRC and other nearby countries; (ii) the offering of laboratory service will still be available to communities and countries that totally lack the expertise to operate a real time PCR detection system; and (iii) application to the FDA on the clinical indications of *EBgene* in the kit form.

With an aim to achieving the above-mentioned sales and marketing strategies, the Group had continued (i) local marketing efforts to doctors, patients and laboratories by sending postcards to all Hong Kong doctors posted on 6 October, 2003; (ii) marketing of the *EBgene* and *EBeasy* kits to local hospitals that have installed a real time PCR machine; and (iii) arranging a number of public and professional education seminars from August to December 2003.

On 2 March, 2004, the Group and Spring Biotech (China) Limited mutually agreed to terminate the licencing agreement dated 25 February, 2002 due to a change in the marketing strategy of the Group in respect of the PRC market from a focus of operating testing services in the PRC to a focus on the sale of test kits.

BUSINESS

Customers

The Group's major customers are laboratories and hospitals in Hong Kong. Other customers also include doctors, clinics of local universities and clinical research programmes conducted between the Group and other healthcare organisations. During the six months ended 31 December, 2003, the Group's turnover amounted to HK\$904,550 comprising of *EBgene* of HK\$228,720, *EBeasy* of HK\$475,630, *EBcombo* of HK\$9,510 and other future tests under research and development of HK\$190,690. The Group's sales to its largest customer and five largest customers were HK\$496,380 and HK\$674,590 respectively, representing approximately 54.9% and 74.6% of the Group's sales for the six months ended 31 December, 2003. Sales to Spring Biotech amounted to HK\$496,380 during the six months ended 31 December, 2003, representing approximately 54.9% of the Group's sales for the period.

Under the community research programme, sales to Spring Biotech are mainly *EBeasy* and some of the future tests (as described under the section headed "Future testing services" in the section headed "Statement of business objectives and strategies") which are still under research and development.

Save for the sales to Spring Biotech, none of the Directors, their associates or any of the Shareholders who owns more than 5% of the issued share capital of the Company had any interest in any of the five largest customers of the Group.

Set backs

The Group's initial application of *EBgene* to the State Food and Drug Administration of the PRC had been returned. Certain new requirements had come into effect at the time the Group submitted its application. The Group is in the process of compiling additional material and has planned to re-submit a new application to the State Food and Drug Administration of the PRC in compliance with the new forms in July 2004.

One of the Group's new research projects known as telomere length estimation in relation to a potential new test failed to deliver the stability of results that the Group needed. This new research was abandoned.

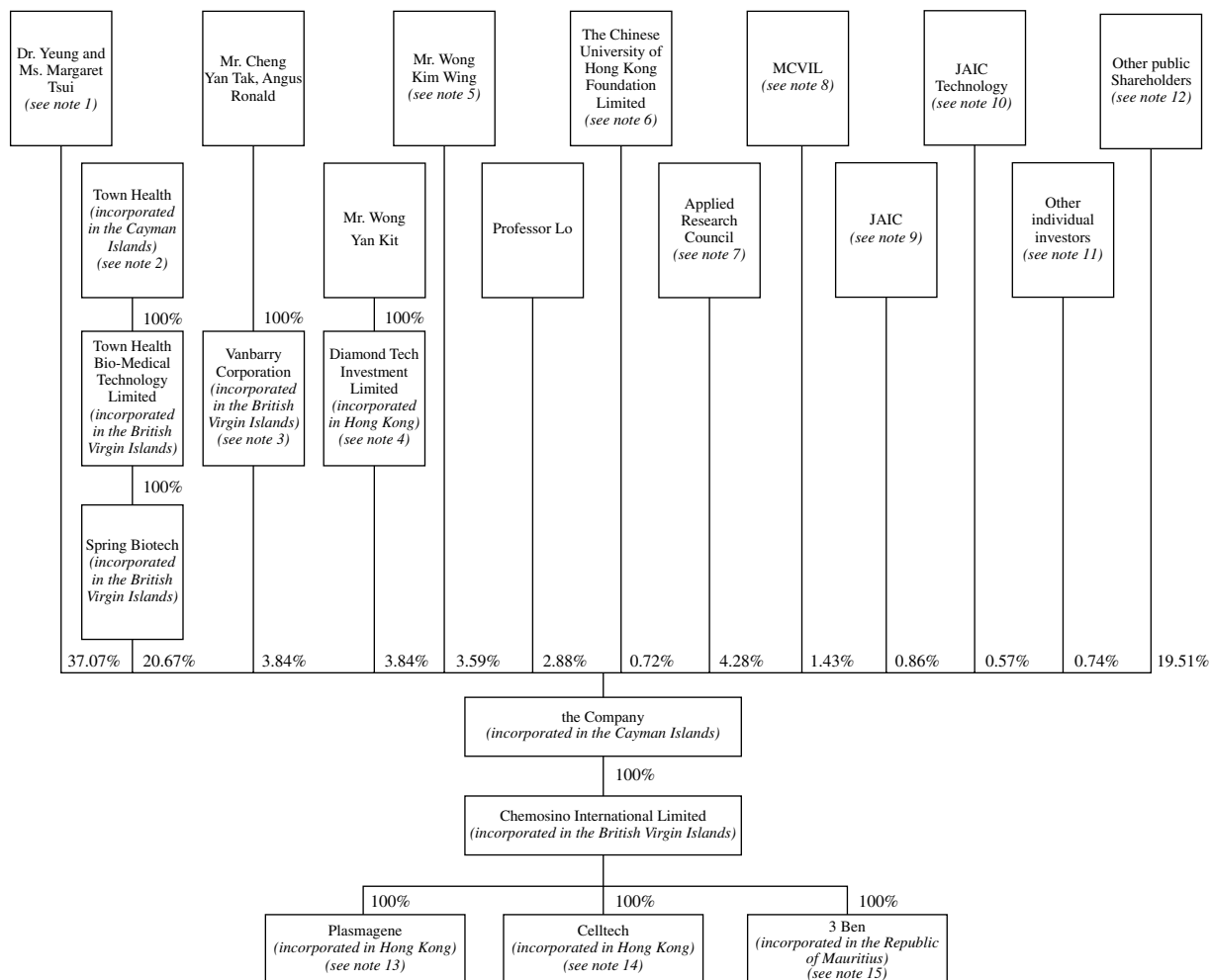
Staff

All of the employees of the Group were stationed in Hong Kong. As at the Latest Practicable Date, the Group had 13 full-time employees who were engaged in the following functions:

Management	2
Sales and marketing	3
Research and development (including implementation of laboratory tests for the provision of the Group's testing services)	3
Administration and finance	5
	<hr/>
Total	13
	<hr/> <hr/>

GROUP STRUCTURE

The following chart sets out the structure of the Group immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, taking no account of any Shares to be allotted and issued upon the exercise of any options granted under the Share Option Scheme or the Right of First Refusal Agreement, the First Post IPO Conversion, the Second Post IPO Conversion and the general mandates to issue Shares referred to in Appendix V of this prospectus:



Notes:

- (1) Dr. Yeung and Ms. Margaret Tsui held 2,368,454 Shares and 119,170,370 Shares, respectively. 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.

BUSINESS

- (4) Diamond Tech Investment Limited is wholly beneficially owned by Mr. Wong Yan Kit who is an Initial Management Shareholder.
- (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 been involved or intends to be involved in the management or daily operations of the Group before or after the Listing.
- (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 had no board representation in the past and are not expected to have the same in the future, and have never been involved or intend to be involved in the management or daily operations of the Group before or after the Listing.
- (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. The Applied Research Council is an independent third party.
- (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 an insurance company based in Japan.
- (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) Other individual investors are five Noteholders, namely Mr. Robert Owen who will hold 600,000 Shares, Mr. Russell Young who will hold 1,440,000 Shares, Mr. Tong Sui Bau, Mr. Lee Kam Lun, Kenyon, and Ms. Jessica Pui Han Jook, each of whom will hold 120,000 Shares on the Listing Date. They 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. The Company and each of its controlling Shareholders, Initial Management Shareholders and Directors have confirmed that they and their respective associates have not entered into, and prior to the Listing, will not enter into any arrangements or agreements (other than those agreements currently disclosed in this prospectus) in relation to the Shares (or shares in the predecessor companies of the Company), including as to the price of the Shares placed to existing Shareholders or to be placed pursuant to the Share Offer.
- (13) Plasmagene is principally engaged in the research and development of the PDx Technology licensed to the Group by ISIS and the Chinese University, and the commercialisation of such technology into diagnosis testing services for detecting prenatal, cancerous and other critical illnesses.
- (14) Celltech is currently dormant. It is expected that Celltech will be principally engaged in the research and development of stem cell technology for treating cancer patients who undergo chemotherapy and replacing damaged organs and tissues in various major diseases.
- (15) 3 Ben is principally engaged in developing cancer related diagnosis based on technologies assigned by Dr. Yeung.

- (16) The public Shareholders are Mr. Wong Kim Wing, Professor Lo, The Chinese University of Hong Kong Foundation Limited, The Applied Research Council, MCVIL, JAIC, JAIC Technology, Mr. Robert Owen, Mr. Russell Young, Mr. Tong Sui Bau, Mr. Lee Kam Lun, Kenyon, Ms. Jessica Pui Han Jook and other parties who will subscribe for Shares under the Share Offer. MCVIL is managed by JAIC HK, a wholly owned subsidiary of JAIC. JAIC Technology is a limited partnership established in Japan and owned by JAIC and other third parties and was managed by JAIC. Save for these relationships, there are no relationships amongst the public Shareholders to the best of the knowledge of the Board. Immediately following the Listing Date, there will be 113,364,356 Shares held by the public Shareholders, representing approximately 34.58% of the total issued share capital of the Company.

EXISTING TESTING SERVICES

Cancer tests

Based on the PDx Technology, the Group has successfully commercialised and launched a number of cancer diagnostic testing services. The existing cancer tests currently available in the market are *EBgene* which is a quantitative test for EB virus associated cancer, *EBeasy* which is a symptomatic screening alternative test for detection of EB virus associated cancer at an early stage and *EBcombo*, a general screening test which combines the traditional methodology of testing EB virus using antibodies and *EBeasy*. EB virus associated cancer includes nasopharyngeal cancer and stomach cancers. All of the three tests have a sensitivity and accuracy of over 95% and specificity of around 93%. These tests measure the presence of EB virus genomes in EB virus associated cancers which account for around 5 to 10% of all cancers in the Asian region. The most common EB virus associated cancer is nasopharyngeal cancer, a kind of cancer of the nasopharynx located at the back of the nose, an area behind the nasal cavity and mouth to the larynx.

EBgene suits all diagnosed EB virus associated cancers such as nasopharyngeal cancer for which knowledge about the prognosis, progression and recurrence of the disease is important. This means that the *EBgene* test will guide the physician and patient throughout the treatment and follow up period. *EBeasy* gives simply a positive or negative result. It is less expensive than *EBgene* and is more economically suited for screening patients with high risks of having EB virus associated cancer. As *EBcombo* shows both the history of EB virus infection and presence of cancer in real time, this testing service is ideally suited for periodic screening of EB virus associated cancers which will give both of these results for a period from a few months to a year before each test.

Based on the knowledge and experience of the Directors in the cancer diagnostic field, *EBgene*, *EBeasy* and *EBcombo* cancer testing services are considered by the Directors to be one of the group of reliable and sensitive blood tests introduced for the detection of cancerous diseases that are developed from the PDx Technology. Particularly, the Directors believe that *EBgene* offers one of the only few reliable quantitative measurements of cancer volume by a blood test. The Directors anticipate that these testing services will supplement or replace the traditional antibody test for nasopharyngeal cancer and will allow the patients or doctors to make an informed decision before receiving CT, MRI or PET scan that are relatively more expensive and time consuming. The recent editorial article from National Cancer Institute shows the value and reliability of *EBgene*, *EBeasy* and *EBcombo*. National Cancer Institute is considered an independent and authoritative third party in the evaluation of these tests, and the official government agency for all matters related to cancer in the United States. It works under the branch of the National Institute of Health in the United States.

EBgene, *EBeasy* and *EBcombo* cancer tests are currently offered in Hong Kong. These three testing services are targeted at specialists and community physicians as well as patients with common ear, nose and throat symptoms. The Directors consider that these testing services have been well recognized in the local medical community as is evident from the sales generated from a wide range of physicians in the community. Following the launch of *EBgene*, *EBeasy* and *EBcombo* in November 2001, January 2002, and August 2002 respectively, the Group generated total sales from these testing services of approximately HK\$525,545, HK\$1,339,250 and HK\$904,550 during the eight months ended 30 June, 2002, the year ended 30 June, 2003 and the six months ended 31 December, 2003 respectively.

Foetal tests for betaHCG and HPL

By using a non-invasive maternal blood test, the Group's foetal tests for betaHCG and HPL, which are based on the PDx Technology, allow the dynamic measurement of foetal placental hormones which may lead to an easier and more accurate diagnosis of Down's syndrome and high risk pregnancy in the future. These two testing services were first introduced into Hong Kong in August 2003 free of charge through public seminars.

Test for SARS

SARS is caused by the human corona virus. The Group's test for SARS is based on the real time RNA quantification of the viral transcript of the SARS virus. The test is based on the PDx Technology. The result of this test is available within three hours. This product, marketed as *SarsDx*, was introduced into the Hong Kong market in September 2003.

Testing procedure

All of the Group's testing services and products are based on the PDx Technology and fall within one focused line of business of the Group.

The testing procedure of the Group's testing services involve a number of steps. First, doctors or laboratory personnel draw a blood sample and submit it to the laboratory of the Group. The Group's laboratory will perform the relevant test following the Group's internally defined protocol. Following the testing, the Group will provide the test results to the doctors or laboratory personnel who will then inform the patients and determine the appropriate course of action. The entire testing procedure normally takes five days to complete.

RESEARCH AND DEVELOPMENT

The developmental path of medical diagnostics and the commercialisation for medical use generally involves laboratory research which then leads to a laboratory finding. This is followed by pre-clinical testing which is used to prove a laboratory finding. The results of the pre-clinical testing are used to support the initial patent application and therefore need to be completed before the patent application can be filed. If the results of pre-clinical testing are proven to be satisfactory, clinical trials will be conducted at hospitals to determine an effective utilisation of the test in actual clinical

practice and to evaluate proof of medical value before the testing services are ready for diagnosis of particular diseases. This may be followed by community research programmes under which testing services offered to the community are monitored. Test results of these programmes will serve as primary data for further research activities into other applications.

The Group's R&D staff possess qualifications with a minimum of a biotechnology related Bachelor of Science degree. One of them has a master degree in Philosophy. As at the Latest Practicable Date, the Group had three staff members engaged in research and development activities carried out at the Group's laboratory situated at 5th Floor, Club Lusitano, 16 Ice House Street, Central, Hong Kong. The laboratory, together with the general office of Plasmagene occupies a gross floor area of approximately 2,238 square feet. The term of the lease is two years from 13 February, 2003 to 12 February, 2005, subject to an option to renew for another two years. During each of two years ended 30 June, 2003, the Group incurred approximately HK\$2.6 million and HK\$0.8 million respectively on research and development on future testing services and quality improvement of its existing testing services.

The Group's R&D team is supervised by Dr. Yeung, which usually meets three times a week for discussion of topics, progress and results. Professor Lo was more involved as the Chinese University's designated consultant at the initial stages of the Group's development, when he supervised the setting up of the Group's laboratory and technology transfer under the Consultancy Agreement, but his involvement has gradually lessened when the Group's laboratory began to be able to operate independently. The Group had conducted R&D projects on its own, including the development of the *EBsens* high sensitivity testing, the EBV lytic promoter sub-typing testing and the SARS testing. Dr. Yeung has all along been involved in the supervision of the Group's R&D initiatives, daily operations and execution.

In addition to its own research and development activities, the Group has maintained close cooperative relationships with the Chinese University and the Town Health group to perform joint research activities. (Please refer to the sections headed "Relationship with Professor Lo and the Chinese University" and "Relationship with Initial Management Shareholders" for details of these cooperative relationships.) The Directors believe that co-operation with experienced partners in the medical community will enhance the research capability of the Group and accelerate the development of future testing services by the Group. Pursuant to the Consultancy Agreement, Professor Lo acts as the consultant designated by the Chinese University to Plasmagene and provides advice on the establishment of a laboratory of the Group to conduct prenatal and cancer diagnostic testing services for a consideration of HK\$1.5 million payable semi-annually until 14 August, 2004 and 1% and 4% of the issued share capital of Plasmagene was allotted and issued to The Chinese University of Hong Kong Foundation Limited and Professor Lo, respectively.

Under a memorandum of understanding entered into on 10 July, 2002 between Plasmagene and the Chinese University, the two parties agreed to cooperate on future research and development activities.

OPTIONS TO BE GRANTED TO THE CHINESE UNIVERSITY

Under the Right of First Refusal Agreement, the Company will be offered a right of first refusal for the grant by the Chinese University of a royalty-bearing exclusive licence to use and commercially develop certain technologies and inventions relating to the PDx Technology and other non-invasive diagnostic technique for detecting cancer and foetal diseases developed by Professor Lo during his employment with the Chinese University. As at the Latest Practicable Date, these technologies and inventions related to the application of the PDx Technology for detecting cancerous and prenatal diseases as well as other major diseases, namely pleural effusion and stroke. (Please refer to the section headed “Intellectual property” in this section for details of the scope and nature of the technologies licensed by the Chinese University to the Group.) In the event that the Chinese University proposes to grant any licences for the use of such technologies, it will notify the Company of such intention and offer in writing to grant the Company an exclusive license in respect of the relevant technology. The Company will notify the Chinese University within 14 days of its receipt of notification from the Chinese University whether the Company wishes to accept or reject the offer. Based on the Directors’ experience, the 14-day notification period is considered reasonable. If the Company does not wish to take up the offer, then the Chinese University will be free to grant licences in respect of the relevant technology and, or invention to any other party. The term of this agreement is for four years commencing from the Listing Date.

In consideration of the right of first refusal granted to the Company, the Company agrees to grant to the Chinese University or such persons as the Chinese University may direct (including trustees of any funds) (the “Option Holders”) options to subscribe for such number of Shares up to an aggregate maximum sum of HK\$4,600,000 after the Listing (meaning maximum amount of HK\$1 million, HK\$1.1 million, HK\$1.2 million and HK\$1.3 million for the four financial years from 2004 to 2007, respectively), being the aggregate monetary value of the options to be granted to the Option Holders which is calculated by reference to the exercise price per Share, being the higher of, the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant of the options to the Option Holders which must be a business day; and the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the grant of the options to the Option Holders, in accordance with the GEM Listing Rules over a period of four years. Such options are not intended to be granted under the Share Option Scheme. Under Chapter 21 of the GEM Listing Rules which apply to options, warrants and similar rights (other than options granted under the Share Option Scheme), where the Company grants options, the Shares to be issued on exercise of the options must not, when aggregated with all other Shares which remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the total issued Shares at the time such options are issued. Options granted under the Share Option Scheme are excluded for the purpose of this limit. The Directors will grant the options under the general mandate obtained from Shareholders which is in force at the time of grant. In the event that the whole or part of such options are limited by the GEM Listing Rules and not granted by the Company, the Chinese University shall be entitled to the difference (being the difference between the aggregate sum of options agreed to be granted and the aggregate sum of options actually granted) in cash. The amount of HK\$4.6 million is based on the Directors’ estimate of the technology contribution to be made by the Chinese University that may be taken to be the Company’s research expenditure during the first two years of its operation after Listing and the commercial negotiations

carried out between the Group and the Chinese University on an arm's length basis. Such grant of options may be made by the Company annually on the first business day of the first day of each financial year of the Company after the Listing for a period of four years (subject to a minimum six-month moratorium period following the date of the grant of the relevant options by the Company before the relevant options may be exercised by the Chinese University). The number of options to be granted to the Chinese University will depend on the market prices of the Shares during the four-year period which in turn will affect the number of Shares to be issued to the Chinese University by the Company should the Chinese University exercise its options. Upon the expiry of the moratorium period, the Chinese University may exercise the relevant options at any time over a further period of four and a half years in accordance with the GEM Listing Rules. Should the closing price per Share be low due to adverse market conditions, a substantial number of Shares may be issued by the Company to the Chinese University if the relevant options are exercised by it (even though such number is governed by the GEM Listing Rules) as the exercise price per Share of such options is calculated by reference to the closing price of the Shares on the date of grant of the options to the Chinese University or the five business days preceding such date of grant. While the research activities carried out by the Chinese University at its own laboratories are independent of the Group, the Directors are of the view that this arrangement is beneficial to the Group given Professor Lo's experience in the medical diagnostic industry. It is anticipated that the Group may, from time to time and subject to agreement by the parties, be granted further licences for the use of relevant research findings of the Chinese University.

A joint advisory committee has been established to oversee the overall management of the research and development activities carried out at the Group's laboratory, including detailed planning for use of research and development funds. The committee comprises of four members, one of whom is nominated by the Chinese University. Additionally, the Group co-operates with the Town Health group to conduct community research programmes that use the Group's testing services for detecting cancerous diseases.

SUPPLY OF MATERIALS

The Group acquires from its suppliers pre-assembled kits for blood tests and other related diagnostic studies. Other materials required by the Group include common laboratory reagents and chemicals and laboratory accessories such as pipette tips, micro-centrifugation, gloves and needles. For the two years ended 30 June, 2003 and the six months ended 31 December, 2003, the amount of purchases of materials from the five largest suppliers of the Group respectively accounted for approximately HK\$253,475, HK\$292,942 and HK\$362,076, representing approximately 94.9%, 93.4% and 95.0% of the total purchases of the Group. The amount of purchase of materials from Applied Biosystems Hong Kong Limited, the largest supplier of the Group, accounted for approximately HK\$131,769, HK\$125,713 and HK\$174,748, representing approximately 49.4%, 40.1% and 45.9% of the total purchases of the Group during the respective year. The Group did not encounter any major problems in sourcing materials during the Track Record Period. None of the Directors, their associates or any of the Shareholders who owns more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers of the Group.

Purchases of materials by the Group are principally denominated in Hong Kong dollars and United States dollars and are normally settled in cash, cheques or telegraphic transfer within 30 days from the date of the suppliers' invoices. Cash settlement represented approximately 36% of the total purchases of pharmaceutical and laboratories supplies for the year ended 30 June, 2002 with no cash settlement since the year ended 30 June, 2003.

Purchases of material are supervised by Dr. Yeung and a research associate. The Group intends to keep its pharmaceuticals and other materials to a minimum level as these materials usually have a life of one year. Inventories are stated at the lower of cost and net realisable value.

PRODUCT DEVELOPMENT

The Group conducts ongoing research to perfect the Group's existing testing services and identify new effective diagnostic methodologies for early detection of prenatal and cancerous diseases as well as other major illnesses, and commercialise the research results into marketable testing services. The Group will also seek to broaden the scope of testing services offered by identifying additional commercial applications of the PDx Technology licensed to the Group by ISIS and the Chinese University.

As at the Latest Practicable Date, the Group had a total of eleven future testing services that are in various stages of development and which are expected to reach the market in the coming two years. (Please refer to the subsection headed "Future testing services" in the section headed "Statement of business objectives and strategies" in this prospectus for further details of the Group's future testing services.) Subject to satisfactory progress of the clinical trials of these testing services, the Group intends to file additional patent applications under its own name to cover these new discoveries following the Listing.

INTELLECTUAL PROPERTY

The Group's success depends in part on its ability to obtain intellectual property protection on its testing services. One of the earliest patents of the PDx Technology that is licensed to the Group for use in commercialising into testing services is owned by ISIS, a subsidiary of Oxford University. This patent which covers Australia and Hong Kong was granted to ISIS on 4 March, 1998 and 11 September, 2003 respectively. The related patent applications covering Japan have been filed by ISIS and are pending as at the Latest Practicable Date. Under a licence agreement dated 22 June, 2001, Plasmagene was granted by ISIS an exclusive licence to use the PDx Technology for its research related product commercialisation in Hong Kong, China, Australia and Japan for a period of seven and ten years commencing from 22 June, 2001, being the date of the licence agreement in Australia and the PRC, respectively, and seven years from the date the related patent is granted to ISIS in Hong Kong and Japan. The Group was also granted an option to renew this licence for a further period from the date the licence expires and continuing for so long as the commercial practice of the technology concerned is covered by a patent in the relevant jurisdictions, subject to the Group meeting a minimum cumulative aggregate royalty payment to ISIS of about HK\$7 million in 2008. The minimum cumulative aggregate royalty payment would require a minimum cumulative sales of approximately

HK\$57.1 million in 2008. This licence applies to the Group's Rhesus D test and the foetal sex test for X-linked recessive diseases. The Rhesus D test applies to countries of Caucasian population only and is not expected to target the PRC market. The foetal sex test for X-linked recessive diseases is not expected to target the PRC market because of the possible use of this test for sex selection.

On 6 September, 2002 and 8 April, 2004, Dr. Yeung assigned to 3 Ben his intellectual property rights relating to the use of FDG for treating cancer patients in the USA and Taiwan respectively for HK\$1.00 each.

On 24 September, 2003, Dr. Yeung assigned to Plasmagene his intellectual property rights relating to the use of a sensitive methodology for detection of SARS for HK\$1.00.

On 17 February, 2004, Dr. Yeung assigned to Plasmagene his intellectual property rights relating to the use of the technology of a combination EBV DNA test for EBV sub-types of the promoter region of the lytic promoter gene BZLF1 that are more prone to cancer formation for HK\$1.00.

Prior to the assignments, Dr. Yeung himself had owned the intellectual property rights as an inventor or co-inventor of such patent applications.

Additionally, the Group has been granted a number of exclusive licences by the Chinese University to use its research findings which form the subject of patent protection or patent application. The Group has also been granted by F. Hoffman-La Roche Limited a non-exclusive licence to practise the polymerase chain reaction technique to facilitate certain diagnostic procedures. The licence granted by F. Hoffmann-La Roche Limited will expire in March 2006. The patents it holds will have expired by then so that no royalties would be payable under that licence after that date.

The Group has been putting its resources to support patent applications in technologies that it does not own but in return, it would expect to have the exclusive use of the license for the total life span of the patents (usually approximately 20 years). As such, the Group's capitalised development costs for a particular test will be amortised over its best estimated useful life and will not exceed the life of that particular patent licence covered. The Directors are of the view that this is a more cost effective method in obtaining licensed technologies as opposed to having to bid for the exclusive licence and compete with others, which would usually result in higher costs. In deciding to support a patent application, the Group would have to exercise judgement based on the patentability and commercial value of the invention. The Directors also believe that this method would also help create a better working relationship with patent owners such as the Chinese University. The Directors consider that the success of this is evidenced by the official and unofficial granting of three licences to use and develop various US patents application since the process as referred to in the licences numbered 2, 4 and 8 below.

The Group has not been subject to any intellectual property infringement claims during the Track Record Period.

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As at the Latest Practicable Date, the licences held by the Group are as follows:

Date of agreement	Type of licence	Licensor	Licensee	Scope of licence	Location	Effective period	Royalty payment <i>(Note 6)</i>	Remarks
1.	29 May, 2001 Non-exclusive licence	International filing of the two patents (Registration Nos. HK0940849 and HK0940840) by F. Hoffmann — La Roche Limited were made on 27 March, 1986. Patent No. HK0940849 was granted in the United Kingdom on 20 January, 1993 and registered in Hong Kong on 18 August, 1994. Patent No. HK0940840 was granted in the United Kingdom on 16 December, 1992 and registered in Hong Kong on 18 August, 1994.	Plasmagene	to practise the polymerase chain reaction technique to facilitate the diagnostic procedure for studying a specific gene or its expression in blood plasma or serum	Hong Kong	29 May, 2001 to 27 March, 2006 subject to renewal of patents	9% of net revenue <i>(Note 8)</i> paid within 60 days from the last day of each half year. No royalty payment since 2006 due to the life of patent would have expired and technology would be open to the public	for the use of the PCR machine for commercial purposes, the technology will run out of its patent life as of 2006. There is no need for renewal as the technology would be open to the public and no royalties would be payable
2.	4 June, 2001 Exclusive licence	the Chinese University	Plasmagene	to use the technology titled "Non-Invasive Prenatal Monitoring" which includes the study of RNA in blood plasma or serum and to sub-license such technology <i>(Note 1)</i>	USA, the European Union, Australia, Hong Kong, Japan and the PRC	20 years from 22 June, 2001 or upon expiry of the licensed patent, whichever is later	Initial payment of HK\$100,000, plus HK\$100,000 upon granting a licensed patent in each agreed country, and a sum between HK\$10,000 and HK\$35,000 to be agreed between the parties after assessing the population of the relevant country to which the licensed patent applies provided the aggregate amount to be paid will not exceed HK\$1,000,000, and aggregate amount of royalty not less than HK\$3 million (equivalent to sales of approximately HK\$40 million) a year from the eighth year as of the effective date — 15% on the gross sales <i>(Notes 4 and 9)</i> generated worldwide except the PRC, U.S.A., the European Union, Japan, Australia and Hong Kong; — 10% on the gross sales <i>(Notes 4 and 9)</i> generated in the PRC; — 7.5% on the gross sales <i>(Notes 4 and 9)</i> generated in U.S.A., the European Union, Japan, Australia and Hong Kong; — 25% of total sub-licence fee	the original license of foetal maternal non-invasive testing licensed to the Group for its research. However, the Group's foetal maternal tests to be launched to the market would be based on an improved license (being license number 9). Currently, the Group does not have any test or plan to launch any test based on this licence
3.	22 June, 2001 Exclusive licence	ISIS, a subsidiary of University of Oxford	Plasmagene	to use and to sub-license the non-invasive pre-natal diagnosis technology and other PDX Technology for production, sale, licensing and other commercial exploitation of any product and service based on such technologies and product commercialisation <i>(Note 1)</i>	Australia, Japan, Hong Kong and the PRC <i>(see note 2)</i>	7 years from 22 June, 2001 in Australia. 7 years from the date the patent is granted in Hong Kong and Japan. 10 years from 22 June, 2001 in the PRC <i>(see note 3)</i>	12% of net selling price in Hong Kong and Australia, 4% of net selling price in the PRC, 10% and 12% of net selling price in Japan before and after granting of Japan's patent respectively <i>(Note 10)</i> paid within 30 days from the last day of each year	the original license of foetal maternal non-invasive testing licensed to the Group for its research. However, the Group's foetal maternal tests to be launched to the market would be based on an improved license (being license numbered 9) except for the test for X-linked recessive diseases and Rhesus D factor

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Date of agreement	Type of licence	Licensor	Licensee	Scope of licence	Location	Effective period	Royalty payment <i>(Note 6)</i>	Remarks	
4.	21 May, 2002	Exclusive licence	the Chinese University	Plasmagene	to use the PDx Technology, including research finding relating to the detection of DNA present in blood plasma or serum by DNA methylation analysis and to sub-licence such technology <i>(Note 1)</i>	Anywhere in the world	20 years from 1 April, 2002 or upon expiry of the licensed patent, whichever is later	<p>HK\$35,000 upon granting each licensed patent anywhere in the world, provided the aggregate amount account to be paid will not exceed HK\$1,000,000 plus</p> <p>— 10% of the gross revenue <i>(Notes 4 and 9)</i> with amount of royalties of no less than HK\$3 million a year since 1 April, 2010</p> <p>— 25% on all sub-licence fees received <i>(Note 4)</i></p>	<p>pertains to a discovery by Professor Lo that will identify fetus by the methylation patterns of the genes and which may be useful in finding specific genes in any foetal diseases. It has just been granted USA approval for a patent</p>
5.	31 July, 2002	Exclusive licence	the Chinese University	Plasmagene	to use non-invasive clinical risk-stratification and monitoring techniques for assessing medical condition of stroke patients using the PDx Technology and to sub-licence such technology <i>(Note 1)</i>	Anywhere in the world	20 years from 1 April, 2002 or upon expiry of the licensed patent, whichever is later	<p>HK\$35,000 upon granting each licensed patent anywhere in the world, provided the aggregate amount to be paid will not exceed HK\$1,000,000 plus</p> <p>— 10% of the gross revenue <i>(Notes 4 and 5)</i></p> <p>— A minimum guaranteed royalty of no less than HK\$100,000 a year for four years from the fifth anniversary as of the effective marketing date (means the date the parties agree to launch the licensed product commercially any where in the world) and HK\$250,000 a year from ninth anniversary as of the effective marketing date provided that the total marketing expenditures of the Group in the first three years from the effective marketing date reach HK\$1.5 million</p> <p>— If the total marketing expenditures in the first three years from the effective marketing date cannot reach HK\$1.5 million, the Group agrees to pay the Chinese University a minimum guaranteed royalty of not less than HK\$3 million a year from the eighth anniversary as of the effective marketing date</p> <p>— 25% on all sub-licence fees received <i>(Note 4)</i></p>	<p>pertains to the use of beta globin for the prognostic value of stroke patients and it has no connection with any others except license number 7 below</p>

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Date of agreement	Type of licence	Licensor	Licensee	Scope of licence	Location	Effective period	Royalty payment <i>(Note 6)</i>	Remarks	
6.	31 July, 2002	Exclusive licence	the Chinese University	Plasmagene	to use methods for evaluating a disease condition by nucleic acid detection and fractionation and to sub-license such methods <i>(Note 1)</i>	Anywhere in the world	20 years from 1 May, 2002 or upon expiry of the licensed patent, whichever is later	<p>HK\$35,000 upon granting each licensed patent anywhere in the world, provided the aggregate amount to be paid will not exceed HK\$1,000,000 plus</p> <ul style="list-style-type: none"> — 10% of the gross revenue <i>(Notes 4 and 5)</i> — A minimum guaranteed royalty of no less than HK\$100,000 a year for four years from the fifth anniversary as of the effective marketing date (means the date the parties agree to launch the licensed product commercially any where in the world) and HK\$250,000 a year from ninth anniversary as of the effective marketing date provided that the total marketing expenditures of the Group in the first three years from the effective marketing date reach HK\$1.5 million — If the total marketing expenditures in the first three years from the effective marketing date cannot reach HK\$1.5 million, the Group agrees to pay the Chinese University a minimum guaranteed royalty of not less than HK\$3 million a year from the eighth anniversary as of the effective marketing date — 25% on all sub-licence fees received <i>(Note 4)</i> 	<p>pertains to the use of a fractionation methodology in finding RNAs that are specific for different diseases. The examples given in the patent application is the use of a housekeeping gene RNA GAPDH for cancer diagnosis in liver and nasopharyngeal cancer patients. This is a stand alone patent and the Company is applying the methodology for the search for a general cancer diagnosis using GAPDH and possibly VEGF</p>

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Date of agreement	Type of licence	Licensor	Licensee	Scope of licence	Location	Effective period	Royalty payment <i>(Note 6)</i>	Remarks	
7.	15 August, 2002	Exclusive licence	the Chinese University	Plasmagene	to use quantitative analysis of pleural fluid cell-free DNA to diagnose the causes of pleural effusion and to sub-license such analysis <i>(Note 1)</i>	Anywhere in the world	20 years from 1 June, 2002 or upon expiry of the licensed patent, whichever is later	<p>HK\$35,000 upon granting each licensed patent anywhere in the world, provided the aggregate amount to be paid will not exceed HK\$1,000,000 plus</p> <p>— 10% of the gross revenue <i>(Notes 4 and 5)</i></p> <p>— A minimum guaranteed royalty of no less than HK\$100,000 a year for four years from the fifth anniversary as of the effective marketing date (means the date the parties agree to launch the licensed product commercially any where in the world) and HK\$250,000 a year from ninth anniversary as of the effective marketing date provided that the total marketing expenditures of the Group in the first three years from the effective marketing date reach HK\$1.5 million</p> <p>— If the total marketing expenditures in the first three years from the effective marketing date cannot reach HK\$1.5 million, the Group agrees to pay the Chinese University a minimum guaranteed royalty of not less than HK\$3 million a year from the eighth anniversary as of the effective marketing date</p> <p>— 25% on all sub-licence fees received <i>(Note 4)</i></p>	a similar patent with license number 5 above, using beta globin for pleural effusion diagnosis

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Date of agreement	Type of licence	Licensor	Licensee	Scope of licence	Location	Effective period	Royalty payment <i>(Note 6)</i>	Remarks	
8.	25 November, 2002	Exclusive licence	the Chinese University	Plasmagene	to use the gastric disease detection system for detecting EB virus DNA in stomach cancer, gastritis associated with EBV and EBV infections in other tissues leading to cancer and to sub-licence such system <i>(Note 1)</i>	Anywhere in the world	20 years from 25 November, 2002 or upon expiry of the licensed patent, whichever is later	HK\$35,000 upon granting each licensed patent in each agreed country provided the aggregate amount to be paid will not exceed HK\$1,000,000 plus 10% on gross sales <i>(Note 5)</i> generated worldwide and 25% of the total sub-licence fee <i>(Note 4)</i>	the second licence in time sequence that the Group worked with the Chinese University and Professor Lo. It was filed with Dr. Yeung's input from the Group and pertained to the use of EBV DNA in stomach cancer, gastritis as well as other diseases such as lung cancer, breast cancer and so on. The part pertaining to stomach cancer and gastritis and forms the exclusiveness of the Group's EBV DNA testing for such diseases worldwide
9.	1 March, 2003	Exclusive licence	the Chinese University	Plasmagene	to use the technology of circulating mRNA as diagnostic markers to detect pregnancy-related disorders and to sub-licence such analysis	Anywhere in the world	20 years from 1 March, 2003 or upon expiry of the licensed patent, whichever is later	<p>HK\$35,000 upon granting each licensed patent in each agreed country provided the aggregate amount to be paid will not exceed HK\$1,000,000 plus 10% on gross revenue generated worldwide and 25% of the total sub-licence fee <i>(Notes 4 and 5)</i></p> <p>— <i>A minimum guaranteed royalty of no less than HK\$100,000 a year for four years from the fifth anniversary as of the effective marketing date (means the date the parties agree to launch the licensed product commercially any where in the world) and HK\$250,000 a year from ninth anniversary as of the effective marketing date provided that the total marketing expenditures of the Group in the first three years for the effective marketing date reach HK\$1.5 million</i></p> <p>— <i>If the total marketing expenditures of the Group in the first three years from the effective marketing date cannot reach HK\$1.5 million, the Group agrees to pay the Chinese University a minimum guaranteed royalty of not less than HK\$3 million a year from the eighth anniversary as of the effective marketing date</i></p>	the main patent for the Group's foetal maternal products
10.	15 October, 2003	Non-exclusive licence	the Chinese University	Plasmagene	to use the technology for early diagnosis of SARS	Worldwide	10 years from 15 October, 2003	5% of net sales value <i>(Note 12)</i>	

Notes:

1. All of these licences relate to the use of the PDx Technology.
2. The related patent for Australia and Hong Kong were granted on 4 March, 1998 and 11 September, 2003 respectively. Application in respect of the related patents covering Japan has been filed on 6 September, 1999 and are pending as at the Latest Practicable Date.
3. The Group was also granted an option to renew this licence for a further period from the date the licence expires and continuing for so long as the commercial practice of the technology concerned is covered by a patent in the relevant jurisdictions, subject to the Group meeting a minimum cumulative aggregate royalty payment to ISIS of about HK\$7 million in 2008.
4. Royalty payment will be settled within 90 days from the last day of each quarter.
5. Gross revenue means the aggregate value of all the sales revenue of the related product without any deductions except open, fair discounts, refunds made to customers and rebates and all taxations payable in respect thereof (other than profits tax payable by the Group).
6. If a product uses the technologies from different licensing agreements, the Group needs to pay for the royalty payment under separate licensing agreements.
7. In general, the royalties for the licenses used in a product are added up. However, it is a term of the licenses from ISIS and the Chinese University that if one or more other licenses are used in addition to the ISIS license or a Chinese University license in a product, the royalties for those additional licenses can be used to deduct the ISIS or the Chinese University royalty payments but up to a certain maximum percentage.
8. Net revenue means the gross invoice price less deductions (where they are factually applicable and are not already reflected in the gross invoice price) including customary trade discounts, consumption and other taxes, and actual bad debts incurred which the Group can prove and document shall be considered by a deduction of no more than two percent of the gross invoice price.
9. Gross sales means for any period the aggregate value of all the sales revenue without any deductions, including without limitation, any deductions for returns, allowances appearing on the invoice, packing, insurance, freight, duties or taxes.
10. Net selling price means the gross selling price after deducting discounts, carriage and packaging, and sales, excise or other taxes (excluding income taxes).
11. Gross sales means for any period the aggregate value of all the sales revenue without any deductions except open, fair discounts, refunds made to customers and rebates and all taxation payable in respect thereof (other than profits tax payable).
12. Net sales means the invoiced price sold in arm's length transactions, or, where the sale is not at arm's length, the price that would have been so invoiced if it had been at arm's length, less normal trade discounts actually granted, any costs of packaging, insurance, freight, or any relevant tax, duties or similar government levies.

Please refer to the sub-section headed "Intellectual property" in Appendix V to this prospectus for further details.

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The following is a summary of the tests launched or planned to be launched by the Group (all of which are based on the PDx Technology), their applicable licences (using the same sequence number as the table of licenses above) and royalties payable. Deductions of royalty payments described below are based on the terms of the relevant licence agreements such that deductions can be made to the royalty payable if the Group is obliged to pay royalties to third parties for the sales made. Maximum deductions for the relevant licence agreements are also stated:

Name of the tests	Description	Applicable licence	% royalty on gross revenue
<i>EBgene, EBeasy and EBcombo</i>	Nasopharyngeal cancer	Licence 1	9% (<i>Note</i>)
<i>Real HPL, Real CRH and Real hCG</i>	Foetal maternal tests for re-eclampsia, possible trisomy 18 and investigating the use on Down's syndrome	i) Licence 1 ii) License 9	i) 9% (<i>Note</i>) ii) 6% (10% but with deduction of third party royalty payments up to 4%) iii) total 15% (i + ii)
<i>SARS test</i>	Test for SARS	i) Licence 1 ii) Licence 10	i) 9% (<i>Note</i>) ii) 5% iii) total 14% (i + ii)
<i>Inkgene 16</i>	Test for liver cancer	Licence 1	9% (<i>Note</i>)
<i>GAPDH test</i>	Screening test for cancer	i) Licence 1 ii) Licence 6	i) 9% (<i>Note</i>) ii) 6% (10% but with deduction of third party royalty payments up to 4%) iii) Total 15% (i + ii)
<i>GSTP1 test</i>	Test for prostate cancer	Licence 1	9% (<i>Note</i>)
<i>EBgastric</i>	Test for stomach cancer	i) Licence 1 ii) Licence 8	i) 9% (<i>Note</i>) ii) 6% (10% but with deduction of third party royalty payments up to 4%) iii) Total 15% (i + ii)
<i>XY gene</i>	Foetal sex test for X-linked recessive diseases such as haemophilia	i) Licence 1 ii) Licence 3	i) 9% (<i>Note</i>) ii) 9% (12% but with deduction of third party royalty payments up to 3%) iii) Total 18% (i + ii)

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Name of the tests	Description	Applicable licence	% royalty on gross revenue
<i>Rhgene</i>	Foetal test for Rhesus D factor	i) Licence 1 ii) Licence 3	i) 9% (<i>Note</i>) ii) 9% (12% but with deduction of third party royalty payments up to 3%) iii) Total 18% (i + ii)
<i>Cgene</i>	Test for organ transplant failure, trauma and stroke	i) Licence 1 ii) Licence 5	i) 9% (<i>Note</i>) ii) 6% (10% but with deduction of third party royalty payments up to 4%) iii) Total 15% (i + ii)
<i>PEgene</i>	Test for pleural effusion	i) Licence 1 ii) Licence 7	i) 9% (<i>Note</i>) ii) 6% (10% but with deduction of third party royalty payments up to 4%) iii) Total 15% (i + ii)

Note: As the life of the patent will expire in 2006, the technology will be opened to the public and the patent cannot be renewed. From then onwards, no royalty would be payable.

COMPETITION AND COMPETITIVE ADVANTAGES

The Group's competition environment in the IVD (in vitro diagnostic) market is strongly dependent on the success of the Group to demonstrate that its products are superior in performance as a diagnostic tool and that they are non-invasive to the patients by causing less pain and discomfort as well as being safe (to the foetus in the case of the foetal maternal products).

In the cancer diagnostic market, the present competition in the EBV marker of nasopharyngeal cancer is from the old anti-body tests. These anti-body tests are based on the body response to the EBV infections and consist of the measurements of the immunoglobulins A and G (human antibodies produced when there is an infection) levels towards some of the viral antigens present. They can detect a relatively small percentage of the early nasopharyngeal cancer cases. They are not quantitative and bear no indications as to the prognosis or progress of the disease. The anti-body tests can be manufactured in-house by individual laboratories using EBV cell lines or can be purchased from a number of companies in Taiwan. The price per test offered to the public is comparable to that of the Group's lower priced screening product *EBeasy*. The Group uses the PDx Technology or real time quantitative PCR methodology for the detection of EB virus associated cancerous diseases. For a similar PCR technology, there are a number of companies that offer EB virus DNA detection based on

PCR as a research tool and for the identification of the virus itself. These companies cannot be classified as competitors since their products are marked as reagents and as such are not recommended for clinical use. The price per test for these non clinical use EBV DNA reagents is slightly more expensive than the *EBeasy* test and is comparable to that of the more expensive quantitative *EBgene* test. The Directors consider that the Group's position in the testing of EBV associated cancer such as nasopharyngeal carcinoma, benchmarking against other competitors, should be measured by the uniqueness of the test's ability to actually measure the genome quantity of the EB virus in each cancer cell, practical usefulness and pricing. In addition, because of the pending proprietary position that the Group has in stomach and non head and neck cancer, the Directors believe that the Group should be in a good position to capture these future markets when they mature.

In the foetal maternal market, the competition for non invasive blood testing comes from companies making non-proprietary tests such as human chorionic gonadotropin, estriol, alpha fetoprotein and a few others. These tests are relatively inexpensive but they have to be done by bundling them together in sets of two, three or sometimes four. The price to the consumer is about HK\$650 per set. In addition, ultrasound of the foetal neck thickness has to be performed by doctors themselves in the late first and early second trimester to reinforce the blood test results. This would add approximately an additional HK\$500 to HK\$1,000 to the above. If the risk is judged high enough, such as those women age over 35, an invasive amniocentesis which can extract direct foetal tissue for examination is done at a cost of about HK\$2,400 to HK\$4,000. There are a number of companies that make testing products for the different foetal abnormalities in the amniocentesis fluid. The Directors consider that the Group's position in the testing of foetal maternal diseases, benchmarking against other competitors, will be governed by the accuracy of the tests offered, and the price advantage (the Group's product as a non-invasive blood test will cost less than both the combination non-invasive tests existing nowadays and the invasive amniocentesis). The Directors believe that the Group's test, with its feature of actually determining the foetal placental hormonal RNA, is in a unique position to offer the testing of actual foetal genetic materials derived by a non-invasive method.

The Directors consider that there are considerable barriers to entry in the field of diagnosis of serious illnesses at the early stage using non-invasive techniques. Being an early mover in this field and having established strong ties and a long history of cooperation with local universities, hospitals and healthcare institutions, coupled with market recognition of its testing services, the Directors believe that the Group is well positioned to maintain its competitive edge over other medical testing services providers.

Particularly, the Directors consider that competition in prenatal diagnosis is low given the already advanced stage the Group's research work has reached and the licences the Group has obtained which are in most cases exclusive. As far as the Directors are aware, there is no competitive patent relating to the detection of genetic markers in plasma or serum from a maternal blood sample for the diagnosis of prenatal diseases although the Directors are aware that other researchers have been using different methods for detecting prenatal diseases. The non-invasive feature of the Group's testing services is also expected to strengthen the competitive advantages of the Group.

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

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

SALES AND MARKETING

The Directors believe that broad market acceptance of the Group's testing services will be achieved by educating consumers and the medical community about the benefits of the Group's testing services. The Group has focused its marketing strategy on the concept of providing safe, non-invasive and relatively inexpensive tests. In Hong Kong, the Directors believe that limited marketing efforts are required as a result of research programmes entered into between the Group and local universities, doctors and healthcare organizations which have become familiar with the Group's testing services.

The Group's sales team keeps in direct contact with doctors and laboratories in Hong Kong to market the Group's testing services. Currently, brochures introducing the Group's testing services are distributed to users of a health-screening programme of an insurance company in Hong Kong and the Group also provides *EBeasy* testing services with another independent insurance provider in Hong Kong to use the Group's testing services for detecting cancer. In the near term, the Group plans to promote its testing services to the medical community, particularly in the obstetrics and oncology markets in Hong Kong, China, Japan and Australia. Please refer to subsection headed "Regulatory requirements" under the section of "Industry overview" of this prospectus for details on regulatory compliance issues. It is expected that with the good market reception of the Group's existing testing services and as recognition of the Group's future testing services by the medical community increases, the Group's requirements for sales and marketing support will reduce. As at the Latest Practicable Date, the Group had a total of three sales and marketing personnel in Hong Kong.

Sales are settled in Hong Kong dollars on credit terms of 30 days by cheques or telegraphic transfer. The Group makes provisions for its accounts receivable to the extent the receivable is considered to be doubtful, taking into account the payment history of the particular customer and the Group's business relationship with it. The credit limit for each customer is normally set with reference to the average monthly sales to this customer. The Directors evaluate the creditability of new customers on a case-by-case basis and assign a credit limit that ranges from HK\$5,000 to HK\$50,000, other than Town Health group whose credit limit is HK\$300,000. As part of the Group's stringent credit control, outstanding accounts receivable of the Group are closely monitored by way of correspondences and oral communications by the Group's financial controller and, in respect of long overdue amounts receivable, by the Board on a monthly basis. For the year ended 30 June, 2002, no specific provision for doubtful debts was recorded.

The Group's sales channel via the Internet has recently started. It is primarily targeting customers from other countries and because of this, only the kit form of the Group's tests is provided.

Marketing strategies for launching the Group's testing services and products to the market

The Directors believe that an effective marketing and distribution network is essential to the successful commercialisation of the Group's testing services and products in the targeted markets. The

Group's general launching and marketing strategies are applicable to all tests based on the PDX Technology platform as in vitro diagnostic (IVD) device with a real time PCR sequence detection system and are as follows:

1. For Hong Kong, the PRC and other countries in Asia where approval from the Food and Drug Administration of the United States (the "FDA") is not considered necessary for the launching of the test, the Group will be meticulous to finding a right business partner or agent to handle the marketing work. The Directors expect that sales can be achieved by the partner or agent or through the Internet, or through a local agent procured by the Group. The Group will prefer a reputable partner with a past record of sales and marketing in medical products, and make arrangement for investment in marketing the test to the targeted groups as specified under each disease category. The Group has so far identified a few potential partners and is now in the process of negotiating the terms of engagement. The likely channels are educational seminars and joint effort marketing with hospitals that already have or wish to purchase a real time PCR machine (a necessity to perform the tests themselves). Individual doctors' mailings or calling by sales team are also important since doctors in these countries may not use FDA approval as the standard of care. Soft, toned-down and ethical newspaper, television or magazine advertisement to the right patient group for these tests are applicable to a larger target population. Ultimately, easy ordering and delivery of test kits will be available to those doctors and hospitals requiring these tests for their patients.
2. For other countries where the FDA approval is important, the Group's sales and marketing work will only commence after the availability of the FDA approval for the tests. The Directors believe that marketing to these countries will be relatively easier since most doctors will use the FDA approval as the standard of care. The Group considers that the placement of advertisements in specialty journals and magazines may be sufficient for marketing purposes. In addition, a local agent and easy access to the ordering and delivery of the test kits will also be set up.

INSURANCE

The Group's laboratory equipment is insured against loss of income from natural disaster or damages due to fire and theft. Employees of the Group working at its laboratory are also insured for the general medical expenses. The Group is also covered by a professional indemnity insurance against liability arising from the Group's testing services and other losses that may arise therefrom. The Group has not experienced any claim in relation to its testing services throughout the Track Record Period. The Group's tests are tools used for the diagnosis of diseases but are not the only means of diagnosis. The diagnosis and the method of treatment are ultimately determined by doctors who would use a combination of diagnostic methods (such as CT scan and MRI). Any liability would be shared by the doctors who made the actual diagnosis. Moreover, the Group's tests involve the testing of blood samples that are not expected to have any direct effect on the patients. On this basis, the Directors consider that the insurance coverage of the Group is adequate.

CONNECTED TRANSACTIONS

The Group has from time to time conducted business with connected persons as described below. These transactions have been carried out in the ordinary course of business, on an arm's length basis and on normal commercial terms.

- A. The following connected transaction occurred during the Track Record Period and is not expected to continue following the Listing.

Reimbursement of directors' fee

Prior to the Reorganisation, Plasmagene and 3 Ben were subsidiaries of Century Year Company Limited, which is wholly and beneficially owned by Dr. Yeung and Ms. Margaret Tsui. During this period, the salary of Dr. Yeung as a director of Plasmagene, 3 Ben and Century Year were initially recorded in the books of Century Year Company Limited, and part of which was subsequently charged to Plasmagene and 3 Ben by way of monthly management fees paid by Plasmagene and 3 Ben to Century Year Company Limited pursuant to an agreement dated 15 July, 2002 (as supplemented by an agreement dated 6 September, 2002) entered into between these companies. Under these agreements, Plasmagene and 3 Ben agreed to pay Century Year Company Limited a monthly management fee of HK\$47,500 and HK\$15,000, respectively, being the respective directors' fee that would have been paid to Dr. Yeung as a director of Plasmagene and 3 Ben. The agreements were for a period from August 2001 to August 2004. Plasmagene, 3 Ben and Century Year Company Limited agreed to terminate the above arrangements on 1 October, 2002. No consultancy fees were paid after September 2002 and salaries and quarters provided to Dr. Yeung are directly charged to the Group. On 20 June, 2003, such consultancy agreements between Century Year Company Limited and each of Plasmagene and 3 Ben were terminated by their mutual agreement.

Purchase of equipments

On 25 June, 2003, Plasmagene acquired a car and several pieces of furniture from Century Year Company Limited at net book value of HK\$279,191 recorded in the books of Century Year Company Limited.

Both the reimbursement of directors' fee and purchase of equipments are connected transactions for the Company as Century Year Company Limited is an associate of Dr. Yeung, a Director.

Assignment of intellectual property rights

On 6 September, 2002, 24 September, 2003, 17 February, 2004 and 8 April, 2004, Dr. Yeung assigned to 3 Ben and Plasmagene all intellectual property rights relating to the use of FDG for treating cancer patients, the use of technology related to SARS and the use of technology of a combination test for EBV DNA. Consideration for each assignment is HK\$1.00. The assignments are perpetual. Apart from the payment of HK\$4.00 for the assignments, the Group had not paid

any fees to Dr. Yeung in respect of such patents during the Track Record Period. Under the GEM Listing Rules, Dr. Yeung is a person falling with the definition of a “connected person” after the Listing for so long as Dr. Yeung remains a substantial or management shareholder of the Company or a director of any member of the Group.

Deed of novation in respect of a charge over the entire issued share capital of Plasmagene

On 24 June, 2003, a deed of novation was entered into between New Oxford Management Limited (a company wholly owned by Century Year Company Limited which in turn is beneficially owned by Dr. Yeung and Ms. Margaret Tsui) and Chemosino International Limited (the “Deed of Novation”) in respect of the novation of a deed of charge dated 4 February, 2003 entered into between New Oxford Management Limited and the Noteholders (the “Deed of Charge”) in relation to the grant of a first legal mortgage over the entire issued share capital of Plasmagene in favour of the Noteholders as a continuing security for payment of all sums due to the Noteholders under the Convertible Notes. Under the Deed of Novation, Chemosino International Limited shall assume the obligations, undertakings and guarantees of New Oxford Management Limited under the Deed of Charge.

Novation agreement in respect of the tenancy of the place of residence of Dr. Yeung

On 25 March, 2003, a novation agreement was entered into between Century Year Company Limited, an associate of Dr. Yeung, the Company and the landlord who is an independent third party (the “Novation Agreement”) in respect of the novation to the Company of a tenancy agreement dated 6 November, 2002 (the “Tenancy Agreement”) relating to the premises at Duplex Flat B, 1st Floor and Car Parking Space No. 8 on the 3rd Lower Ground Floor, No. 1 Garden Terrace and 8 Old Peak Road, Mid-Levels, Hong Kong, being the place of residence of Dr. Yeung. Under the Novation Agreement, the Company shall assume the obligations of Century Year Company Limited under the Tenancy Agreement.

- B. Following the Listing, the Group will continue to conduct connected transactions as described below.

The following connected transactions are exempted under Rule 20.34 of the GEM Listing Rules from the independent Shareholders’ approval requirements.

Sub-leasing of office

A sub-tenancy agreement was entered by the Company on 29 August, 2003. The Group has agreed to sub-lease part of its office to Wellchamp Capital Limited for a period of one year commencing on 26 May, 2003 for a monthly rental of HK\$25,000. Wellchamp is now sharing the property with Plasmagene upon same terms and conditions as contained in the sub-lease agreement notwithstanding that the term has already expired. An amount of HK\$33,402 and HK\$162,355 has been paid by Wellchamp Capital Limited to the Company as net rental and utility charges during the year ended 30 June, 2003 and the six months ended 31 December, 2003 respectively. The sub-leasing is a connected transaction as Wellchamp Capital Limited, being a

company owned as to 97.6% by Mr. Cheng Yan Tak, Angus Ronald, a Director and an Initial Management Shareholder would constitute an associate of such Director under the GEM Listing Rules. The Company will comply with the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules in respect of such transactions following the Listing.

- C. The following continuing connected transactions are subject to approval by the independent shareholders of the Company in general meetings as required under Rule 20.18 of the GEM Listing Rules.

Community research programme jointly conducted with Spring Biotech

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

Plasmagene charges Spring Biotech a fee based on a fixed scale depending on the type of testing services offered to patients at Town Health's medical centre. Such fee rates are the same as those charged for third party customers. Under the supplemental agreement dated 7 August, 2002, Spring Biotech agreed to use its reasonable endeavour to procure that the Group's total gross revenue from offering its testing services at Town Health's medical centre will not be less than HK\$3 million up to 30 June, 2004. The agreement is for a period of twenty-six months commencing from 1 May, 2002 until 30 June, 2004. For the two years ended 30 June, 2003 and the six months ended 31 December, 2003, the Group received fees from Spring Biotech of HK\$162,660, HK\$483,380 and HK\$496,380 respectively. The relevant agreements do not stipulate any penalty to be made by Spring Biotech in the event the gross revenue is less than HK\$3 million up to 30 June, 2004. As stated in the relevant agreement, Spring Biotech agreed to use its reasonable endeavour to procure that the revenue will not be less than HK\$3 million. If Spring Biotech has not used its reasonable endeavour to achieve the target of HK\$3 million during the two year ending 30 June, 2004, the Group may consider not renewing the agreement with Spring Biotech at the end of 30 June, 2004. However, it is the intention of the Group and Spring Biotech to renew the existing agreement prior to its expiration for twelve months until 30 June, 2005 upon similar terms. Under the GEM Listing Rules, Spring Biotech is an Initial Management Shareholder and substantial shareholder of the Company, and is a person falling within the definition of a "connected person" after the listing of the Shares for so long as Spring Biotech and/or Town Health remains as a substantial or management shareholder of the Company.

The connected transactions as described above between Plasmagene and Spring Biotech after the Listing Date will normally require full disclosure and independent Shareholders' approval on each occasion they arise unless they fall within any of the exceptions set out in the GEM Listing Rules. As the Group expects that these connected transactions will continue in the foreseeable future on normal commercial terms, and occur on a regular basis after the Shares are listed on GEM, the Directors consider that it would not be practical to make disclosure and obtain independent Shareholders' approval for these transactions each time they occur after the Listing Date. The Directors expect that the annual total income received from Spring Biotech may exceed the de minimus transactions threshold as set out in Rule 20.33(3) of the GEM Listing Rules for the year ending 30 June, 2004. Accordingly, the Company has applied to the Stock Exchange for a waiver from the requirements under Rules 20.47 and 20.48 of the GEM Listing Rules. Details of the waivers granted by the Stock Exchange are set out in the paragraph headed "Connected transactions" of the section headed "Waivers from compliance with the GEM Listing Rules" in this prospectus.

In the opinion of the Directors (including the independent non-executive Directors) and the Sponsor, the connected transactions as described above between Plasmagene and Spring Biotech fall within the ordinary course of business of the Group on normal commercial terms and are fair and reasonable so far as the interests of independent Shareholders are concerned. The Directors (including the independent non-executive Directors) and the Sponsor are also of the opinion that the cap estimation (as detailed in the sub-section headed "Cap estimation" under the section headed "Waiver from strict compliance with the GEM Listing Rules") is fair and reasonable.

BUSINESS OBJECTIVES AND STRATEGIES

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

The Group plans to advance and commercialise the diagnostic and screening technology for the early detection of prenatal and cancerous diseases as well as other major illnesses through the expansion of its research capability and establishment of strategic alliances with other life science research organizations and/or pharmaceutical companies in the world. At the same time, the Group will build upon its knowledge in the prenatal and cancer diagnostic field in practical and commercial clinical applications to increase its range of testing services offered to the market. The Group aims to establish its existing and future testing services as the preferred tests for foetal and cancerous diseases in the Asian region through gradual recognition of its testing services by the medical community and patients. At the same time, the Group intends to market its existing cancer testing services, namely, *EBgene*, *EBeasy* and *EBcombo* in China in the next two years. The Directors anticipate a good prospect in these markets given that nasopharyngeal and EB virus associated stomach cancers are common diseases in the Chinese communities.

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

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

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

In order that the Group is kept abreast of the latest developments in the medical diagnostic industry, the Group's research and development will be strengthened in a three-pronged approach. First, the existing Consultancy Arrangement between the Group and Professor Lo and the Right of First Refusal Agreement will continue to serve as a strong research support to the Group. (Please refer to the section headed "Relationship with Professor Lo and the Chinese University" for further details.) Secondly, the Group's own research team will carry out research activities on programmes selected on the basis of practicality and ease of commercialisation to ensure that the Group's research methodology is ahead of its competitors. These in-house research programmes relate to the detection of prostate cancer, colon cancer and cancer in general. The Group's research teams will also carry out research activities focusing on post

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

market clinical research to allow the Group to further improve its existing testing services in terms of accuracy of the tests and shortening the length of time to produce test results. Thirdly, the Group will seek opportunities to acquire third party diagnostic technologies to complement the Group's research capabilities.

— **establishing alliances with strategic partners**

The Group intends to establish alliances in Hong Kong with major local laboratories for marketing the Group's testing services to their customers, who are mainly doctors and laboratories. The Directors believe that such alliances will represent effective marketing tools which will allow the Group's product to reach local doctors who are frequent users of laboratories. When an alliance that is commercially beneficial to both parties is established with certain key laboratories, they will likely market the Group's testing services to their own customers and end-users. In Hong Kong, laboratories usually retain a list of doctors that are routinely sending laboratory business to them. The Directors consider that it would be easier to market to these doctors through alliances with the laboratories rather than by the Group on its own. The Group also plans to establish strategic alliances with leading physicians in the obstetrics and oncology fields and medical institutions in Hong Kong to use the Group's testing services for diagnosing their patients. At the same time, the Group will explore forming alliances with major international medical insurance providers with a view to introducing the Group's testing services to medical insurance policies for individuals classified as high risk, meaning those individuals who have a strong family history of certain cancers as well as those with medical conditions that may lead to or develop into cancer, such as gastritis and hepatitis carriers. This exploration entails a detailed explanation of the capability of the Group's testing services in helping to minimise the risk of the insurance companies, but at the same time offering certain health assurance to individuals that will be signing up for health and life insurance.

— **developing future testing services**

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

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

The Group plans to expand its business scope geographically initially to neighbouring countries. In Asia, the Group will target initially China, Australia and Japan as each of these countries has its own endemic disease categories for which the Group's testing services can be applied. An example of this would be in China where the anticipated use of the Group's tests would be for liver cancer, a disease which had in the past been ranked as one of the diseases with the highest mortality. In Australia, pregnant women who are rhesus factor negative are usually recommended to undergo a rhesus factor test to detect the likelihood of haemolytic diseases of the newborn. Accordingly, the Group's *Rhesus D test* is being developed to cater for such demands. The test is expected to be launched in January 2005. Additionally, the Group's EB virus

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associated cancer tests, namely, *EBgene*, *EBeasy* and *EBcombo* are expected to attract considerable demand in Japan where there has traditionally been a high incidence of stomach cancer. Other than setting up laboratory facilities and sub-licensing, the Group can also expand its business geographically by setting up representative offices, distribution through forming alliances and offering the testing services in kit form. The Group's website at *www.plasma-gene.com* provides easy access for its customers to order the Group's testing services through the Internet and for delivery of blood specimens to its laboratory in Hong Kong.

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

The Directors understand that the Group has to apply for the registration of the formula of the test kits to be exported to countries including Japan and the PRC. If the Group seeks to perform testing service in those countries, the testing facilities have to meet the licensing requirements of those countries. The Directors believe that there is normally a minimal lead time for meeting the compliance requirements for testing facilities, while a lead time of approximately six months to one year is required for registration of test kits to be exported to those countries. The Group also has to engage an agent that is able to perform the necessary language translation and preparation of the test kits registration papers.

The Directors are of the view that regulatory compliance would not be a major obstacle with respect to the Group's geographical expansion plan both in terms of timing and compliance capability since the Directors have seen new in vitro tests, which the Group's products are labelled, constantly being added and changed in all the countries mentioned above.

— expansion of sales and marketing efforts

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

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

FUTURE TESTING SERVICES

Based on the focused line of business in utilising the PDx Technology, Plasmagene is in an advanced stage of its research and development for diagnosis and screening of prenatal and cancerous diseases. As at the Latest Practicable Date, the Group has over 11 future testing services in the pipeline that are expected to be launched in the coming two years subject to the successful conclusion of research and trial stages. The Group plans to introduce a number of future testing services, as described below, during the current financial year and the two years thereafter.

Cancerous diseases

Product type

Description

Test for liver cancer

This product is being field tested to reconfirm its usefulness in diagnosing hepatitis-related liver cancer in the early stages when resection may cure this disease. This test is expected to be used on patients on a quarterly or half-yearly basis. This test may be used to supplement the detection of early liver cancers that are missed by traditional tests. The test for liver cancer is distinct from the Group's existing cancer testing services that are suitable for detecting nasopharyngeal cancers and stomach cancers.

Product name: *Inkgene 16 or tumoral p16 DNA methylation*

Markets where this product is to be offered: Hong Kong, China, Japan and Australia

Screening test for cancer

This product is under research and is aimed to detect cancer through the analysis of the presence of certain RNA in blood plasma or serum which is linked to cancerous diseases.

Product name: *RNA test, GAPDH test*

Market where this product is to be offered: Hong Kong

Test for prostate cancer

This product detects a genetic marker known as the *GSTP1* gene. The *GSTP1* gene is methylated in around 90% of prostate cancer cells.

Product name: *GSTP1 test*

Market where this product is to be offered: Hong Kong

Test for stomach cancer

This product combines the underlying technology of *EBgene* and *EBeasy* with the traditional test for bacteria causing gastritis.

Product name: *EBgastric*

Market where this product is to be offered: Japan

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Product type	Description
Sensitive test for NPC suitable to check for recurrence	<p>This product is at its last stage of development. It will increase the sensitivity of <i>EBgene</i> by a factor of three to four times. It will be used for those patients who have completed their NPC treatment and are being monitored for early recurrence. Once the test is positive, the patient can undergo other imaging services so that early treatment of the recurrence can be done.</p> <p>Product name: <i>EBsens</i></p> <p>Markets where this product is to be offered: Hong Kong, China, Japan and Australia</p>
Screening test for the cancer potential of patients harboring EBV reactivations	<p>This product is still at an early stage of research that will tell the cancer developing potential of those patients harboring seemingly benign EBV reactivation. The single nucleotide change in three areas in a section of the EB virus gene has been implicated as a frequent finding in cancer patients. This test will widen the general screening use of the EBV test for a variety of cancer patients besides nasopharyngeal cancer.</p> <p>Product name: <i>EBonco</i></p> <p>Markets where this product is to be offered: Hong Kong, China, Japan and Australia.</p>
Foetal maternal diseases	
Product type	Description
Foetal sex test for X-linked diseases	<p>By using maternal blood, this product allows the determination of the sex of the foetus for use in the prenatal investigation of X-linked diseases. The results of this test are close to 100% accurate. Foetal sex determination has successfully been performed on pregnancies from 12 to 40 weeks of gestation during clinical trials.</p> <p>Product name: XY gene</p> <p>Markets where this product is to be offered: Hong Kong, Japan and Australia</p>

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Foetal maternal diseases

Product type	Description
Rhesus D test	<p>Rhesus factor is a group of antigens that may or may not be present on the surface of red blood cells. Most people have the rhesus D factor, that is, they are rhesus D positive. People who lack the factor are termed rhesus D negative. Incompatibility between the rhesus D status of the mother and her unborn fetus is an important cause of haemolytic disease of the newborn. As around 16% of Caucasian pregnancies are rhesus D negative, this test is mostly suited for pregnant Caucasian females. The Rhesus D test detects the rhesus D status of the foetus and would result in the avoidance of invasive testing such as amniocentesis.</p> <p>Product name: <i>Rhgene</i></p> <p>Markets where this product is to be offered: Australia and Japan</p>
Test for Down's syndrome	<p>By using a maternal blood test, this test is expected to allow the diagnosis of Down's syndrome at an early stage of pregnancy.</p> <p>Product name: Not yet named</p> <p>Markets where this product is to be offered: Hong Kong, the China, Japan and Australia</p>

Other illnesses

Product type	Description
Test for organ transplant failure, trauma and stroke	<p>This test will be used for patients who have suffered from trauma and stroke to assess the disease condition and to give prognostic indication as to how the patients may respond to certain treatment. Research is also underway to evaluate the possible use of this test to identify patients who may be at risk of developing stroke.</p> <p>Product name: <i>Cgene</i></p> <p>Markets where this product is to be offered: Hong Kong, Japan and Australia</p>
Test for pleural effusion	<p>This product is used to diagnose the cause of pleural effusion and determine whether it is caused by cancer, infection or heart failure.</p> <p>Product name: <i>PEgene</i></p> <p>Market where this product is to be offered: Hong Kong</p>

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The current research trial status and the anticipated commercial launch date of the Group's future testing services are depicted below.

Product type	Initial proof of medical value	Patent filing	Laboratory and clinical testing	Field testing and community research	Expected launch date
Test for liver cancer	Completed	Not yet begun	Completed	Underway	October 2004
Test for organ transplant failure, trauma and stroke	Completed	Completed	Completed	Completed	July 2004
Test for stomach cancer	Completed	Completed	Completed	Completed	September 2004
Test for pleural effusion	Completed	Completed	Completed	Completed	July 2004
Test for prostate cancer	Completed	Not yet begun	Underway	Not yet begun	January 2006
Screening test for cancer	Completed	Completed	Underway	Not yet begun	November 2005
Rhesus D test	Completed	Completed	Completed	Completed	January 2005
Test for Down's syndrome	Completed	Completed	Underway	Not yet begun	September 2004
Foetal sex test for X-linked diseases	Completed	Completed	Completed	Underway	September 2004
Sensitive test for NPC suitable to check for recurrence	Completed	Completed	Underway	Not yet begun	September 2004
Screening test for the cancer potential of patients harboring EBV reactivations	Completed	Completed	Underway	Not yet begun	April 2005

Note: The above tests are distinct from the Group's existing cancer testing services that are suitable for detecting nasopharyngeal cancers and stomach cancers.

The Group's research, laboratory and clinical testing, field testing and community search programmes for new products are conducted by its own R&D staff. For performing field and community research programmes, supporting staff from the administration division of the Group would provide assistance with the set up and logistics of such operations.

Advantages of the Group's future testing services over similar testing services in the market

The Group's testing services under development in the cancer diagnosis field are intended to facilitate early detection that is critical for cancerous diseases, and are expected by the Directors to be less expensive and more effective than conventional screening testing services such as PET scan or CT scan. The Group's existing testing services are priced in the range from around HK\$250 to HK\$750, as compared to a PET scan or CT scan which normally costs about ten times more. The Group's *EBgene* testing service is 96% sensitive in detecting all nasopharyngeal cancer cases and if test result is positive, 93% specific to the disease it is meant to detect. This compares with slightly over 90% in terms of sensitivity (in the samples that are all positive being the percentage that can be detected by the test) and specificity (in the numbers detected as positive by the test being the percentage of the actual ones with the disease) using a PET scan. Particularly, the Group's concertising services serve as a preliminary diagnosis of cancerous diseases. If the test results are positive, the patient can be given the PET scan or a CT scan to confirm the diagnosis and location of the cancer. A further example of this is the Group's test for liver cancers that is expected to improve the current early liver cancer detection of below 10% to over 60%, and supplement the existing screening methods using the ultrasound technique.

The Directors consider that the Group's foetal tests used for the detection of X-linked diseases and Down's syndrome are expected to have the advantages of being safer, cheaper and more sensitive than the alternative diagnostic procedures currently available on the market. These testing services use a blood test that is expected to give results that are close to 100% accuracy.

IMPLEMENTATION PLANS

From the Latest Practicable Date to 30 June, 2004

Strategic development

- to seek opportunities from SARS test and the planning of worldwide campaign of test for Down's¹ syndrome.

Research and product development

- to complete field testing and community research of the Group's test for liver cancer²;
- to continue laboratory and clinical testing of the Group's test for prostate cancer³ and *EBonco*⁹;
- to complete laboratory and clinical testing of the Group's screening test for cancer and *EBsens*⁸;
- to continue the refinement of test for Down's syndrome¹;

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Sales and marketing

- to launch the Group's SARS test in Hong Kong and the PRC, by first establishing and set product standards in its laboratory for this test and then market the test to the appropriate end users, such as doctors in the specialised field. The marketing of SARS will target government agencies and will only commence if there is a SARS reoccurrence;

Period from 1 July, 2004 to 31 December, 2004

Strategic development

- to seek opportunities to acquire third party diagnostic technologies to complement the Group's research capabilities;

Research and product development

- to start the field testing and community research of the Group's screening test for cancer;
- to complete the laboratory and clinical testing of the Group's test for prostate cancer³ and *EBonco*⁹;
- to complete the field testing and community research relating to the Group's *EBcombo* test;
- to complete the refinement of test for Down's syndrome¹;

Sales and marketing

- to launch the Group's test for pleural effusion⁴, organ transplant failure, trauma⁵ and stroke⁶ and test for betaHCG¹ and HPL¹ in Hong Kong by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the Group's test for liver cancer² in Hong Kong, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the Group's test for stomach cancer and organ transplant failure, trauma⁵ and stroke⁶ in Japan, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the foetal sex test for X-linked diseases and *EBgastric*⁷ in Hong Kong, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- to launch the Group's *EBgene*, *EBeasy* and *EBcombo* in PRC and Japan, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the sensitive test for NPC by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to provide easy access for its customers to order the Group's testing services through the Internet and for delivery of blood specimens to its laboratory in Hong Kong by the Group's website;
- to launch the Group's test for Down's syndrome¹ and *EBsens*⁸ in Hong Kong and the PRC, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;

Period from 1 January, 2005 to 30 June, 2005

Strategic development

- to form strategic alliances with biotechnology companies to carry out research into new testing methodologies for detection of critical illnesses. Companies in Hong Kong and the PRC will be the primary target for such an alliance because exchange of information and technologies would be easier;
- to lease laboratory facilities in Australia and Japan for offering the Group's testing services. Technicians at these laboratories will collect and deliver blood samples to the Group's laboratory in Hong Kong for further handling. Testing results will subsequently be delivered to the overseas customers;

Research and product development

- to continue the field testing and community research of the Group's screening test for cancer;
- to start the field testing and community research of the Group's test for prostate cancer³;

Sales and marketing

- to launch the Group's test for organ transplant failure, trauma and stroke in Australia and to appoint hospitals and laboratories as sub-licensees for the technology underlying such products in Australia, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the Group's *EBgene*, *EBeasy*, *EBcombo* and *EBsens*⁸ and Rhesus D¹ test in Australia, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- to launch the Group's test for liver cancer² in the PRC and Japan, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the Group's foetal sex test for X-linked diseases, Down's syndrome¹ and *EBsens*⁸ in Japan, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the Group's *EBonco*⁹ in Hong Kong and PRC, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the screening test for the cancer potential of patients harbouring EBV reactivations in Hong Kong by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such doctors in the specialised field;

Period from 1 July, 2005 to 31 December, 2005

Strategic development

- to launch a worldwide campaign for the Group's test for Down's syndrome¹;
- to launch a worldwide campaign with a view to forming close associations with other laboratories, health institutions and government agencies for joint launches of the Group's testing services;

Research and product development

- to complete the field testing and community research of the Group's test for prostate cancer³ and screening test for cancer;

Sales and marketing

- to launch the Group's screening test for cancer in Hong Kong, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the Group's test for liver cancer² and foetal sex test for X-linked diseases¹ and *EBonco*⁹ in Australia, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;
- to launch the Group's Rhesus D¹ test and *EBonco*⁹ in Japan and to appoint hospitals and laboratories as sub-licensees for the technology underlying such product in Japan, by first establishing and setting product standards in its laboratory for this test and then marketing the test to the appropriate end users, such as doctors in the specialised field;

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Period from 1 January, 2006 to 30 June, 2006

Strategic development

- to seek opportunities to acquire new diagnostic technology that would complement the Group's testing services;

Research and product development

- to start laboratory and clinical testing of the Group's stem cell technology for treating cancer patients and replacing damaged organs and tissues;
- to start laboratory and clinical testing of the study of the forms and nature of protein for the diagnosis of diseases;

Sales and marketing

- to launch the Group's test for prostate cancer³ in Hong Kong, by first establishing and set product standards in its laboratory for this test and then market the test to the appropriate end users, such as doctors in the specialised field;

Period from 1 July, 2006 to 31 December, 2006

Strategic development

- to expand the Group's knowledge and technology in medical diagnostic fields focused by the Group by forming alliances with leading researchers in the academia and biotechnology industries;

Research and development

- to continue the laboratory and clinical testing of the Group's stem cell technology for treating cancer patients and replacing damaged organs and tissues;
- to continue laboratory and clinical testing of the study of the foams and nature of protein for the diagnosis of diseases;

Sales and marketing

- to continue promoting the Group's testing services in the PRC, Australia and Japan;

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Referenced number for each disease and their targeted specialty doctors and the targeted patient population

1. Foetal maternal tests including Down's syndrome, Rhesus D test, betaHCG and HPL: doctors targeted are the Obstetrics and Gynaecologists and Paediatricians. Patients targeted are the young families and pregnant women. Institutions targeted are the Obstetrics hospitals and family planning clinics.
2. Liver cancer: doctors targeted are the Hepatologists, Gastro-enterologists, Internists and surgeons. Patients targeted are those that are hepatitis B and C carriers, liver cirrhosis and ones with family history of liver cancer.
3. Prostate cancer: doctors targeted are the Urologists, Urological surgeons, Internists and Gerontologists. Patients targeted are all males over the age of 50.
4. Pleural effusion: doctors targeted are the Internists, Cardiologists and surgeons. Patients targeted are the chronic smokers.
5. Trauma: doctors targeted are the emergency room doctors and intensive care doctors. Institutions targeted are the acute care hospital with trauma centers.
6. Stroke: doctors targeted are the Neurologists, Neuro-surgeons, Internists and Cardiologists. Patients targeted are those with hypertension, obese, and those with diabetes or history of stroke before.
7. *EBgastric*: doctors targeted are the Internists, Gastro-enterologists and surgeons. Patients targeted are people with chronic gastritis, Japanese in origin.
8. *EBsens*: doctors targeted are the Oncologists or radio therapists that are treating NPC patients.
9. *EBonco*: general screening test for all doctors.

BASES AND ASSUMPTIONS

The Group's business objectives set out above have been formulated on the following bases and assumptions:

- there will be no significant change in the regulatory environment of Hong Kong, China, Australia, Japan and other countries mentioned above that will adversely affect the business and activities of the Group;
- the Group will not encounter any difficulties in having the patents granted in the respective countries;

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- there will be no new technology or method that can adversely affect the performance of the testing services launched by the Group;
- suitable personnel can be recruited and retained by the Group;
- the Group can pass the regulatory requirements of the countries, where appropriate, that will be targeted for marketing and sales;
- there will be no material change in the tax bases or tax rates in any jurisdiction in which the Group carries on its business;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business and operations of the Group; and
- the Group is not materially adversely affected by any risk factor set out in the section headed “Risk factors” in this prospectus.

USE OF PROCEEDS

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

- approximately HK\$4.3 million for financing the patent expenditure in respect of existing and new testing services developed, or to be developed, from technologies licensed to the Group;
- approximately HK\$13.4 million for funding the marketing activities relating to the Group’s existing and future testing services when the Group’s business is expanded to China, Australia, Japan and via the Internet;
- approximately HK\$3.6 million for funding the compliance requirements in relation to the Group’s business expansion to China, Australia, Japan and via the Internet. The Directors consider that the costs of compliance requirements mainly include registrations of individual products/testing services to governmental and regulatory bodies and the related legal costs; and
- approximately HK\$2.7 million for the Group’s research activities relating to the development of new testing services.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The table below shows the breakdown of the use of proceeds from the Share Offer, as categorised into every six-month period up to 31 December, 2006.

	Latest Practicable Date to 30 June, 2004 HK\$	1 July, 2004 to 31 December, 2004 HK\$	1 January, 2005 to 30 June, 2005 HK\$	1 July, 2005 to 31 December, 2005 HK\$	1 January, 2006 to 30 June, 2006 HK\$	1 July, 2006 to 31 December, 2006 HK\$	Total HK\$
Patent expenditure	140,000	1,000,000	770,000	990,000	990,000	410,000	4,300,000
Product marketing	20,000	930,000	2,290,000	2,110,000	3,960,000	4,090,000	13,400,000
Compliance requirements	20,000	380,000	500,000	700,000	1,000,000	1,000,000	3,600,000
Research and development	<u>20,000</u>	<u>660,000</u>	<u>610,000</u>	<u>500,000</u>	<u>450,000</u>	<u>460,000</u>	<u>2,700,000</u>
	<u>200,000</u>	<u>2,970,000</u>	<u>4,170,000</u>	<u>4,300,000</u>	<u>6,400,000</u>	<u>5,960,000</u>	<u>24,000,000</u>

In the event that the business plan of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the requirements of the Group and other relevant factors and circumstances and may reallocate parts of the net proceeds from the Share Offer to other business plans, new projects and, or investment opportunities and, or place the same on short-term deposits. Any material departure from the use of proceeds stated above will be announced accordingly.

The Directors consider that the net proceeds from the Share Offer, together with the Group's internally generated funds, will be sufficient to finance the future development of the Group up to 31 December, 2006 as described in the section headed "Statement of business objectives and strategies" in this prospectus.

DIRECTORS**Executive Directors**

Dr. YEUNG Wah Hin, Alex, aged 56, is the chairman of the Board. Dr. Yeung graduated from the University of Hong Kong in June 1970 and holds a bachelor degree in medicine and surgery. He continued his post-graduate medical training at the University of Southern Florida in the United States from 1971 to 1974. Following his tumour immunology fellowship training at The Public Hospital, University of California, the United States between 1975 and 1976, he worked as the medical director for several years, specialising in the field of clinical immunology before moving into private practice in Irvine, California, the United States. Since 1987, Dr. Yeung served as the medical director for Biotherapeutics Hong Kong Limited and in the same year, he initiated a research project to study liver cancer. From 1992 to 1995, Dr. Yeung served as the consultant medical director for Amgen Inc. and helped to launch their testing services used for chemotherapy into China. In 1996, Dr. Yeung was the biotechnology consultant to a consortium of investors in Asia relating to an investment in a company that produced an anti-cancer drug. Since 1999, Dr. Yeung had advised in the capacity as a director of Century Year Company Limited on the establishment and management of a cyclotron and PET scanning facility at St. Teresa Hospital and Hong Kong Baptist Hospital in Hong Kong. He is a member of the American Society of Clinical Oncologists and has published a number of articles on new cancer treatment methods. Dr. Yeung joined the Group on 20 April, 2001.

Mr. CHO Kam Luk, aged 69, is an executive director of Town Health and the father of Dr. Cho Kwai Chee, the controlling shareholder of Town Health. Mr. Cho has over 40 years of experience in interior design, decoration and general management. Mr. Cho's experience as a director of a medical company strengthens the Group's business knowledge on the clinical aspects of the Group's products. His advice plays an important role in the practical interactions of the Group's products with the physicians. He has been actively participated in community activities and is currently serving as a director of Hong Kong Commerce and Industry Associations Limited, a treasurer of Hong Kong Shatin Industries and Commerce Association Limited, a consultant to Shatin Junior Police Call Farm and the vice-chairman of Shatin Livelihood Concern Group. Mr. Cho joined the Group on 8 August, 2002.

Mr. CHENG Yan Tak, Angus Ronald, aged 42, is the chief financial officer of the Company. Mr. Cheng graduated from the Chinese University with bachelor degree in business administration in 1984. He has extensive experience in international investments and has held various positions in international financial institutions. Mr. Cheng was a manager at County Natwest Securities Asia Limited from December 1986 to January 1989 and an investment manager at Sumitomo Finance (Asia) Limited from March 1989 to December 1992. He is responsible for overseeing the Company's financial management. Mr. Cheng joined the Group on 15 July, 2002 and has had an indirect shareholding interest in the Group through Vanbarry Corporation. He had been one of the founding partners and contributed to the management of the Group since the beginning of its active business pursuits period.

Ms. TSUI Mai Ling, Margaret, aged 46, is the wife of Dr. Yeung. Ms. Margaret Tsui has over fourteen years of experience in the medical business in developing the business of Century Year Company Limited. Ms. Margaret Tsui provided marketing and administrative support to the Group. She has also been actively involved in charity activities in Hong Kong. Ms. Margaret Tsui was appointed as an executive Director on 22 August, 2002. Ms. Margaret Tsui had been involved in the management of Plasmagene through her representative, Mr. Wong King Yeung, who was appointed as a director of Plasmagene on 20 April, 2001. Ms. Margaret Tsui had been one of the founding partners and contributed to the management of the Group since the beginning of its active business pursuits period.

Non-executive Director

Mr. LAU Kam Shan, aged 48, was appointed as a non-executive Director on 8 August, 2002. Mr. Lau is engaged in the business of retail clothing in the PRC and the export of fabric from the PRC to the United States and has over 29 years' experience in textile business and trading. He is a director of Yi Feng Enterprises Limited, a local private company engaged in textile trading business.

Independent non-executive Directors

Professor CHUNG Sheung Chee, Sydney, aged 49, was appointed by the Board as an independent non-executive Director on 8 August, 2002. He is the Dean of the Faculty of Medicine and professor of surgery of the Chinese University until 30 June, 2004 and was the director of Endoscopy Centre of the Prince of Wales Hospital until 30 September, 2003. He has extensive experience in the healthcare industry and has held a number of senior positions with various professional organisations, including president to The College of Surgeons of Hong Kong from May 2002 to May 2005, chairman of Licentiate Committee to The Medical Council of Hong Kong from February 2001 to February 2004, vice president of Hong Kong Kidney Foundation from June 2001 to June 2004, president of Endoscopic and Laparoscopic Surgeon of Asia from 1992 to 1993. He also serves on the editorial board of several medical journals including British Journal of Surgery, Gastrointestinal Endoscopy, Tropical Gastroenterology, China Journal of Endoscopy, Hong Kong Medical Journal, Endoscopy and Digestive Endoscopy. He graduated from the Royal College of Surgeons in Ireland in 1980 and holds the qualifications of Licentiate of Royal College of Physicians of Ireland, Licentiate of Royal College of Surgeons of Ireland, Bachelor of Medicine and Bachelor of Surgery, Bachelor of Obstetrics (National University of Ireland), Fellow of Royal College of Surgeons of Edinburgh, Fellow of Royal College of Physicians and Surgeons of Glasgow, Member of Royal Colleges of Physicians of London and Edinburgh and Royal College of Physicians and Surgeons of Glasgow, Doctor of Medicine of the Chinese University of Hong Kong, Fellow of College of Surgeons of Hong Kong, Fellow of Hong Kong Academy of Medicine (Surgery) and Fellow of Royal College of Physicians of Edinburgh.

Dr. LOH Kai Tsu, Kevin, aged 57, was appointed as an independent non-executive Director on 8 August, 2002. Dr. Loh is a member of two professional medical societies, namely Medical Council of Hong Kong in Hong Kong and American Society of Clinical Oncology in the United States. Dr. Loh has published a number of articles on new cancer treatment methods. Since 1987, Dr. Loh has served

as the medical director for Cancer Institute of Queen's Medical Centre in Honolulu, Hawaii, the United States. Following his medical oncology and haematology fellowship training at the M.D. Anderson Hospital & Tumor Institute of the University of Texas at Houston, the United States during the period from 1 July, 1972 to 31 December, 1974, Dr. Loh worked as an associate director of Cancer Research Centre of Hawaii, Honolulu, Hawaii, the United States. Dr. Loh graduated from the medical school of the University of Hong Kong and holds the bachelor of medicine and bachelor of surgery in 1970.

Dr. NGAN Man Wong, Matthew, aged 63, was appointed as an independent non-executive Director on 8 August, 2002. Dr. Ngan is a registered specialist in radiology in Australia and the chief executive officer of Sonic Healthcare Asia Limited. Dr. Ngan obtained an honours degree in medicine and surgery from the University of New South Wales, Australia in February 1972 and a diploma in diagnostic radiology from Sydney University, Australia in February 1999. Dr. Ngan has been a registered specialist radiologist in Australia for the past 20 years.

Mr. CHAN Siu Wing, Raymond, aged 39, was appointed as an independent non-executive Director on 9 March, 2004. Mr. Chan gained his bachelors degree in economics from University of Sydney in 1986 and is qualified as a certified practising accountant in Australia and Macau. Mr. Chan is also an associate member of the Hong Kong Society of Accountants and a full member of the Hong Kong Securities Institute. Mr. Chan has over 16 years of professional experience in accounting, taxation and business consulting with various accountancy, consultancy and trustee companies. He is currently the general manager of Asiaciti Trust Hong Kong Limited and a non-executive director of Sinda Taxi Company Limited.

SCIENTIFIC CONSULTANT DESIGNATED BY THE CHINESE UNIVERSITY

Professor LO Yuk Ming, Dennis, aged 40 is a professor at the Department of Chemical Pathology of the Chinese University. He obtained his pre-clinical training from the University of Cambridge in the United Kingdom and obtained a degree in Bachelor of Arts in June 1986 and clinical training from the University of Oxford in the United Kingdom and obtained a degree in Bachelor of Medicine and Bachelor of Surgery in July 1989. He obtained a Doctor of Philosophy degree in July 1994 and a Doctor of Medicine degree from University of Oxford in the United Kingdom in April 2001. Professor Lo's main research interests lie in the clinical applications of molecular biology. In 1997, Professor Lo who was previously at Oxford University in the United Kingdom, discovered that soluble foetal DNA can be detected in the maternal blood plasma or serum and which can be used in a non-invasive manner to detect prenatal diseases. This formed one of the earliest patent of the PDx Technology. He and his collaborators have also developed other components of the PDx Technology that may be commercially applied as a test for detecting cancer and monitoring medical conditions of patients who suffer from organ transplantation failure, stroke, trauma and pleural effusion. Professor Lo has authored or co-authored over 110 publications relating to molecular medicine in international biomedical journals.

SENIOR MANAGEMENT

Mr. NEALON Joshua A. P., aged 24, is the research associate of the Group. He joined the Group in November 2001. He graduated from the University of Edinburgh with a first class honours degree in medical microbiology.

Ms. WONG Suet Sum, aged 34, joined the Group in August 2001 as the administration manager of the Group. She was an administration officer at First Oriental Holdings Limited during the period from December 1999 to August 2001.

Ms. LEUNG Kwan Yu, aged 33, is the financial controller, qualified accountant and company secretary of the Company. Ms. Leung joined the Group in July 2002. She has over eight years of audit experience. She worked for RSM Nelson Wheeler from April 1997 to April 2002 during which she was an assistant audit manager from January 2000 to April 2002. Before joining RSM Nelson Wheeler, she worked for another audit firm for three years. She graduated from the City University of Hong Kong with honours degree in accountancy in 1993. Ms. Leung is an associate member of The Hong Kong Society of Accountants and The Association of Chartered Certified Accountants.

AUDIT COMMITTEE

The Company established an audit committee on 20 April, 2004 with written terms of reference in accordance with and pursuant to Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The audit committee has four members comprising the four independent non-executive Directors, namely Professor Chung Sheung Chee, Sydney, Dr. Ngan Man Wong, Matthew, Dr. Loh Kai Tsu, Kevin and Mr. Chan Siu Wing, Raymond, with Dr. Ngan Man Wong, Matthew serving as the chairman of the audit committee.

STAFF

As at the Latest Practicable Date, the Group employed a total of 13 full-time employees. A breakdown by functions is tabulated below:

	Total
Management	2
Sales and marketing	3
Research and development (including implementation for the provision of the Group's testing services)	3
Administration and finance	<u>5</u>
Total	<u><u>13</u></u>

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised 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.

OTHER BENEFITS

In addition to the Share Option Scheme, the Group also provides a mandatory provident fund scheme for its employees in Hong Kong. The Group also provides other benefits to its employees or particular categories of its employees (including medical insurance schemes for its staff in Hong Kong).

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, the following persons will, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, be directly or indirectly interested in 10% or more of the Shares in issue on the Listing Date, taking no account of any Shares which may be allotted and issued upon the exercise of any options granted or to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or the general mandates to issue or repurchase Shares referred to in Appendix V of this prospectus or the First Post IPO Conversion or the Second Post IPO Conversion:

Name	Note	Number of Shares held	Shareholding percentage
Dr. Yeung	1, 2	121,538,824	37.07%
Ms. Margaret Tsui	1, 3	121,538,824	37.07%
Spring Biotech	1	67,747,524	20.67%
Town Health	1, 4	67,747,524	20.67%

Notes:

- The effect of the First Post IPO Conversion and the Second Post IPO Conversion on the shareholding percentages is set out in the sub-section headed “Convertible Notes” in the section headed “Share capital” in this prospectus. Following the First Post IPO Conversion and the Second Post IPO Conversion, The Applied Research Council will hold 12.06% of the then issued share capital of the Company (assuming there is no issuance of new Shares during the period commencing from the Listing Date to the Second Post IPO Conversion Date save for such new Shares issued pursuant to the First Post IPO Conversion and the Second Post IPO Conversion).
- Under the SFO, Dr. Yeung will be deemed to be interested in the 119,170,370 Shares, representing approximately 36.35% of the issued share capital of the Company, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Ms. Margaret Tsui, his spouse.
- Under the SFO, Ms. Margaret Tsui will be deemed to be interested in the 2,368,454 Shares, representing approximately 0.72% of the issued share capital of the Company, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Dr. Yeung, her spouse.
- Spring Biotech is beneficially wholly owned by Town Health Bio-Medical Technology Limited which is beneficially wholly owned by Town Health which in turn is beneficially owned as to 0.1% by Mr. Cho Kam Luk, a Director and as to 13.08% by, and it is accustomed to act in accordance with the directions or instructions of, Origin Limited which in turn is beneficially wholly owned by Dr. Cho Kwai Chee (the son of Mr. Cho Kam Luk, a Director).

Upon full conversion of the Convertible Notes on the Second Post IPO Conversion Date, one of the Noteholders, namely, The Applied Research Council will become a substantial shareholder of the Company and hold approximately 12.06% of the then enlarged issued share capital of the Company, assuming there is no issue of new Shares between the Listing Date and the Second Post IPO Conversion Date, save for the issue of new Shares as a result of the First Post IPO Conversion and the Second Post IPO Conversion. (Please refer to the sub-section headed “Convertible Notes” in the section headed “Share capital” for further details of the Convertible Notes.)

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

INITIAL MANAGEMENT SHAREHOLDERS

The following table sets out the respective shareholding interests in the Company of each of the Initial Management Shareholders immediately after completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, taking no account of any Shares which may be allotted and issued upon the exercise of any options granted or to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or the general mandates to issue or repurchase Shares referred to in Appendix V of this prospectus or the First Post IPO Conversion or the Second Post IPO Conversion:

Name	<i>Note</i>	Number of Shares held	Shareholding percentage
Dr. Yeung	1, 2	121,538,824	37.07%
Ms. Margaret Tsui	1, 3	121,538,824	37.07%
Spring Biotech	1, 4	67,747,524	20.67%
Town Health Bio-Medical Technology Limited	1, 4	67,747,524	20.67%
Town Health	1, 4	67,747,524	20.67%
Origin Limited	1, 4	67,747,524	20.67%
Dr. Cho Kwai Chee	1, 4	67,747,524	20.67%
Vanbarry Corporation	1, 5	12,574,648	3.84%
Mr. Cheng Yan Tak, Angus Ronald	1, 5	12,574,648	3.84%
Diamond Tech Investment Limited	1, 6	12,574,648	3.84%
Mr. Wong Yan Kit	1, 6	12,574,648	3.84%

Notes:

- The effect of the First Post IPO Conversion and the Second Post IPO Conversion on the shareholding percentages is set out in the sub-section headed “Convertible Notes” in the section headed “Share capital” in this prospectus. Following the First Post IPO Conversion and the Second Post IPO Conversion, The Applied Research Council will hold 12.06% of the then issued share capital of the Company (assuming there is no issuance of new Shares during the period commencing from the Listing Date to the Second Post IPO Conversion Date save for such new Shares issued pursuant to the First Post IPO Conversion and the Second Post IPO Conversion).
- Under the SFO, Dr. Yeung will be deemed to be interested in the 119,170,370 Shares, representing approximately 36.35% of the issued share capital of the Company, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Ms. Margaret Tsui, his spouse.
- Under the SFO, Ms. Margaret Tsui will be deemed to be interested in the 2,368,454 Shares, representing approximately 0.72% of the issued share capital of the Company, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Dr. Yeung, her spouse.
- Spring Biotech is beneficially wholly owned by Town Health Bio-Medical Technology Limited which is beneficially wholly owned by Town Health which in turn is beneficially owned as to 0.1% by Mr. Cho Kam Luk, a Director and as to 13.08% by, and it is accustomed to act in accordance with the directions or instructions of, Origin Limited which in turn is beneficially wholly owned by Dr. Cho Kwai Chee (the son of Mr. Cho Kam Luk, a Director).

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

5. Vanbarry Corporation is wholly beneficially owned by Mr. Cheng Yan Tak, Angus Ronald, who is a Director.
6. Diamond Tech Investment Limited is wholly beneficially owned by Mr. Wong Yan Kit. Pursuant to Rules 1.01 and 13.15(2) of the GEM Listing Rules, Diamond Tech Investment Limited is considered to be an Initial Management Shareholder as it is an existing Shareholder and it, together with Vanbarry Corporation, will be entitled to control approximately 7.68% of the issued share capital of the Company as at the Listing Date and is able to influence the management of the Company through its long standing relationship with Vanbarry Corporation and Mr. Cheng Yan Tak, Angus Ronald, a Director.

Each of the Initial Management Shareholders has given certain undertakings to the Stock Exchange, the Company and First Shanghai Capital with respect to the Shares, directly or indirectly, held by them respectively. Details of the undertakings are set out in the subsection headed “Undertakings” in the section headed “Substantial, significant and Initial Management Shareholders” in this prospectus.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, taking no account of any Shares which may be allotted and issued upon the exercise of any options granted or to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or the general mandates to issue or repurchase Shares referred to in Appendix V of this Prospectus or the First Post IPO Conversion or the Second Post IPO Conversion, the Company has no significant shareholders within the meaning of the GEM Listing Rules.

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

RESTRICTIONS ON DISPOSAL OF SHARES AND INVESTMENT COST

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

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

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

Notes:

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

UNDERTAKINGS

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

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

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

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

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

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

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

The Chinese University of Hong Kong Foundation Limited is a company limited by guarantee (a non-profit making organisation established by the Chinese University to promote education and research in Hong Kong), and will hold approximately 0.61% of the issued share capital of the Company following completion of the Share Offer, the Capitalisation Issue and full conversion of the Convertible Notes, taking no account of the 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 of this prospectus. All members and directors of The Chinese University of Hong Kong Foundation Limited are nominated by the council of the Chinese University from among the council members. Professor Lo, who is the Chinese University's designated consultant to the Group (by virtue of the Consultancy Agreement) will hold approximately 2.43% of the issued share capital of the Company following completion of the Share Offer, the Capitalisation Issue and full conversion of Convertible Notes, taking no account of the 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 of this prospectus. Professor Lo is currently a professor at the Department of Chemical Pathology of the Chinese University.

The Chinese University is one of the seven universities in Hong Kong funded by the Hong Kong government and fosters quality research over a broad front at its seven faculties, namely, Arts, Business Administration, Education, Engineering, Medicine, Science and Social Science. The Chinese University has established ten research institutes and a number of research centres at university and faculty levels to encourage multi-disciplinary research.

The Group has been granted by the Chinese University a number of exclusive licences to use the PDx Technology from which the Group has commercialised and will continue to commercialise into marketable testing services offered to the general public. These licensing arrangements have provided the Group with the necessary research support, and kept the Group abreast of the technological development in cancer and prenatal diagnostic fields.

The Group's relationship with the Chinese University was further strengthened upon the entering into of the Consultancy Agreement between the Group and the Chinese University with Professor Lo as the Chinese University's designated consultant to advise Plasmagene. Such advice covers the establishment of a laboratory of Plasmagene to conduct research on diagnostic services using the PDx Technology, including providing assistance in the training of appropriate laboratory personnel as well as advising on the maintenance of the system in the laboratory. Any subsequent new development or intellectual property created by the Group at its laboratory which is contributed by Professor Lo under the Consultancy Agreement belongs to the Group. The laboratory commenced operations on 19 August, 2001. If for any reason Professor Lo cannot conduct or complete the consultancy services, the Chinese University will appoint a successor subject to the approval of the Group. The Consultancy Agreement is effective for three years commencing from 15 August, 2001. The Consultancy Agreement does not contain any provision regarding renewal after its expiry. The Group commenced negotiation with the Chinese University around May 2004 with a view to renewing the Consultancy Agreement that will expire on 15 August, 2004. Should the Consultancy Agreement not be renewed after its expiry, the Directors do not foresee any significant impact on the Group's business operations, as the Consultancy Agreement was focused more on the initial setup of the Group's laboratory, training

and initial technology transfer relating to the PDX Technology. The Directors consider that the Group's laboratory has passed the initial setup stage and that the Group's relationship with the Chinese University is covered by the Right of First Refusal Agreement and various licence agreements. However, it is the intention of the Group to seek a renewal of the Consultancy Agreement shortly, which will be specific to new research programmes and methodologies that may originate from the Chinese University as well as any unforeseen problems or questions arising from existing products or products to be developed in the future solely from the Group's laboratory. This proposed new consultancy agreement will then serve the specific needs of the Group in the future instead of the broad and general nature of its predecessor. A memorandum of understanding in this respect was signed on 21 April, 2004.

Consideration under the Consultancy Agreement is a cash payment of HK\$1.5 million, payable to the Chinese University in six equal half-yearly instalments of HK\$250,000 starting from 15 August, 2001. Under the Consultancy Agreement, The Chinese University of Hong Kong Foundation Limited and Professor Lo were allotted and issued 1% and 4% of the issued share capital of Plasmagene respectively prior to the Reorganisation. As a result of the Reorganisation (details of which are set out in the paragraph headed "Group reorganisation" in the section headed "Further information about the Company" in Appendix V to this prospectus), such shares in Plasmagene were exchanged into Shares, representing a total of 3.60% of the issued share capital of the Company immediately after the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, taking no account of any Shares which may be allotted and issued upon the exercise of any options granted or to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or the general mandates to issue or repurchase Shares referred to in Appendix V of this prospectus or the First Post IPO Conversion or the Second Post IPO Conversion.

In April 2002, the Chinese University applied for and was awarded a research and development grant of HK\$4,598,000 from the Innovation and Technology Commission of the Hong Kong government to undertake a research project relating to the development of non-invasive detection of Down's syndrome. The project was headed by Professor Lo. The Group through 3 Ben acting as sponsor to the project, has contributed a sum of HK\$375,000 and undertaken to contribute an additional HK\$125,000 in 2004 from funding received as a result of the Convertible Notes which in aggregate represented approximately 10% of the total funding received by the Chinese University for the project. The amount awarded by the Innovation and Technology Commission amounted to approximately 90% of the funds. The Group would have priority in using project research results. On 1 March, 2003 the Group was granted an exclusive licence by the Chinese University in respect of such technology (please refer to the description of the licence numbered 9 in the table under the subsection headed "Intellectual property" in the section headed "Business" for further details of this licence).

Under a memorandum of understanding entered into on 10 July, 2002 between Plasmagene and the Chinese University, Plasmagene and the Chinese University agreed to cooperate on future research and development activities. Under the Right of First Refusal Agreement, the Company will be offered a right of first refusal for the grant by the Chinese University of a royalty-bearing exclusive licence to use and commercially develop certain technologies and inventions relating to the PDx Technology and other non-invasive diagnostic technologies for detecting cancer and foetal diseases developed by Professor Lo in the future. In return, the Company agreed to grant to the Chinese University or such

RELATIONSHIP WITH PROFESSOR LO AND THE CHINESE UNIVERSITY

person as the Chinese University may direct (including trustees of any funds) options to subscribe for Shares or to pay cash up to a maximum amount of HK\$4,600,000 over the period of the term of such agreement, being four years commencing from the Listing Date. Such options are not intended to be granted under the Share Option Scheme. Such grant of options will be granted to the Chinese University at intervals of twelve months with the first date of grant being the first business day coincident with the first day of the Company's financial year after the Listing Date, subject to and in accordance with the provisions of the GEM Listing Rules. If the market price of the Shares fall, the number of options that the Company may grant to the Chinese University will be limited by the GEM Listing Rules. For further details on such grant of options, please refer to the paragraph headed "Options to be granted to the Chinese University" in the section headed "Business" in this prospectus. The number of Shares that the Company has to issue pursuant to the exercise of any options granted to the Chinese University under the Right of First Refusal Agreement will depend on whether or not the Chinese University exercises such options. The Directors believe that this arrangement is beneficial to the Group as it provides the Group with the opportunity to access to future inventions developed from or relating to the PDx Technology and other new technologies developed by Professor Lo, and which is important to building a wide range of testing services. (Please refer to the subsection headed "Research and development" in the "Business" section for further details of the right of first refusal granted by the Chinese University to the Company.)

INFORMATION ON TOWN HEALTH

The Town Health group is principally engaged in the provision of healthcare and dental services, sale of healthcare and pharmaceutical products and the investments in a number of companies in the healthcare industry.

Town Health is a company whose shares are listed on GEM. As at the Latest Practicable Date, Dr. Cho Kwai Chee, the chairman of Town Health, held indirectly 13.08%, and Mr. Cho Kam Luk held directly 0.1%, of the issued share capital of Town Health. The remaining 86.82% of the issued share capital of Town Health is held by other directors of Town Health and members of the public.

On 23 April, 2002, the Group formed a strategic alliance with Spring Biotech, an indirect subsidiary of Town Health, to jointly launch a community research programme. The programme consists of seminars and cancer testing services offered by the Group. The test results would, on one hand, be followed up by their own doctors or physicians at the medical centres of Town Health and on the other hand, serve as primary data for use by the Group in its research into early detection methodologies for cancer.

The Directors believe that the strategic relationship between the Town Health group and the Group will enhance the development of the Group's business in Hong Kong. As at the Latest Practicable Date, the Town Health group operated over 30 medical and dental practices and had a large patient base in the region of over 400,000 patients. It is expected that some of these patients may use the testing services offered by the Group. As a result, synergies are expected to result from the strategic relationship between the Town Health group and the Group.

CONNECTED TRANSACTIONS BETWEEN THE GROUP AND THE TOWN HEALTH GROUP

Particulars of the connected transactions between the Group and subsidiaries of the Town Health group are set out in the paragraph headed "Connected transactions" of the section headed "Business" in this prospectus.

TOWN HEALTH'S INTEREST IN THE COMPANY

Town Health, through its indirectly wholly owned subsidiary, Spring Biotech, will be interested in approximately 17.46% of the issued share capital of the Company immediately following completion of the Share Offer, the Capitalisation Issue and full conversion of Convertible Notes, 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 under the general mandate to issue or repurchase Shares referred to in Appendix V to this prospectus. Town Health has nominated one executive Director, namely Mr. Cho Kam Luk. (Please refer to the section headed "Directors, senior management and employees" in this prospectus for information on Mr. Cho.)

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.

SHARE CAPITAL

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 Convertible 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
Vanbarray 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.

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TRADING RECORD

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

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

Notes:

- This includes sales of diagnostic testing services to Spring Biotech, an Initial Management Shareholder of HK\$162,660, HK\$483,380 and HK\$496,380 for the two years ended 30 June, 2003 and the six months ended 31

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December, 2003 respectively. Sales generated from pre-launch future testing services represented income received from parties that engage the Group to perform such services for them. The majority of which was derived from Spring Biotech in joint community research programmes. The income from kit form of *EBgene* and *EBeasy* is not included in such services.

2. Cost of sales comprises pharmaceutical supplies, laboratories supplies, depreciation on laboratory equipment, direct salaries, royalties and other laboratory expenses relating to the provision of diagnostic testing services.
3. The basic loss per Share for the Track Record Period is calculated based on the net loss attributable to Shareholders during the corresponding period and assuming 238,000,000 Shares in issue, comprising 1,010,000 Shares in issue as at the Latest Practicable Date and 236,990,000 Shares to be issued pursuant to the Capitalisation Issue as described in the section headed “Statutory and general information” in Appendix V to this prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS OF TRADING RECORD

Financial year ended 30 June, 2002

The Group’s turnover for this period was HK\$525,545, representing sales from the Group’s two cancer diagnostic testing services, namely, *EBgene* and *EBeasy* which were launched in November 2001 and January 2002, respectively. Of the total turnover of HK\$525,545 during this period, sales of the two testing services to Spring Biotech amounted to HK\$162,660 and the balance were sales to independent third parties.

During this period the Group’s sales less cost of sales amounted to HK\$31,926, representing approximately 6.1% of the total turnover.

The Group’s selling and distribution expenses of HK\$35,359 related to the launch of *EBgene* and *EBeasy* during this period.

The administrative expenses of the Group amounted to HK\$2,601,127. It mainly comprised of: (i) office rental expenditure of HK\$624,015; (ii) staff costs of HK\$443,197; (iii) consultancy fees of HK\$659,919 paid to Century Year Company Limited under the agreement dated 15 July, 2002 as supplemented by an agreement dated 6 September, 2002, being the reimbursement of directors’ fee that would have been paid by Plasmagene and 3 Ben to Dr. Yeung as a director of Plasmagene and 3 Ben (Please refer to subsection headed “Connected transactions” in the “Business” section for further details of the provision of consultancy services from Century Year Company Limited to Plasmagene and 3 Ben); and (iv) legal and professional fees of HK\$442,394 which principally represented legal fees for preparation of licencing and shareholders agreements, and fees for the application of patents for the technology licensed under licence numbered 2 and 3 in the paragraph headed “Intellectual property right” under the section headed “Business” in this prospectus.

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The Group's other operating expenses of HK\$480,565 mainly included depreciation expenses of HK\$182,931 and amortised consultancy fees paid by Plasmagene to the Chinese University for the establishment of the Group's laboratory of HK\$245,000. The total monetary value of the consultancy fee paid by Plasmagene to the Chinese University was HK\$2.1 million and was amortised over the estimated useful lives.

The Group posted a net loss attributable to Shareholders of approximately HK\$3.07 million. No provision for taxation was made for the year end 30 June, 2002 as no taxable profits were generated during the period.

During the period, the turnover period in respect of the Group's inventory and accounts receivables was approximately 49 and 175 days, respectively.

Financial year ended 30 June, 2003

The Group recorded total turnover for the year of HK\$1,339,250, representing approximately 155% over the turnover for the year ended 30 June, 2002. In addition to sales from the two testing services *EBgene* and *EBeasy*, the Group launched a third cancer testing services *EBCombo* in August 2002. Majority of the sales were made to independent third parties and sales of testing services to Spring Biotech amounted to HK\$483,380, representing approximately 36% of the total turnover for the year ended 30 June, 2003. As mentioned in the above under the sub-paragraphs of "Financial year ended 30 June, 2002", revenue from *EBgene* and *EBeasy* commenced in November 2001 and January 2002 respectively, and accordingly there were only six to eight months of revenue for the year ended 30 June, 2002. On the contrary, both *EBgene* and *EBeasy* were available in the market for the whole of the year ended 30 June, 2003. Together with income from *EBCombo* which was a new product during the year ended 30 June, 2003, the increase in turnover was resulted.

The Group's sales less cost of sales amounted to HK\$335,749, representing 25% of the Group's turnover during this period.

The cost of sales comprised pharmaceutical supplies, laboratories supplies, depreciation on laboratory equipment, direct salaries and royalties. The sales less cost of sales as a percentage of sales increased from 6% for the year ended 30 June, 2002 to 25% for the year ended 30 June, 2003. The increment was largely due to (i) the pharmaceutical and laboratories supplies increased from HK\$251,329 (48% of sales) for the year ended 30 June, 2002 to HK\$326,663 (24% of sales) for the year ended 30 June, 2003. The relative reduction as a percentage of revenue was due to the higher wastage during the initial period of the year ended 30 June, 2002; (ii) depreciation of laboratory equipment increased from HK\$132,448 (25% of sales) for the year ended 30 June, 2002 to HK\$197,018 (15% of sales) for the year ended 30 June, 2003. Depreciation of laboratory equipment commenced in September 2002, but sales only commenced in November 2002. The depreciation is a fixed cost which remained relatively constant regardless of the increase in sales for the year ended 30 June, 2003; (iii) direct salaries increased from HK\$109,841 (21% of revenue) for the year ended 30 June, 2002 to HK\$316,047 (24% of revenue) for the year ended 30 June, 2003. The increase in direct salaries was roughly in line with the increase in sales.

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During this period, the Group stepped up its marketing efforts following the launch of its three testing services. The Group's selling and distribution expenses of HK\$157,440 represented expenses for organising seminars to promote the Group's cancer testing services including newspapers/magazines advertisements, rental of seminar venue and equipment and postages to participants. It increased from HK\$35,359 for the year ended 30 June, 2002 to HK\$157,440 for the year ended 30 June, 2003 since more seminars were held for this financial year.

The Group recorded total administrative expenses of HK\$3,833,666 during the year, approximately 147% of the total administrative expenses incurred in the previous financial year. The increment was largely due to (i) staff costs increase from HK\$443,197 for the year ended 30 June, 2002 to HK\$909,883 due to additional manpower required for selling and administration works; (ii) legal and professional fees increase from HK\$442,394 for the year ended 30 June, 2002 to HK\$987,071 for year ended 30 June, 2003. The increase was mainly due to legal fees of HK\$363,326 incurred for the issue of Convertible Notes in December 2002. The amount of HK\$987,071 for the year ended 30 June, 2003 included HK\$543,166 which represented legal fees mainly relating to the application of patents for the technology licensed under licence numbered 2 and 4 as disclosed in table under the subsection headed "Intellectual property" in the section headed "Business" in this prospectus. Such expenses were approximately HK\$295,316 for the year ended 30 June, 2002. These legal fees are largely dependent on the process of applications for individual patents; (iii) consultancy fees paid to Century Year Company Limited decreased from HK\$659,919 for the year ended 30 June, 2002 to HK\$187,000 for the year ended 30 June, 2003. Pursuant to the consultancy agreements entered into by Plasmagene, 3 Ben and Century Year Company Limited on 15 July, 2002 and supplemented by an agreement dated 6 September, 2002, Plasmagene and 3 Ben should pay consultancy fees (totalling HK\$62,500 per month) to Century Year Company Limited as reimbursement of directors' remuneration. Such arrangement was terminated in October 2002. The directors' remuneration are now directly charged to the Group in the form of directors' quarter and salaries which were HK\$360,000 and HK\$287,000 respectively for the year ended 30 June, 2003 (Please refer to subsection headed "Connected transactions" in the section headed "Business" in this prospectus for further details); (iv) the increase in administrative expenses was slightly offset by the decrease of laboratory and office rental expenses from HK\$624,015 for the year ended 30 June, 2002 to HK\$529,214 for the year ended 30 June, 2003 as the office and laboratory were moved from Shatin, the New Territories to Central, Hong Kong in February 2003 with lower rental charges.

The Group's other operating expenses increased from HK\$480,565 for the year ended 30 June, 2002 to HK\$1,069,331 for the year ended 30 June, 2003. The increase was mainly due to (i) amortisation of intangible assets increased from HK\$251,141 for the year ended 30 June, 2002 to HK\$436,457 for the year ended 30 June, 2003 as full year amortisation for the year ended 30 June, 2003; (ii) depreciation of office equipment increased from HK\$182,931 for the year ended 30 June, 2002 to HK\$326,527 for the year ended 30 June, 2003 due to full year depreciation for the year ended 30 June, 2003; (iii) write-off of intangible assets amounted to HK\$229,756 due to recent advances in technology, but no such comparable amounts in the previous financial year; and (iv) increase in bank charges, exchange losses, loss on disposal of plant and equipment and research fees totalling HK\$40,172 for the year ended 30 June, 2003 as compared to the previous financial year.

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Concurrent with the growth of the Group's business, the administrative expenses increased and had partly offset the improved turnover during the year. This resulted in a net loss attributable to Shareholders of approximately HK\$4.7 million.

During the period, the turnover period in respect of the Group inventory and accounts receivables was approximately 8 and 57 days, respectively.

The inventory turnover period decreased from 49 days for the year ended 30 June, 2002 to 8 days for the year ended 30 June, 2003, since the Group had utilised most of its inventory of pharmaceutical materials as at 30 June, 2003.

The accounts receivable turnover period decreased from 175 days for the year ended 30 June, 2002 to 57 days for the year ended 30 June, 2003. It was mainly due to the imposition of a tightened credit policy by the Group during the year ended 30 June, 2003.

Six months ended 31 December, 2003

The Group recorded total turnover for the period of HK\$904,550, representing some 67.5% of the turnover for the year ended 30 June, 2003. In addition to sales from the three testing services *EBgene*, *EBeasy* and *EBcombo*, the Group made its first sale of the test kit for *EBgene* in December 2003. The reason for the increase in sales is that a promotion programme was held with Town Health whereby *EBeasy* is offered to doctors of Town Health at a reduced price. The period of the programme is from the middle of August to the end of December, 2003.

The Group's sales less cost of sales amounted to HK\$212,933, representing some 24% of the Group's turnover during this period which is approximately the same as the year ended 30 June, 2003.

The costs of sales of the Group comprised depreciation of laboratory equipment, pharmaceutical and laboratory supplies, royalty fees and labour costs. The direct labour costs and depreciation of laboratory equipment is roughly half of those of the year ended 30 June, 2003 in amounts. However, in terms of percentage of sales, they represented approximately 17% and 11% of sales respectively which slightly decreased. The main reason is that the income is increased with similar manpower and equipment. The costs of pharmaceutical and laboratory supplies represented 40% of sales for the six months ended 31 December, 2003 whereas such costs were approximately 24% of sales for the year ended 30 June, 2003. As explained above, *EBeasy* was offered at a reduced price but the unit cost of pharmaceutical and laboratory supplies remained the same.

During this period, the Group continued its marketing efforts for the three EBV tests through public seminars and the selling and distribution expenses were HK\$67,937 for the period.

FINANCIAL INFORMATION

The Group recorded total administrative expenses of HK\$1,982,914 during the period, approximately 51.7% of the total administrative expenses for the year ended 30 June, 2003. With similar level of staff costs of HK\$421,123 (approximately 46% of HK\$909,883 for the year ended 30 June, 2003), the reduction in total administrative expenses was largely because of (i) legal and professional fees reduced from HK\$987,071 to HK\$626,595, which comprised HK\$507,000 milestone payment for the grant of Hong Kong patent under licence number 3 and others are mainly related to application of patents for the technology licensed under licences numbered 2 and 4; (ii) professional fees of HK\$363,326 relating to issuance of convertible notes for the year ended 30 June, 2003 were not recurring expenses; (iii) laboratory and office rental, building management fees and government rates reduced from HK\$529,214 to HK\$96,993, because the Group moved its office in Shatin with monthly rental of HK\$59,430 to Central with monthly rental and building management fees of HK\$40,620 since February 2003. Commencing from 26 May, 2003, the Group has shared its office with Wellchamp Capital Limited with reimbursement of HK\$25,000 per month. This largely reduced the rental expenses of the Group; and (iv) during this period, the rental expenses of directors' quarter and directors' salary were HK\$240,000 and HK\$192,000 respectively.

The Group's other operating expenses of HK\$441,547 comprised mainly amortisation expenditure of HK\$223,061 and depreciation of HK\$138,798. The write-off of intangible assets of HK\$229,756 for the year ended 30 June, 2003 is not recurring expenses and did not arise during this period.

The overall expenses of the Group are maintained at a similar level with increment of income. This resulted in a net loss attributable to Shareholders of approximately HK\$2.3 million and showed slight improvement which was approximately 48% of HK\$4.7 million for the year ended 30 June, 2003.

During the period, the turnover period in respect of the Group's inventory and accounts receivable was approximately 58 and 48 days respectively.

The inventory turnover period increased from 8 days for the year ended 30 June, 2003 to 58 days for the six months ended 31 December, 2003. It was basically at the similar level of 49 days for the year ended 30 June, 2002. The slight increase in the stock turnover period was mainly to cope with the increase in turnover for the same period.

The accounts receivable turnover period was slightly decreased from 57 days for the year ended 30 June, 2003 to 47 days for the six months ended 31 December, 2003, since the Group's effective credit control policy had been maintained throughout the period.

INTANGIBLE ASSETS

The Group's intangible assets comprised licences, patents and development costs for testing services and products. Included in licences and patents are expenditures of licences and patents where future economic benefits are expected to flow to the Group, e.g. there are future testing services. For those licences and patents which the Directors currently do not anticipate any income flow from future testing services, the relevant costs will be charged to the income statement in the period in which they are incurred. The licences and patents are stated at costs less accumulated amortisation on a straight line basis over the estimated useful lives (based on the Directors' best estimation) of the relevant testing services for periods of 7 to 15 years.

Research costs are charged to income statement in the period in which they are incurred as research and development expenses. Development costs are recognised as intangible assets only when such costs are incurred for specific testing services where recoverability can be foreseen with reasonable assurance. Otherwise, development costs will be charged to income statement in the period in which they are incurred. The development costs as at 30 June, 2002, 30 June, 2003 and 31 December, 2003 mainly comprised (i) consideration for the Consultancy Agreement paid/payable to the Chinese University and (ii) the amortisation of licences and patents in relation to the future testing services under development and capitalised as development costs. Development costs recognised as intangible assets are amortised on a straight line basis over the estimated commercial lives of the underlying testing services (based on the Directors' best estimation) which generally do not exceed twenty years (the estimated lives of patents/licences). Information related to intangible assets are also disclosed in "Research and developments" in "Note 2 Principal accounting policy" and "Note 11 Intangible assets" under section V "Notes to the summaries" of Appendix I to this prospectus.

As at 30 June, 2002, 30 June, 2003 and 31 December, 2003, the respective balances of the Group's intangible assets were HK\$4,571,393, HK\$4,227,941 and HK\$4,233,601, comprising (i) licences and patents of approximately HK\$1,944,862, HK\$1,795,973 and HK\$1,869,799 respectively; and (ii) development costs of HK\$2,626,531, HK\$2,431,968 and HK\$2,363,802 respectively.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of the adjusted net tangible assets of the Group is to illustrate the impact of the estimated net proceeds of the Share Offer on the net tangible assets of the Group. It is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the Group's financial position or results.

The pro forma statement of the adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31 December, 2003 as shown in the accountants' report set out in Appendix I to this prospectus, and adjusted as follows:

Audited combined net assets of the Group as at 31 December, 2003 <i>HK\$'000</i>	Less: Intangible assets <i>HK\$'000</i>	Audited combined net tangible assets of the Group as at 31 December, 2003 <i>HK\$'000</i>	Estimated net proceeds of the Share Offer <i>HK\$'000</i> <i>(Note 1)</i>	Adjusted net tangible assets of the Group <i>HK\$'000</i>	Adjusted net tangible asset value per Share <i>HK cents</i> <i>(Note 2)</i>
Based on an Offer					
Price of HK\$0.50					
per Share					
<u>1,838</u>	<u>(4,234)</u>	<u>(2,396)</u>	<u>24,000</u>	<u>21,604</u>	<u>7.2</u>

Notes:

1. The net proceeds from the Share Offer are estimated to be approximately HK\$24 million after deduction of expenses payable by the Company in relation to the Share Offer. Please refer to sub-section headed "Use of proceeds" under the section headed "Statement of business objectives and strategies" for future use of net proceeds.
2. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 302,000,000 Shares in issue immediately after the Share Offer and Capitalisation Issue taking no account of any Shares which may be allotted and issued upon the exercise of the options granted under the Share Option Scheme and the Right of First Refusal Agreement, the general mandates to issue Shares referred to in Appendix V to this prospectus, the Initial IPO Conversion, the First Post IPO Conversion or the Second Post IPO Conversion.

TAXATION

No provision for taxation was required to be made for the two years ended 30 June, 2002, 30 June, 2003 and the six months ended 31 December, 2003 as no taxable profits were generated.

The Group will only be subject to Hong Kong profits tax as the Group's income from other jurisdictions (including the PRC, Japan and Australia) would be in the form of sub-license fees income which would be subject to withholding tax to be deducted by the sub-licensee from amount payable to the Group. The rates of the withholding tax for the abovementioned jurisdictions are approximately 10% and these would be subject to finalisation under the respective tax authorities.

PROPERTY INTERESTS

Properties rented and occupied by the Group in Hong Kong

The head office and principal place of business of the Group in Hong Kong is located at 5th Floor, Club Lusitano, 16 Ice House Street, Central, Hong Kong. This property is leased to the Group for a term of two years commencing from 13 February, 2003 at a monthly rent of HK\$27,975 exclusive of government rates and operating charges.

The Group also rents a staff quarter for Dr. Yeung situated at Duplex Flat B, 1st Floor and Car Parking Space No. 8 on 3rd Lower Ground Floor, 1 Garden Terrace, 8 Old Peak Road, Mid-levels, Hong Kong. This property is leased to the Group for a term of two years commencing from 22 September, 2002 at a monthly rent of HK\$70,000 inclusive of government rates and operating charges.

Property valuation

CB Richard Ellis Limited, an independent valuer, valued the properties leased by the Group and is of the opinion that such property interests have no commercial value as at 31 March, 2004. The text of a letter, summary of values and valuation certificates from CB Richard Ellis Limited, are set out in Appendix III to this prospectus.

DIVIDENDS AND WORKING CAPITAL

Dividends

The Directors presently do not intend to recommend the payment of any dividend by the Company in respect of the financial year ending 30 June, 2004. The declaration, payment and amount of future dividends will be at the discretion of the board of Directors and will depend upon, among other things, the Group's results of operation, capital requirements, general financial condition and such factors as the board of Directors may deem relevant.

Working capital

The Directors are of the opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds of the Share Offer, the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

As at 30 April, 2004, the Company had no reserves available for distribution to its shareholders.

INDEBTEDNESS

Borrowings

As at 30 April, 2004, being the Latest Practicable Date for ascertaining the indebtedness of the Group prior to the publication of this prospectus, the Group owed to Spring Biotech, a shareholder of the Company, an aggregate amount of approximately HK\$0.66 million. The Shareholder's loans due to Spring Biotech of approximately HK\$0.66 million was unsecured, interest free and will be fully settled on 17 June, 2004.

As at 30 April, 2004, the Group had outstanding Convertible Notes with an aggregate principal amount of HK\$21.5 million. (Please refer to the subsection headed "Convertible Notes" under the section "Share capital" in this prospectus for further details of the Convertible Notes.)

Contingent liabilities

As at 30 April, 2004, the Group had no significant contingent liabilities.

Securities and guarantees

As at 30 April, 2004, the Group's Convertible Notes were secured by a pledge of the shares of Plasmagene and intellectual properties of the Group, personal guarantees executed by Dr. Yeung and Ms. Margaret Tsui, and corporate guarantees executed by the Group. The redemption of the Convertible Notes, the personal guarantees executed by Dr. Yeung and Ms. Margaret Tsui, the corporate guarantees executed by the Group, the pledge of shares of Plasmagene and intellectual properties of the Group will cease to be of any effect from the Listing Date.

Disclaimers

Save as disclosed herein and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 April, 2004, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Save as disclosed herein, the Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 30 April, 2004.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Current assets and liabilities

As at 30 April, 2004, the net current assets of the Group amounted to approximately HK\$17.28 million. The current assets comprised cash and bank deposits of approximately HK\$13.43 million, and

FINANCIAL INFORMATION

accounts receivable of approximately HK\$0.46 million, inventories of approximately HK\$0.01 million and other receivable and prepayments of approximately HK\$5.22 million. The current liabilities comprised Shareholders' loan of approximately HK\$0.66 million and other payables and accruals of approximately HK\$1.18 million.

Borrowings and credit facilities

As at 30 April, 2004, the Group did not have any available credit facilities. The Group's outstanding indebtedness represented outstanding loans due to Spring Biotech, a shareholder of the Company, of approximately HK\$0.66 million. The Shareholders' loans due to Spring Biotech of approximately HK\$0.66 million will be settled on 17 June, 2004.

As at 30 April, 2004, the Group had outstanding Convertible Notes issued to The Applied Research Council, MCVIL JAIC, JAIC Technology, Mr. Robert Owen, Mr. Russell Young, Mr. Tong Sui Bau, Mr. Lee Kam Lun, Kenyon and Ms. Jessica Pui Han Jook for an aggregate principal amount of HK\$21.5 million which can be fully converted into 86,000,000 Shares, representing an average approximate cost per Share of HK\$0.25 per Share. The Convertible Notes are unsecured and interest-free. (Please refer to the subsection headed "Convertible Notes" under the section "Share capital" in this prospectus for further details of the Convertible Notes.)

Capital commitments

As at 30 April, 2004, the Group had no material capital commitments.

Hedging policy

Since all transactions of the Group are denominated in Hong Kong dollars, no hedging or other alternatives have been implemented.

As at 30 April, 2004, the Group did not have outstanding hedging instruments.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure obligation under rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December, 2003, being the date to which the latest audited financial statements of the Group were made up.

UNDERWRITING

UNDERWRITERS

Placing Underwriters

First Shanghai Securities Limited
Core Pacific-Yamaichi International (H.K.) Limited
Guotai Junan Securities (Hong Kong) Limited
Kingsway Financial Services Group Limited
Phillip Securities (HK) Ltd.
Sun Hung Kai International Limited

Public Offer Underwriters

First Shanghai Securities Limited
Core Pacific-Yamaichi International (H.K.) Limited
Guotai Junan Securities (Hong Kong) Limited
Kingsway Financial Services Group Limited
Phillip Securities (HK) Ltd.
Sun Hung Kai International Limited

UNDERWRITING ARRANGEMENT AND EXPENSES

Public Offer Underwriting Agreement and Placing Underwriting Agreement

Subject to the GEM Listing Committee granting the listing of, and permission to deal in, the Shares mentioned herein (and in respect of which an application for listing has been made) subject only to allotment, and to certain conditions in the Public Offer Underwriting Agreement, which include the execution and delivery of the Placing Underwriting Agreement, being satisfied by not later than 8 July, 2004, the Public Offer Underwriters have severally agreed to procure subscribers or, failing which, to subscribe for the Public Offer Shares on the terms and conditions of the Public Offer Underwriting Agreement.

In connection with the Placing, the Company expects to enter into the Placing Underwriting Agreement with the Placing Underwriters on or about 11 June, 2004. Under the Placing Underwriting Agreement, the Placing Underwriters would severally agree to procure placees or failing which, to subscribe for the Placing Shares on the terms and conditions of the Placing Underwriting Agreement.

One of the conditions to the obligations of the Underwriters is that, at any time prior to 6:00 p.m. on the day immediately preceding the Listing Date, no notice has been served by any Noteholder to redeem the Convertible Notes (or no right has arisen for them to do so, or any right so arising has been waived). This condition cannot be waived and, if it is not fulfilled, the Underwriting Agreements will not become unconditional and the Listing will not proceed.

UNDERWRITING

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Offer Shares under the Underwriting Agreements are subject to termination by the Lead Manager. The Lead Manager has the absolute right, for itself and on behalf of the Underwriters, to give notice in writing to the Company at any time prior to 6:00 p.m. on the day immediately preceding the Listing Date to terminate the Underwriting Agreements if certain events including but not limited to the following shall have occurred:

- (a) there has been a breach of any of the warranties or there has been a breach by the Company or any of the executive Directors of any of the provisions of the Underwriting Agreements;
- (b) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute an omission therefrom;
- (c) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any respect;
- (d) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of the Company or any of the executive Directors pursuant to the indemnities referred to in the Underwriting Agreements;
- (e) there shall have been any adverse change or prospective adverse change in the business or the financial or trading position of any member of the Group;
- (f) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:
 - (i) any breach, considered by the Lead Manager in its sole opinion to be material in the overall context of the Share Offer, of any of the warranties or any other provision of the Underwriting Agreements;
 - (ii) any matter has arisen or has been discovered which, had it arisen or been discovered immediately before the date of this prospectus, would have constituted an omission considered by the Lead Manager in its sole opinion to be material in the context of the Share Offer;
 - (iii) any statement contained in this prospectus considered by the Lead Manager in its sole opinion to be material is discovered to be or becomes untrue, incorrect or misleading in any respect;
 - (iv) there is in the sole opinion of the Lead Manager any adverse change in the business or prospects or in the financial or trading position of any member of the Group, or any such change is discovered by the Lead Manager in its sole opinion to have occurred, which is considered by the Lead Manager to be material in the context of the Share Offer;

UNDERWRITING

- (v) there is, in the sole opinion of the Lead Manager, any event, act or omission which has given rise or might give rise to any material liability of the Group pursuant to the indemnities given under the Underwriting Agreements;
- (vi) any event or series of events concerning or relating to or otherwise having an effect on, or any change or prospective change (whether or not permanent) in, Hong Kong, the PRC, the Cayman Islands, the United States or any other place of a financial, political, industrial, economic, military, terrorist strike, legal, fiscal and/or other nature (whether or not sui generis with any of the foregoing) shall be considered by the Lead Manager in its sole opinion to have occurred, happened or come into effect and which in the sole opinion of the Lead Manager is inappropriate, inadvisable or inexpedient to proceed with the Share Offer;
- (vii) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the PRC or any other jurisdiction relevant to the Group shall have been, or is scheduled to be, introduced or effected, which shall in the sole opinion of the Lead Manager have a material adverse effect in the context of the Share Offer as a whole;
- (viii) any event or series of events, matters or circumstances concerning or relating to, or any change in (1) the conditions or sentiments of the financial market (including, without limitation, securities and money markets) in Hong Kong, the United States or other major financial markets, or (2) the rate of exchange between the Hong Kong dollar and the US dollar, shall be considered by the Lead Manager in its sole opinion to have occurred or happened, which in the sole opinion of the Lead Manager as inappropriate, inadvisable or inexpedient to proceed with the Share Offer;
- (ix) the imposition of any moratorium, suspension or restriction on:
 - (1) trading in securities generally on the Stock Exchange; or
 - (2) commercial banking activities in Hong Kong or the PRC;
- (x) any change or prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands or any other jurisdiction relevant to the Group or affecting an investment in the Shares or the transfer or dividend payment in respect thereof, which, in the sole opinion of the Lead Manager:
 - (1) is or will be, or is likely to be, materially adverse to the business, financial or other condition or prospects of the Group taken as a whole; or
 - (2) is inadvisable or inexpedient to proceed with the Share Offer;
- (xi) the imposition, or publicly announced prospective imposition, of economic sanctions or withdrawal of trading privileges, in whatever form, by the United States or the European Community on Hong Kong or the PRC or any other jurisdiction relevant to the Group;

UNDERWRITING

- (xii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, terrorist strike, future terrorist strike(s) or act of terrorism anywhere in the world in light of the terrorist attack in the United States on 11 September, 2001, strike or lockout shall be considered by the Lead Manager in its sole opinion to have occurred, happened or come into effect which in the sole opinion of the Lead Manager may be materially adverse to or materially prejudicially affect the Group or its prospects and/or the Share Offer or the success thereof or which in the sole opinion of the Lead Manager is inappropriate, inadvisable or inexpedient to proceed with the Share Offer; or

- (xiii) any of the Noteholders require early redemption of the Convertible Notes by giving the Company a notice at any time prior to 6:00 p.m. on the date immediately preceding to the Listing Date to redeem all or part of the Convertible Notes on the Listing Date.

Commission and expenses

The Underwriters will receive a commission of 3.5% of the Offer Price of all the Offer Shares under the Share Offer, out of which they will pay any sub-underwriting commission. In addition, First Shanghai Capital will receive a financial advisory and sponsorship fee in relation to the Share Offer. Such fees and commissions, together with the Stock Exchange listing fees, the trading fee and transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer which are currently estimated to amount in aggregate to approximately HK\$8 million, are payable by the Company.

Underwriters' interest in the Company

Save for its obligations under the Underwriting Agreements, none of the Underwriters has any shareholding interests in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, each of the Underwriters and/or its subsidiaries may subscribe for or purchase Shares under the Share Offer, or otherwise in the market for its own account.

Sponsor's agreement

Under the Sponsor's Agreement, First Shanghai Capital agrees to act as the sponsor to the Company for a fee for the remainder of the financial year of the Company ending 30 June, 2004 and for the period of 24 months commencing from 1 July, 2004 until 30 June, 2006 or until the Sponsor's Agreement is terminated upon the terms and conditions set out therein.

Sponsor's interest in the Company

Except as otherwise disclosed herein, neither First Shanghai Capital, First Shanghai Securities nor any of their directors, employees or associates expect to have accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following: (i) in taking up

UNDERWRITING

underwriting obligations under the Underwriting Agreements; (ii) by way of underwriting commissions to be paid to First Shanghai Securities and/or its fellow subsidiaries, holding companies or affiliates for acting as one of the Underwriters to the Share Offer; (iii) the respective advisory and documentation fees to be paid to First Shanghai Capital as sponsor of the Share Offer; (iv) pursuant to the Sponsor's Agreement, First Shanghai Capital has been appointed as sponsor of the Company for the remainder of the financial year of the Company ending 30 June, 2004 and for the period of 24 months commencing from 1 July, 2004 and the Company shall pay an agreed fee to First Shanghai Capital for its provision of such services; (v) certain fellow subsidiaries, holding companies or affiliates of First Shanghai Capital and First Shanghai Securities, whose ordinary businesses involve the trading and dealing in securities (including derivatives), may derive commission from the trading of and dealing in the securities of the Company after the Listing; and (vi) certain of the fellow subsidiaries, holding companies or affiliates of First Shanghai Capital and First Shanghai Securities may purchase or sell securities of the Company or hold them for investment purposes.

No director or employee of First Shanghai Capital and First Shanghai Securities has a directorship in the Company or any other company in the Group.

UNDERTAKINGS

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

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

UNDERWRITING

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

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

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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The Offer Price is HK\$0.50. Applicants should also pay, on application, the Offer Price plus brokerage fee of 1%, the transaction levy imposed by the Securities and Futures Commission of 0.005%, the investor compensation levy of 0.002% and the Stock Exchange trading fee of 0.005% of the Offer Price. This means that for every 4,000 Offer Shares, the subscriber will pay HK\$2,020.24.

CONDITIONS OF THE SHARE OFFER

Acceptance of any applications for the Offer Shares will be conditional upon:

- (a) the GEM Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be allotted and issued as mentioned in this prospectus and any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme;
- (b) the obligations of the Underwriters under the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by First Shanghai Securities, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements; and
- (c) none of the Noteholders require early redemption of the Convertible Notes by giving the Company a notice at any time prior to 6:00 p.m. on the day immediately preceding the Listing Date to redeem all or part of the Convertible Notes on the Listing Date,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived by First Shanghai Securities on or before such dates and times) and in any event not later than that date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived by First Shanghai Securities prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice that the Share Offer has lapsed will be published by the Company on the GEM Website on the next day following such lapse.

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer for a total of 64,000,000 Shares. A total of 57,600,000 and 6,400,000 Offer Shares will initially be made available under the Placing and the Public Offer respectively.

The number of the Placing Shares and the Public Offer Shares represent 90% and 10%, respectively, of the total number of the Offer Shares initially available under the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The 64,000,000 Shares being offered under the Share Offer will represent approximately 19.51% of the Company's enlarged share capital immediately after completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion but taking no account of any Shares which may be allotted and issued upon the exercise of any options granted or to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or the general mandates to issue or repurchase Shares referred to in Appendix V of this prospectus or the First Post IPO Conversion or the Second Post IPO Conversion.

Investors may indicate an interest for Shares under the Placing or apply for Shares under the Public Offer, but may not do both. The Placing is open to institutional, professional investors and other investors in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong.

The Share Offer is lead managed by the Lead Manager. The Placing Shares are expected to be fully underwritten by the Placing Underwriters on a several basis. The Public Offer Shares are fully underwritten by the Public Offer Underwriters on a several basis. Information relating to the underwriting arrangements in respect of the Share Offer is set forth in the section headed "Underwriting" in this prospectus.

OFFER MECHANISM — BASIS OF ALLOCATION OF THE OFFER SHARES

The Placing

57,600,000 Offer Shares will be initially offered by the Company for subscription under the Placing, representing approximately 90% of the total number of the Offer Shares. The Placing is expected to be fully underwritten by the Placing Underwriters on a several basis, subject to the terms and conditions of the Placing Underwriting Agreement which is anticipated to be entered into on or about 11 June, 2004.

Allocation of Placing Shares to investors under the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the Listing. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its Shareholders as a whole.

The Public Offer

The total number of 6,400,000 Shares initially comprised of in the Public Offer represents 10% of the total number of the Offer Shares. The Public Offer is fully underwritten by the Public Offer Underwriters on a several basis, subject to the terms and conditions of the Public Offer Underwriting Agreement.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Public Offer will be required to give an undertaking and confirmation in the Application Form that he, she or it has not taken up any Shares under the Placing nor otherwise participated in the Placing, and such applicant's application will be rejected if the said undertaking and confirmation is breached and/or untrue, as the case may be. The Public Offer will be subject to the conditions stated under "Conditions of the Share Offer" above. The attention of applicants, including nominees who wish to submit separate applications on behalf of different beneficial owners, is drawn to the information regarding multiple applications contained in the section headed "How to apply for the Public Offer Shares" in this prospectus. **Multiple or suspected multiple applications under the Public Offer and any application for more than 100% of the Public Offer Shares initially being offered for subscription will be rejected.**

REALLOCATION OF THE OFFER SHARES BETWEEN THE PLACING AND THE PUBLIC OFFER

Offer Shares being offered in the Placing and/or the Public Offer may be re-allocated. If the Public Offer is undersubscribed, the Lead Manager will have the discretion to reallocate unsubscribed Public Offer Shares to satisfy demand in the Placing. If the Public Offer is oversubscribed, the Lead Manager will have the discretion to reallocate such number of Placing Shares to satisfy demand in the Public Offer as it deems appropriate.

The number of Offer Shares available under the Placing and/or the Public Offer will be correspondingly reduced or increased (as the case may be) as a result of such reallocation (if any) described above.

OVER-SUBSCRIPTION IN THE PUBLIC OFFER

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the GEM Listing Committee of the Stock Exchange grants the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

DEALINGS AND SETTLEMENT

Dealings in Shares are expected to commence on 18 June, 2004.

Shares will be traded in board lots of 4,000 Shares each.

The GEM stock code for the Shares is 8250.

If you are unsure about the procedures for dealings and settlement arrangement on the Stock Exchange on which Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbrokers or other professional advisers.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

WHICH APPLICATION FORM TO USE

Use a **WHITE** Application Form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant.

Note: The Public Offer Shares are not available to existing beneficial owners of Shares, the chief executive of the Company, the Directors or the associates of any of them.

WHERE TO COLLECT THE APPLICATION FORM(S)

You can collect a **WHITE** Application Form and a prospectus from:

Any participant of
The Stock Exchange of Hong Kong Limited

or

First Shanghai Securities Limited

19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

or

Core Pacific-Yamaichi International (H.K.) Limited

36th Floor
COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

or

Guotai Junan Securities (Hong Kong) Limited

27th Floor
Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Kingsway Financial Services Group Limited

5th Floor
Hutchison House
10 Harcourt House
Central
Hong Kong

or

Phillip Securities (HK) Ltd.

11th Floor
United Centre
95 Queensway
Hong Kong

or

Sun Hung Kai International Limited

Level 12
One Pacific Place
88 Queensway
Hong Kong

or any one of the following branches of Standard Chartered Bank:

Hong Kong Island:	Central Branch	Shop No. 16, G/F & LG/F, New World Tower, 16-18 Queen's Road Central
	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4a Des Voeux Road Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central
	Leighton Centre Branch	Shop 12-16, UG/F Leighton Centre, 77 Leighton Road, Causeway Bay
	Hennessy Road Branch	399 Hennessy Road, Wan Chai
	Taikoo Place Branch	G/F, 969 King's Road, Quarry Bay

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Kowloon:	Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
	Mongkok Bank Centre Branch	Bank Centre, 630-636 Nathan Road, Mongkok
	Tsimshatsui Branch	10 Granville Road, Tsimshatsui
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
New Territories:	Tsuen Wan Branch	Basement 1/F, Emperor Plaza, 263 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus from:

- (1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) the Customer Service Centre of HKSCC at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong; or
- (3) your broker may have the Application Forms available.

HOW TO COMPLETE THE APPLICATION FORM(S)

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions, your application may be rejected. Each **WHITE** or **YELLOW** Application Form must be accompanied by either one separate cheque drawn on the applicant's Hong Kong dollar bank account in Hong Kong and bearing the account name (either pre-printed by the bank or certified by an authorised signatory of such bank on the reverse of the cheque) which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant Application Form, or one separate banker's cashier order on the reverse of which the bank has certified by an authorised signatory the name of the applicant, which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant Application Form. All such cheques or banker's cashier orders must be made payable as set out in the Application Form and crossed "Account Payee Only".

If your application is made through a duly authorised attorney, First Shanghai Securities, in consultation with the Company, or their agents may accept your application at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

HOW MANY APPLICATIONS YOU MAY MAKE

There is only one situation where you may make more than one application for Public Offer Shares:

- If you are a nominee, you may lodge more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include for each beneficial owner or, in the case of joint beneficial owners, for each such joint beneficial owner:
 - an account number; or
 - some other identification code.

If you do not include this information, the application will be treated as being made for your own benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you (and if you are joint applicants, each of you jointly and severally):

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form;
- (if you are an agent for another person) warrant that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form, and that you are duly authorised to sign the Application Form as that other person’s agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicants together, or any of your joint applicants:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form (save in the case of applications made by nominees in accordance with the above paragraph);
- apply on a **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) for more than 100% of the Public Offer Shares initially being offered under the Public Offer (being 6,400,000 Public Offer Shares); or
- have been allocated with the Placing Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**.

If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

An unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half the voting power of that company; or
- hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW MUCH TO PAY FOR THE PUBLIC OFFER SHARES

The price of the Public Offer Shares is HK\$0.50 each. You must also pay brokerage of 1%, the transaction levy of 0.005% and the investor compensation levy of 0.002% and the Stock Exchange trading fee of 0.005% of the Offer Price. This means that for every 4,000 Offer Shares, you will pay approximately HK\$2,020.24. The Application Forms have tables showing the exact amount payable for multiples of the Public Offer Shares.

Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the related Application Forms. Your cheque or banker's cashier order will not be presented for payment before 12:00 noon, on 11 June, 2004.

If your application is successful, brokerage is paid to participants of the Stock Exchange, SFC transaction levy and SFC investor compensation levy are paid to the SFC and the Stock Exchange trading fee is paid to the Stock Exchange.

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on 11 June, 2004, or, if the application lists are not open on that day, then by 12:00 noon on the next business day when the application lists are open.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Your completed Application Form, with payment attached, should be deposited in one of the special collection boxes provided at any of the branches of Standard Chartered Bank listed above at the following times:

- 8 June, 2004 — 9:00 a.m. to 4:00 p.m.
- 9 June, 2004 — 9:00 a.m. to 4:00 p.m.
- 10 June, 2004 — 9:00 a.m. to 4:00 p.m.
- 11 June, 2004 — 9:00 a.m. to 12:00 noon

The application lists will be opened **from 11:45 a.m. to 12:00 noon on 11 June, 2004.**

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not be opened if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 11 June, 2004. Instead the application lists will be opened between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

For the purpose of this section, **business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE PUBLIC OFFER SHARES

Details of the circumstances which you will not be allotted the Public Offer Shares are set out in the notes contained in the Application Forms, and you should read them carefully. You should note in particular the following situations in which the Public Offer Shares will not be allotted to you:

If you revoke your application

You cannot revoke your application before the expiry of the fifth day (excluding Saturday, Sunday and public holidays) after the time of the opening of the application lists of the Share Offer, except that you may revoke your application earlier than that date if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives, before the expiry of the said fifth day, a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application has been accepted, it cannot be revoked.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If the allotment and transfer of Public Offer Shares is void

Your allotment of Public Offer Shares, if made, will be void if the GEM Listing Committee does not grant permission to list the Offer Shares either:

- within three weeks from the closing of the application lists of the Share Offer; or
- within a longer period of up to six weeks if the GEM Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists of the Share Offer.

If at the discretion of the Company or its agent, your application is rejected:

The Company and First Shanghai Securities (on behalf of the Underwriters) as agent for the Company, have full discretion to reject or accept any application, or to accept only part of any application.

The Company and First Shanghai Securities as agent for the Company do not have to give any reason for any rejection or acceptance.

If your application is rejected:

Your application will be rejected if:

- it is a multiple application or suspected multiple application;
- your Application Form is not completed correctly;
- you or the person for whose benefit you are applying have indicated an interest for or have received or will receive Placing Shares;
- your payment is not in correct form;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation; or
- the Company believes that by accepting your application this would violate the applicable securities or other laws, rules and regulations of the jurisdiction in which your application is completed and/or signed.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If your application is not accepted:

Your application will not be accepted if:

- any of the Underwriting Agreements does not become unconditional; or
- any of the Underwriting Agreements is terminated in accordance with its terms.

You should also note that you may apply for the Public Offer Shares under the Public Offer or indicate an interest for the Placing Shares, but may not do both.

PUBLICATION OF RESULTS

The Company expects to publish the results of the Share Offer and the basis of allotment of the Public Offer Shares (with successful applicants' identification number, where appropriate) on or before 16 June, 2004 on the GEM website and in The Standard (in English) and the Hong Kong Economic Times (in Chinese).

COLLECTION/POSTING OF SHARE CERTIFICATES/REFUND CHEQUES AND DEPOSIT OF SHARE CERTIFICATES INTO CCASS

If an application is rejected, not accepted or accepted in part only or if the conditions of the Share Offer are not fulfilled in accordance with paragraph headed "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, SFC investor compensation levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued. Share certificates which is expected to be despatched on 17 June, 2004 will only become valid certificates of title after 6:00 p.m. on the day immediately preceding the Listing Date provided that (i) the Share Offer becomes unconditional and (ii) the right of termination as described in the paragraph headed "Grounds for termination" under the section headed "Underwriting" in this prospectus has not been exercised thereto. No receipt will be issued for application money paid.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

WHITE Application Form:

If you have applied for 1,000,000 Public Offer Shares or above and have indicated on your application form that you intend to collect your Share certificate and refund cheque (if any) in person, you may collect them in person from:

Computershare Hong Kong Investor Services Limited

Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company on the GEM website and in The Standard (in English) and Hong Kong Economic Times (in Chinese) as the date of despatch of share certificates and refund cheques. This is expected to be on 17 June, 2004.

Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation stamped with their respective corporation's chops. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you have opted for personal collection but do not collect your share certificate and/or refund cheque (if any) at the specified time, they will be sent to the address on your application form in the afternoon on the date of despatch, by ordinary post and at your own risk. The Company intends to use commercially reasonable efforts to avoid delays in refunding money.

If you have applied for less than 1,000,000 Public Offer Shares, or if you have applied for 1,000,000 or more Public Offer Shares and have not indicated on your Application Form that you intend to collect your share certificate and/or refund cheque (if any) in person, then your share certificate and/or refund cheque (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

YELLOW application form:

Your Share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you in your Application Form at the close of business on 17 June, 2004, or under any contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you are applying through a designated CCASS participant (other than an investor participant):

- for the Public Offer Shares credited to the stock account of your designated CCASS participant (other than investor participant), you can check the number of Public Offer Shares allocated to you with that CCASS participant.

If you are applying as a CCASS investor participant:

- the Company will publish the results of CCASS investor participants' applications together with the results of the Share Offer on the GEM website and in The Standard (in English) and Hong Kong Economic Times (in Chinese) on or before 16 June, 2004. You should check the announcement published by the Company and report any discrepancies to HKSCC before 12:00 noon on 17 June, 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. On 18 June, 2004 (the next day following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

If you have applied for 1,000,000 Public Offer Shares or above and have indicated on your Application Form that you intend to collect your refund cheque (if any) in person, please follow the procedures as set out in the paragraph "**WHITE Application Form**" above.

If you have opted for personal collection but do not collect your refund cheque (if any) at the specified time, it will be sent to the address on your Application Form in the afternoon on the date of despatch, by ordinary post and at your own risk. The Company intends to use special efforts to avoid delays in refunding money.

If you have applied for less than 1,000,000 Public Offer Shares, or if you have applied for 1,000,000 or more Public Offer Shares and have not indicated on your Application Form that you intend to collect your refund cheque (if any) in person, then your refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, by ordinary post and at your own risk.

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>	Year ended 30 June,		Six months ended 31 December,
		2002	2003	2003
		<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><u>(3,065,794)</u></u>	<u><u>(4,721,473)</u></u>	<u><u>(2,258,244)</u></u>
Dividend	7	<u>—</u>	<u>—</u>	<u>—</u>
Loss per share - basic	8	<u><u>(1.29) cents</u></u>	<u><u>(1.98) cents</u></u>	<u><u>(0.95) cents</u></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\$
Group					
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>
Company					
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>	Six months ended		
		Year ended 30 June, 31 December,		
		2002	2003	2003
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
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>

	<i>Section V</i>	Six months ended		
	<i>Notes</i>	Year ended 30 June, 31 December,		
		2002	2003	2003
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
CASH FLOWS FROM INVESTING ACTIVITIES				
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>
CASH FLOWS FROM FINANCING ACTIVITIES				
	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>670,801</u>	<u>18,373,656</u>	<u>14,975,406</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		<u>670,801</u>	<u>18,373,656</u>	<u>14,975,406</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>2,626,531</u>	<u>1,944,862</u>	<u>4,571,393</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>2,431,968</u>	<u>1,795,973</u>	<u>4,227,941</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>2,363,802</u>	<u>1,869,799</u>	<u>4,233,601</u>

12. Plant and equipment
Group

	Laboratory equipment HK\$	Leasehold improvements HK\$	Office equipment, furniture and fixtures HK\$	Motor vehicles HK\$	Total HK\$
Cost					
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>
Accumulated depreciation					
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>
Net book value					
At 30 June, 2002	<u>840,969</u>	<u>75,821</u>	<u>268,756</u>	<u>—</u>	<u>1,185,546</u>
Cost					
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>
Accumulated depreciation					
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>
Net book value					
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>
Cost					
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>
Accumulated depreciation					
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>
Net book value					
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>	At 30 June,		At 31 December,
		2002	2003	2003
		<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:

	At 30 June,	At 31 December,	
	2002	2003	2003
	<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

	Sales of diagnostic testing services	Research and development	Combined
	<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

	Sales of diagnostic testing services <i>HK\$</i>	Research and development <i>HK\$</i>	Combined <i>HK\$</i>
ASSETS			
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>
LIABILITIES			
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

	Sales of diagnostic testing services <i>HK\$</i>	Research and development <i>HK\$</i>	Combined <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

	Sales of diagnostic testing services <i>HK\$</i>	Research and development <i>HK\$</i>	Combined <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

	Sales of diagnostic testing services <i>HK\$</i>	Research and development <i>HK\$</i>	Combined <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

	Sales of diagnostic testing services <i>HK\$</i>	Research and development <i>HK\$</i>	Combined <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

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

Assets and liabilities at 31 December, 2003

	Sales of diagnostic testing services <i>HK\$</i>	Research and development <i>HK\$</i>	Combined <i>HK\$</i>
ASSETS			
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>
LIABILITIES			
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

	Sales of diagnostic testing services <i>HK\$</i>	Research and development <i>HK\$</i>	Combined <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

For illustrative purpose only, the pro forma financial information prepared in accordance with Rule 7.31 of the GEM Listing Rules, is set out here to provide the investors with further information to assess the financial performance of the Group after taking into account the adjusted net tangible assets of the Group to illustrate the financial position of the Group after the Share Offer.

The pro forma financial information is derived after a number of adjustments. Although reasonable care has been exercised in preparing the said information, prospective investors reading the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance of the Group during the Track Record Period.

PRO FORMA STATEMENT OF THE ADJUSTED NET TANGIBLE ASSETS

Adjusted net tangible assets

The pro forma statement of the adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31 December, 2003 as shown in the accountants' report set out in Appendix I to this prospectus, and adjusted as follows:

	Audited combined net assets of the Group as at 31 December, 2003 <i>HK\$'000</i>	Less: Intangible assets <i>HK\$'000</i>	Audited combined net tangible assets of the Group as at 31 December, 2003 <i>HK\$'000</i>	Estimated net proceeds of the Share Offer <i>HK\$'000</i> <i>(Note 1)</i>	Adjusted net tangible assets of the Group <i>HK\$'000</i>	Adjusted net tangible asset value per Share <i>HK cents</i> <i>(Note 2)</i>
Based on an Offer Price of HK\$0.50 per Share	<u>1,838</u>	<u>(4,234)</u>	<u>(2,396)</u>	<u>24,000</u>	<u>21,604</u>	<u>7.2</u>

Notes:

- The net proceeds from the Share Offer are estimated to be approximately HK\$24 million after deduction of expenses payable by the Company in relation to the Share Offer. Please refer to sub-section headed "Use of proceeds" under the section headed "Statement of business objectives and strategies" for future use of net proceeds.
- The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 302,000,000 Shares in issue immediately after the Share Offer and Capitalisation Issue taking no account of any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme and the Right of First Refusal Agreement, the general mandates to issue Shares referred to in Appendix V to this prospectus, the Initial IPO Conversion, the First Post IPO Conversion or the Second Post IPO Conversion.

LETTER

The following is the text of a letter received from the auditors and reporting accountants of the Company, RSM Nelson Wheeler, in connection with the pro forma statement of adjusted net tangible assets of the Group and prepared for the purpose of incorporation in this prospectus.

Letter from RSM Nelson Wheeler**RSM! Nelson Wheeler**

羅申美會計師行

Certified Public Accountants

8 June, 2004

The Directors
Plasmagene Biosciences Limited
First Shanghai Capital Limited

Dear Sirs

We report on the pro forma financial information as set out in page 221 under the section headed “Pro forma statement of the adjusted net tangible assets” in Appendix II of the prospectus dated 8 June, 2004 in connection with the placing and public offer of the shares of Plasmagene Biosciences Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared, for illustrative purposes only, to provide information about how listing might have affected the relevant financial information presented.

RESPONSIBILITIES

It is the responsibilities solely of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

It is our responsibility to form an opinion, as required by the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practice Board in the United Kingdom, where applicable. Our work,

which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with the Statements of Auditing Standards issued by the Hong Kong Society of Accountants, and accordingly, we do not express any such assurance on the pro forma financial information.

The pro forma financial information has been prepared on the bases set out on page 221 for illustrative purpose only and because of its nature, it may not be indicative of the financial position of the Group at any future date.

OPINION

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the issuer; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Listing Rules.

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus, received from CB Richard Ellis Limited, an independent property valuer, in connection with its valuation as at 31 March, 2004 of the property interests of the Group.

CB Richard Ellis Limited

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CB RICHARD ELLIS
世邦魏理仕

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地產代理（公司）牌照號碼
Estate Agent's Licence No: C-004065

8 June, 2004

Plasmagene Biosciences Limited
5th Floor
Club Lusitano,
16 Ice House Street,
Central,
Hong Kong

Dear Sirs,

We refer to your instruction for us to carry out a valuation of the property interests held by Plasmagene Biosciences Limited and its subsidiaries (together the “Group”), details of which are set out in the attached valuation certificates. We confirm that we have made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the capital values of the properties as at 31 March, 2004.

Unless otherwise stated, our valuation is prepared in accordance with the “Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition)” published by The Hong Kong Institute of Surveyors (“HKIS”) in March 2000. If the Guidance Notes are silent on subjects requiring guidance, we refer to the “Appraisal and Valuation Manual” published by The Royal Institution of Chartered Surveyors (“RICS”) subject to variation to meet local established law, custom, practice and market conditions. We have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited.

Our valuation is our opinion of Open Market Value which is defined to mean “the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- a) a willing seller;
- b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- c) that the state of the market, levels of value and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

All the properties are rented by the Group and are considered to have no commercial value due mainly to the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

We have relied to a considerable extent on information given by the Group in particular in respect of matters such as planning approvals, statutory notices, easements, tenancies, floor plans and all other relevant matters. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificates are based on our measurements taken from plans and therefore are only approximations.

Whilst we have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries, we have not scrutinised the original documents to verify the correctness of the information or to ascertain subsequent amendments, if any, which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to valuation. We were also advised by the Group that no material facts have been omitted from the information provided to us.

We have inspected the properties to such extent as we consider necessary for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects.

Neither the whole or any part of this letter and valuation certificates or any reference thereto may be included in any published document, circular or statement nor published in any way without our prior written approval to the form and context in which it may appear.

We enclose herewith a summary of valuation and our valuation certificates.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Alex P W Leung
MHKIS MRICS RPS(GP)
Director
Valuation & Advisory Services

Note: Mr. Alex P W Leung is a Registered Professional Surveyor, a corporate member of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has been practicing in the valuation of properties in Hong Kong since early 1995.

SUMMARY OF VALUATIONS

Property	Capital value in the existing state as at 31 March, 2004
1. Duplex Flat B on 1st Floor and Car Parking Space No. 8 on 3rd Lower Ground Floor, 1 Garden Terrace and 8 Old Peak Road, Mid-levels, Hong Kong	No commercial value
2. 5th Floor Club Lusitano, 16 Ice House Street, Central, Hong Kong	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March, 2004
<p>1. Duplex Flat B on 1st Floor and Car Parking Space No. 8 on 3rd Lower Ground Floor, 1 Garden Terrace and 8 Old Peak Road, Mid-levels Hong Kong</p> <p>The property comprises 35/1676 shares in Section A, Remaining Portion of Sub-section 1 of Section B, and Remaining Section of Section B all of Inland Lot No. 896, Section A of Inland Lot No. 1213, Remaining Portion of Sub-section 1 of Section A and Remaining Portion of Section A both of Inland Lot No. 2850</p>	<p>The subject property comprises a 4-bedroomed duplex apartment and a covered car parking space in a 43-storey luxury residential development completed in 1983. Recreational facilities are available including swimming pool and gymnasium.</p> <p>The saleable area of the apartment is approximately 295.64 sq.m. (3,182 sq.ft.).</p> <p>The property is leased by Induna Limited to Plasmagene Biosciences Limited for a term of 2 years expiring on 21 September, 2004 at a monthly rent of HK\$70,000 inclusive of air-conditioning and management fee and rates, property tax and government rent.</p>	<p>The property is currently occupied by Dr. Yeung who is a director of the Group.</p>	<p>No commercial value</p>

Notes:

1. According to the Land Registry record, the current registered owner of the property is Induna Limited which is an independent third party from the Group.
2. The property is subject to the following encumbrances:
 - i. Deed of Mutual Covenant registered in the Land Registry by memorial no. 2546579 dated 31 January, 1984.
 - ii. Deed of Rectification, Supplemental to the Deed of Mutual Covenant registered in the Land Registry by memorial no. 2683455 dated 5 December, 1984.
3. The property lies within an area zoned as "Residential (Group B)" uses under the current outline zoning plan.

Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March, 2004
2. 5th Floor Club Lusitano, 16 Ice House Street, Central Hong Kong The property comprises certain equal and undivided shares in the Remaining Portion of Inland Lot No. 339	<p>The subject property comprises a whole office floor in a 27-storey commercial building with office floors, retail podium and club facilities completed in 2001.</p> <p>The lettable area of the property is approximately 207.92 sq.m. (2,238 sq.ft.).</p> <p>The property is leased by The Club Lusitano to Plasmagene Biosciences Limited (“Plasmagene”) for a term of 2 years commencing from 13 February, 2003 at a monthly rent of HK\$27,975 exclusive of rates, air-conditioning, management fee, and all other charges. The tenant has an option to renew the lease for further two years at open market rent.</p>	<p>According to a sub-lease agreement made between Plasmagene and Wellchamp Capital Limited (“Wellchamp”), both parties agreed to share the property for a term of 1 year until 25 May, 2004 at a monthly rent of HK25,000 (inclusive of air-conditioning and management fee) payable by Wellchamp to Plasmagene.</p> <p>The property is jointly occupied by the Group and Wellchamp as office including a minority portion for laboratory use.</p>	No commercial value

Notes:

1. According to the Land Registry record, the current registered owner of the property is The Club Lusitano which is an independent third party from the Group.
2. Wellchamp is 97.6% owned by a director of Plasmagene.
3. The property is subject to a Mortgage to secure general banking facilities for consideration of all moneys and Rent Assignment both in favour of The Hongkong and Shanghai Banking Corporation Limited registered by memorial nos. 7904341 and 8545630 dated 21 October, 1999 and 26 November, 2001 respectively.
4. The property lies within an area zoned as “Commercial” uses under the current outline zoning plan.
5. As advised by Plasmagene, Wellchamp is now sharing the property with Plasmagene upon same terms and conditions as contained in the sub-lease agreement notwithstanding that the term has already expired.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1. Memorandum of Association

The memorandum of association of the Company (the “Memorandum”) was adopted on 20 April, 2004 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum is available for inspection at the address specified in Appendix VI in the section headed “Documents available for inspection”.

2. Articles of Association

The articles of association of the Company (the “Articles of Association”) were adopted on 20 April, 2004 and include provisions to the following effect:

A. Classes of Shares

The share capital of the Company consists of ordinary shares.

B. Directors

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person,

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company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which the Director or his associates is/are interested only, whether directly or indirectly, as an officer, executive or Shareholder or in which the Director is beneficially interested in shares of that company, provided that, the Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

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- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or his associates may benefit;
 - (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (vi) any contract or arrangement in which the Director or his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

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The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a retiring Director shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

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- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing Director or joint managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

C. **Alteration to constitutional documents**

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

D. Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

E. Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

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- (ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

F. Special resolution — majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

G. Voting rights (generally, on a poll and right to demand a poll)

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

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Where any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting for or against any particular resolution, any vote cast by such shareholder in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required under the GEM Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members of the Company present in person or by proxy and entitled to vote; or
- (c) any member or members of the Company present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meeting; or
- (d) any member or members of the Company present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

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If a recognised clearing house (or its nominee) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

H. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

I. Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association of the Company to every

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member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

J. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;

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- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the GEM Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

K. Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and

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- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the GEM Listing Rules, by publication on the GEM website or by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

L. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

M. Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

N. Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

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The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

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The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

O. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

P. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

Q. Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers or, subject to the GEM Listing Rules, by publication on the GEM website or by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the GEM Listing Rules) as the Directors may determine for each inspection.

R. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph D. above.

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S. Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority Shareholders in relation to fraud or oppression.

T. Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

U. Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12-year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12-year period, the Company has caused an advertisement to be published in the newspapers or, subject to the GEM Listing Rules by publication on the GEM website or by electronic communication in the manner in which notices may be served by the Company as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has

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elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

A. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

B. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 June, 2002, under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

C. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premium on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to the premium on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and Articles of Association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

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- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its Articles of Association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its Articles of Association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its Articles of Association, purchase its own shares, including any redeemable shares. However, if the Articles of Association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

D. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and Articles of Association, the payment of dividends and distributions out of the share premium account (see C above for further details).

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E. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

F. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and Articles of Association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

G. Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

H. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

I. Register of members

An exempted company may, subject to the provisions of its Articles of Association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

J. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's Articles of Association.

K. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the Articles of Association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the Articles of Association of the company.

L. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

M. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

N. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

O. Indemnification

Cayman Islands law does not limit the extent to which a company's Articles of Association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

P. Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

Q. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

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R. Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from 16 July, 2002.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

S. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

T. General

Maples and Calder Asia, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

I. FURTHER INFORMATION ABOUT THE COMPANY**(a) Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 June, 2002. The Company has established a place of business in Hong Kong at 5th Floor, Club Lusitano, 16 Ice House Street, Central, Hong Kong and was registered on 13 August, 2002 as an overseas company in Hong Kong under Part XI of the Companies Ordinance, with Dr. Yeung of Flat B, 1st Floor, No. 1 Garden Terrace, 8 Old Peak Road, Hong Kong, appointed as the agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company is incorporated in the Cayman Islands, it is subject to Cayman Islands company law and to its constitution which comprises the Memorandum and Articles of Association. A summary of various provisions of its constitution and relevant aspects of Cayman Islands company law is set out in Appendix IV of this prospectus.

(b) Changes in the share capital of the Company

As at the date of incorporation of the Company, its authorised share capital was HK\$50,000 divided into 5,000,000 Shares, one share of which was allotted and issued to the initial subscriber, credited as fully paid, and such Share was then transferred to Dr. Yeung on 1 August, 2002 at a consideration of HK\$0.01.

On 6 September, 2002, the Company by written resolution, increased its authorised share capital from HK\$50,000 divided into 5,000,000 Shares to HK\$10,000,000 by the creation of an additional 995,000,000 Shares to rank *pari passu* with the existing Shares in all respects.

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 and as to 505,723 Shares to Ms. Margaret Tsui in consideration 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, as to 106,726 Shares to Vanbarray Corporation, as to 40,000 Shares to Professor Lo, as to 10,000 Shares to The Chinese University of Hong Kong Foundation Limited and as to 50,000 Shares to Ms. Mabel Leung in consideration for the acquisition by the Company of each of their respective shareholding interests in each of 3 Ben, Celltech and Plasmagene.

On 24 October, 2002, the Company allotted and issued, in each case credited as fully paid, a total of 10,000 Shares to Dr. Yeung at a consideration of HK\$100.

Assuming that the Share Offer and the Capitalisation Issue become unconditional, the Company will allot and issue an aggregate of 25,800,000 Shares to the Noteholders, such Shares to be issued at the same time as the Offer Shares are allotted and issued.

Assuming that the Share Offer and the Capitalisation Issue become unconditional and the Shares pursuant to the Share Offer, the Capitalisation Issue and the Initial IPO Conversion are duly allotted and issued, but taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the Right of First Refusal Agreement and the exercise of the general mandate to issue Shares referred to in the paragraph headed “Resolutions passed at extraordinary general meetings of the Company which were held on 20 April, 2004 and 31 May, 2004” below or the First Post IPO Conversion or the Second Post IPO Conversion, the authorised share capital of the Company will be HK\$10,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company will be HK\$3,278,000 divided into 327,800,000 Shares fully paid or credited as fully paid, with 672,200,000 Shares remaining unissued.

Assuming that the Share Offer and the Capitalisation Issue become unconditional and the Shares pursuant to the Initial IPO Conversion are duly allotted and issued, the Company will allot and issue an aggregate of 34,400,000 Shares to the Noteholders upon the occurrence of the First Post IPO Conversion pursuant to the terms of the Convertible Notes and assuming the Shares pursuant to the Share Offer, the Capitalisation Issue, the Initial IPO Conversion and the First Post IPO Conversion are duly allotted and issued but taking no account of any Shares which may be allotted and issued after the Listing Date and/or upon the exercise of any options which may be granted under the Share Option Scheme or the Right of First Refusal Agreement and the exercise of the general mandate to issue Shares referred to in the paragraph headed “Resolutions passed at extraordinary general meetings of the Company which were held on 20 April, 2004 and 31 May, 2004” below or the Second Post IPO Conversion, the issued share capital of the Company will be HK\$3,622,000 divided into 362,200,000 Shares fully paid or credited as fully paid, with 637,800,000 Shares remaining unissued.

Assuming that the Share Offer and the Capitalisation Issue become unconditional and the Shares pursuant to the Initial IPO Conversion and the First Post IPO Conversion are duly issued, the Company will allot and issue an aggregate of 25,800,000 Shares to the Noteholders upon the occurrence of the Second Post IPO Conversion pursuant to the terms of the Convertible Notes and assuming the Shares pursuant to the Share Offer, the Capitalisation Issue, the Initial IPO Conversion, the First Post IPO Conversion and the Second Post IPO Conversion are duly allotted and issued but taking no account of any Shares which may be allotted and issued after the Listing Date and/or upon the exercise of any options which may be granted under the Share Option Scheme or the Right of First Refusal Agreement and the exercise of the general mandate to issue Shares referred to in the paragraph headed “Resolutions passed at extraordinary general meetings of the Company which were held on 20 April, 2004 and 31 May, 2004” below, the issued share capital of the Company will be HK\$3,880,000 divided into 388,000,000 Shares fully paid or credited as fully paid, with 612,000,000 Shares remaining unissued.

Other than pursuant to any options which may be granted under the Share Option Scheme or the Right of First Refusal Agreement, the Initial IPO Conversion, the First Post IPO Conversion or the Second Post IPO Conversion, there is no present intention by the Directors to allot and issue any part of the authorised but unissued share capital of the Company after the Listing Date and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company after the Listing Date.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

(c) Resolutions passed at extraordinary general meetings of the Company which were held on 20 April, 2004 and 31 May, 2004

On 20 April, 2004 and 31 May, 2004, ordinary resolutions were passed by the Shareholders at extraordinary general meetings of the Company, pursuant to which, amongst other things:

- (1) conditional on (i) the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or upon the occurrence of the Initial IPO Conversion, the First Post IPO Conversion and/or the Second Post IPO Conversion); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Lead Manager, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreements or otherwise:
- (a) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares;
- (b) the Directors were authorised to allot and issue an aggregate of 86,000,000 Shares to each of the Noteholders at HK\$0.25 per Share in the manner set out below, or such number of Shares at such price per Share as the Directors shall determine in accordance with the terms of the Convertible Notes, upon full conversion of the principal amount of the Convertible Notes issued by the Company to each Noteholder:

Name of Noteholder	Number of Shares to be allotted and issued upon full conversion of the Convertible Notes	Principal amount of the Convertible Notes subscribed for by each Noteholder <i>HK\$</i>
The Applied Research Council	46,800,000	11,700,000
MCVIL	15,600,000	3,900,000
JAIC	9,360,000	2,340,000
JAIC Technology	6,240,000	1,560,000
Mr. Robert Owen	2,000,000	500,000
Mr. Russell Young	4,800,000	1,200,000
Mr. Tong Siu Bau	400,000	100,000
Mr. Lee Kam Lun, Kenyon	400,000	100,000
Ms. Jessica Pui Han Jook	400,000	100,000

- (2) conditional on the share premium account of the Company being credited as a result of the Share Offer and upon the recommendation of the Directors, a sum of HK\$2,369,900 be capitalised from the amount standing to the credit of the share premium account and the said sum be applied in paying up in full at par 236,990,000 Shares for allotment and issue, credited as fully paid, to Ms. Margaret Tsui as to 118,664,647 Shares, Dr. Yeung as to 2,358,403 Shares, Spring Biotech as to 67,460,024 Shares, Vanbarry Corporation as to 12,521,285 Shares, Mr. Wong Kim Wing as to 11,732,178 Shares, The Chinese University of Hong Kong Foundation Limited as to 2,346,436 Shares, Professor Lo as to 9,385,742 Shares and Diamond Tech Investment Limited as to 12,521,285 Shares, being the holders of Shares on the register of members of the Company on 20 April, 2004 (the “Capitalisation Issue”) or as they may direct in proportion to their then existing shareholdings in the Company and that such Shares shall rank *pari passu* in all respects with the then existing issued Shares and the Directors were authorised to give effect to the Capitalisation Issue;
- (3) conditional on (i) the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or upon the occurrence of the Initial IPO Conversion, the First Post IPO Conversion and/or the Second Post IPO Conversion); and (ii) the commencement of dealings in the Shares on GEM, the rules of the Share Option Scheme were approved and adopted and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme provided that the total number of Shares which may be issued upon the exercise of all options granted under the Share Option Scheme and any other share option scheme of the Company shall not exceed an aggregate of 10% of the total number of Shares of the Company in issue immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, upon and subject to the terms and conditions of the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;
- (4) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot, issue and deal with, and to make or grant offers, agreements or options which may require the exercise of such power to allot, issue and deal with Shares, including without limitation upon the exercise of any options which may be granted pursuant to the Right of First Refusal Agreement but otherwise than by way of rights or an issue of Shares upon the exercise of any subscription rights attached to any warrants or other securities of the Company (the issue of which would have been approved by the Shareholders in general meeting) or pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries and/or any other third party of shares or rights to acquire shares or pursuant to the Share Offer or upon the occurrence of the Initial IPO Conversion, the First Post IPO Conversion or the Second Post IPO Conversion or any scrip dividend scheme or similar

arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, such mandate to remain in effect until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws to be held; or
 - (c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (5) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on GEM or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, such mandate to remain in effect until whichever is the earliest of:
- (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws to be held; or
 - (c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (6) the general unconditional mandate mentioned in paragraph (4) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted and issued or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (5) above provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion;

- (7) the service agreement of Dr. Yeung with the Company, details of which are set out in the sub-paragraph headed “Particulars of the service agreements” in this appendix was approved; and
- (8) all transactions contemplated under the agreement dated 23 April, 2002 and the supplemental agreement dated 7 August, 2002 (the “Agreements”), in each instance entered into between Plasmagene and Spring Biotech, were confirmed, approved and ratified and that any Director was authorised to undertake and enter into all such transactions contemplated by the Agreements and take all actions in connection with, and ancillary thereto up until the year ending 30 June, 2004, on the condition the value of such transactions contemplated in the Agreements shall not exceed HK\$2,000,000.

On 20 April, 2004, a special resolution was passed by the Shareholders, at an extraordinary general meeting of the Company pursuant to which the Company approved and adopted its existing Memorandum and Articles of Association.

(d) Changes in the share capital of subsidiaries of the Company

The Company’s subsidiaries are set out in the accountants’ report for the Company, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the Company’s subsidiaries including certain alterations which had taken place within the two years preceding the date of this prospectus:

On 6 August, 2002, 1 share of US\$1.00 each in the capital of Chemosino International Limited, a company incorporated in the British Virgin Islands under the International Business Companies Act (Cap. 291) with limited liability, was allotted and issued to Dr. Yeung for cash at par which was subsequently transferred by Dr. Yeung to the Company for cash at par on 14 August, 2002.

On 20 April, 2001, 2 subscriber shares of HK\$1.00 each in the capital of Plasmagene were allotted and issued to Yik Kay Limited and Onway Nominees Limited for cash at par, credited as fully paid, which were transferred to Mr. Wong King Yeung and Dr. Yeung, respectively on 27 April, 2001 for cash at par.

On 30 August, 2001, the authorised share capital of Plasmagene was increased from HK\$10,000 to HK\$4,000,000 by the creation of an additional 3,990,000 ordinary shares of HK\$1.00 each by written resolution passed by all of its shareholders. On the next day, Plasmagene allotted and issued an aggregate of 3,999,998 ordinary shares of HK\$1.00 each, credited as fully paid in each case, to New Oxford Management Limited, a wholly owned subsidiary of Century Year Company Limited which in turn was then a company wholly and beneficially owned by Ms. Margaret Tsui and Dr. Yeung, as to 2,355,998 shares of HK\$1.00 each, Vanbarry Corporation as to 494,000 shares of HK\$1.00 each, Mr. Cheung Lam Hung as to 570,000 shares of HK\$1.00 each, Ms. Mabel Leung as to 380,000 shares of HK\$1.00 each, Professor Lo as to 160,000 shares of HK\$1.00 each and The Chinese University of

Hong Kong Foundation Limited as to 40,000 shares of HK\$1.00 each for cash at par. Following such issue of shares in Plasmagene, it was beneficially owned as to 58.9% by New Oxford Management Limited, 14.25% by Mr. Cheung Lam Hung, 12.35% by Vanbarry Corporation, 9.5% by Ms. Mabel Leung, 4% by Professor Lo and 1% by The Chinese University of Hong Kong Foundation Limited.

The authorised share capital of Plasmagene was increased from HK\$4,000,000 to HK\$15,000,000 by the creation of an additional 11,000,000 ordinary shares of HK\$1.00 each by a resolution passed by the shareholders of Plasmagene at an extraordinary general meeting of Plasmagene held on 6 September, 2002. On the same date, 8,000,000 ordinary shares of HK\$1.00 each in Plasmagene were allotted and issued as to 4,046,192 shares to New Oxford Management Limited, as to 2,300,000 shares to Spring Biotech, as to 853,808 shares to Vanbarry Corporation, as to 400,000 shares to Ms. Mabel Leung, as to 320,000 shares to Professor Lo and as to 80,000 shares to The Chinese University of Hong Kong Foundation Limited (the “Plasmagene Shareholders”) on capitalisation of shareholders’ loans in an aggregate amount of HK\$8,000,000 owed by Plasmagene to each of them pursuant to the terms of a capitalisation agreement dated 13 September, 2002 made between the Plasmagene Shareholders and Plasmagene.

On 11 January, 2001, one subscriber share of US\$1.00 par value in the capital of 3 Ben was allotted and issued to each of Unique Prosperity Limited and Century Year Company Limited for cash at par, which were both subsequently transferred to New Oxford Management Limited on 9 June, 2001 for cash at par.

On 13 July, 2001, 3 Ben allotted and issued 53 and 45 shares of US\$1.00 each to each of New Oxford Management Limited and Spring Biotech respectively for cash at par. On 21 November, 2001, New Oxford Management Limited transferred 5 shares in 3 Ben (representing 5% of the then issued share capital of 3 Ben) to Century Year Company Limited for a total consideration of US\$5 at par. On 7 September, 2002, a written resolution was passed by all shareholders of 3 Ben, approving the subdivision of the nominal value of the entire share capital of 3 Ben from US\$1.00 each to US\$0.01 each.

On 25 January, 2002, one subscriber share of HK\$1.00 each in the capital of Celltech was allotted and issued to each of Honorway Secretaries Limited and Honorway Management Limited for cash at par, which were subsequently transferred to each of New Oxford Management Limited and Spring Biotech, respectively on 22 February, 2002 for cash at par. On 22 February, 2002, Celltech allotted and issued 48 and 50 shares of HK\$1.00 each to each of New Oxford Management Limited and Spring Biotech respectively for cash at par.

On 7 September, 2002, a written resolution was passed by all the shareholders of Celltech as an ordinary resolution, approving the subdivision of the nominal value of the entire share capital of Celltech from HK\$1.00 each to HK\$0.01 each.

Save as aforesaid and as set out under the heading “Group reorganisation” in this appendix, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this prospectus.

(e) **Group reorganisation**

The companies comprising the Group underwent reorganisations in 2002 and 2003 in preparation for the Listing. Following completion of the Reorganisation, the Company was the holding company of the Group and the existing structure of the Group was formed. The Reorganisation involved the following:

On 18 September, 2002, each of New Oxford Management Limited and Ms. Margaret Tsui acquired from Century Year Company Limited, 58 and 442 shares of US\$0.01 each in the capital of 3 Ben, respectively, representing the entire 5% interest held by Century Year Company Limited in 3 Ben for cash consideration of US\$0.58 and US\$4.42, respectively.

On 18 September, 2002, each of Vanbarry Corporation, Ms. Mabel Leung, Professor Lo and The Chinese University of Hong Kong Foundation Limited acquired, 1,067, 500, 400 and 100 shares of US\$0.01 each in the capital of 3 Ben, respectively, from Spring Biotech and Ms. Margaret Tsui, representing the 1,625 and 442 shares of US\$0.01 each in the capital of 3 Ben held by each of Spring Biotech and Ms. Margaret Tsui, respectively for an aggregate cash consideration of HK\$372,060.

On 20 September, 2002, each of Vanbarry Corporation, Ms. Mabel Leung, Professor Lo, The Chinese University of Hong Kong Foundation Limited and New Oxford Management Limited acquired 1,067, 500, 400, 100 and 158 shares of HK\$0.01 each in the capital of Celltech, respectively, from Spring Biotech, for an aggregate consideration of HK\$4,450.

On 20 September, 2002, the Company acquired, through New Oxford Management Limited, from each of Spring Biotech, Vanbarry Corporation, Ms. Mabel Leung and Professor Lo and The Chinese University of Hong Kong Foundation Limited, an aggregate of 4,942 shares of US\$0.01 each in the capital of 3 Ben, 4,942 shares of HK\$0.01 each in the capital of Celltech and 5,930,712 shares of HK\$1.00 each in the capital of Plasmagene, representing the entire shareholding interests of each of Spring Biotech, Vanbarry Corporation, Ms. Mabel Leung, Professor Lo and The Chinese University of Hong Kong Foundation Limited in each of 3 Ben, Celltech and Plasmagene in consideration of which the Company allotted and issued an aggregate of 494,226 Shares, as to 287,500 Shares to Spring Biotech, 106,726 Shares to Vanbarry Corporation, 50,000 Shares to Ms. Mabel Leung, 40,000 Shares to Professor Lo and 10,000 Shares to The Chinese University of Hong Kong Foundation Limited.

On 19 November, 2002, Vanbarry Corporation transferred 53,363 Shares to Diamond Tech Investment Limited for a cash consideration of HK\$100.

On 31 March, 2003, Ms. Mabel Leung disposed of 50,000 Shares to Mr. Wong Kim Wing, her spouse, by way of gift.

On 24 June, 2003, Chemosino International Limited acquired the entire issued share capital of each of Plasmagene, Celltech and 3 Ben from New Oxford Management Limited for an aggregate consideration of HK\$7,737,059.94 which was fully settled on 24 September, 2003.

On 25 June, 2003, Chemosino International Limited disposed of the entire issued share capital of Century Year Company Limited to Dr. Yeung and Ms. Margaret Tsui for an aggregate consideration of HK\$3,892,078.45 which was fully settled on 24 September, 2003.

(f) **Repurchase by the Company of its own securities**

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(1) *GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their equity securities on GEM subject to certain restrictions, the most important restriction being the obtaining of the Shareholders' prior approval and the terms of such approval.

All proposed repurchases of securities (which must be fully paid up in the case of shares) on GEM by a company with a primary listing on GEM must be approved in advance by an ordinary resolution of shareholders of the relevant company, either by way of general mandate or by special approval of a particular transaction. On 20 April, 2004, resolutions were passed by the Shareholders at an extraordinary general meeting of the Company whereby a general unconditional mandate (the "Repurchase Mandate") was granted to the Directors authorising the repurchase by the Company of Shares on GEM, or any other stock exchange recognised by the SFC and the Stock Exchange, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned in this prospectus at any time until (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or the Companies Law or any other applicable laws to be held; or (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of the Shareholders in general meeting, whichever occurs first.

(2) *Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate, on the basis of 327,800,000 Shares in issue immediately after the Share Offer, Capitalisation Issue and the Initial IPO Conversion (taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or upon the occurrence of the First Post IPO Conversion and the Second Post IPO Conversion), could accordingly result in up to 32,780,000 Shares being repurchased by the Company during the period as described in sub-paragraph (1) above.

(3) *Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

(4) *Funding of repurchases*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles of Association and the applicable laws and regulations of the Cayman Islands.

(5) *General*

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, has any present intention, if the Repurchase Mandate is approved by the Shareholders and is exercised by the Directors, to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Memorandum, Articles of Association and the applicable laws and regulations of the Cayman Islands. If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase in the Shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Code as a consequence of any repurchase made under the Repurchase Mandate.

No repurchase of Shares has been made by the Company since its incorporation.

No connected person of the Company has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented with the agreement of the Stock Exchange to waive the GEM Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

II. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**(a) Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (1) a capitalisation agreement dated 13 September, 2002 entered into between each of New Oxford Management Limited, Vanbarry Corporation, Spring Biotech, Ms. Mabel Leung, Professor Lo and The Chinese University of Hong Kong Foundation Limited and Plasmagene in relation to the capitalisation of shareholders' loans owed by Plasmagene to each of them;
- (2) an agreement dated 20 September, 2002 entered into between Dr. Alex Yeung and Ms. Margaret Tsui as vendors and the Company as purchaser pursuant to which the entire issued share capital of Century Year Company Limited was transferred to the Company by each of Dr. Yeung and Ms. Margaret Tsui in consideration for the allotment and issue of 50 and 505,723 Shares by the Company to each of them respectively;
- (3) an agreement dated 20 September, 2002 entered into between Spring Biotech, Vanbarry Corporation, Ms. Mabel Leung, Professor Lo and The Chinese University of Hong Kong Foundation Limited as vendors and the Company as purchaser for the acquisition of the entire shareholding interests held by each of such vendors in each of 3 Ben, Celltech and Plasmagene in consideration for the allotment and issue, credited as fully paid, of an aggregate of 494,226 Shares, as to 287,500 Shares to Spring Biotech, as to 106,726 Shares to Vanbarry Corporation, as to 50,000 Shares to Ms. Mabel Leung, as to 40,000 Shares to Professor Lo and as to 10,000 Shares to The Chinese University of Hong Kong Foundation Limited for an aggregate cash consideration of HK\$4,942.26;
- (4) an agreement dated 8 August, 2002 entered into between the Chinese University and the Company pursuant to which the Company was granted a right of first refusal by the Chinese University for a grant of an exclusive licence in respect of certain new technology and invention developed solely by Professor Lo in the future over a term of 4 years from the Listing Date and in consideration for the right of first refusal of such grant of an exclusive licence, the Company has agreed to grant options in favour of the Chinese University (or its nominee) to subscribe for such number of Shares worth up to a maximum of HK\$4,600,000 over the period of 4 years, subject to certain conditions and the GEM Listing Rules as amended and supplemented by agreements dated 31 October, 2003 and 16 April, 2004, details of which are set out in the section headed "Relationship with Professor Lo and the Chinese University" of this prospectus;
- (5) a shareholders' agreement dated 13 June, 2001 entered into between Century Year Company Limited, New Oxford Management Limited, Spring Biotech and 3 Ben to regulate the relationship between shareholders of 3 Ben;

- (6) a shareholders' agreement dated 31 August, 2001 entered into between New Oxford Management Limited, Mr. Cheung Lam Hung, Ms. Mabel Leung, Vanbarry Corporation, The Chinese University of Hong Kong Foundation Limited, Professor Lo and Plasmagene to regulate the relationship between shareholders of Plasmagene;
- (7) a subscription agreement dated 4 December, 2002 entered into between the Noteholders and the Company in respect of the Convertible Notes issued by the Company to the Noteholders;
- (8) the certificates and conditions issued by the Company to each of the Noteholders in respect of the Convertible Notes dated 27 December, 2002, 16 December, 2002 and 14 December, 2002;
- (9) a deed of novation dated 24 June, 2003 between New Oxford Management Limited and Chemosino International Limited in respect of the novation of, and, a deed of charge dated 4 February, 2003 entered into between New Oxford Management Limited and the Noteholders in relation to the grant of a first legal mortgage over the entire issued share capital of Plasmagene in favour of the Noteholders as a continuing security for payment of all sums due to the Noteholders under the Convertible Notes;
- (10) a deed of assignment dated 6 September, 2002 entered into between Dr. Yeung as assignor and 3 Ben as assignee pursuant to which Dr. Yeung assigned all of his rights in respect of the US patent application (No. 60/256, 671) relating to the treatment of cancer and other diseases by administration of positron-emission radio-pharmaceutical to 3 Ben for a nominal consideration;
- (11) a deed of assignment dated 24 September, 2003 entered into between Dr. Yeung as assignor and Plasmagene as assignee pursuant to which Dr. Yeung assigned all of his rights in respect of US patent application (No. 10/455, 043) relating to new sensitive diagnostic testing methodology using-multiplex real time PCR with one dye and its use and in its severe respiratory syndrome to Plasmagene for a nominal consideration;
- (12) an agreement dated 24 June, 2003 between New Oxford Management Limited and Chemosino International Limited in respect of the disposal of New Oxford Management Limited's entire shareholding interest in the capital of each of 3 Ben, Celltech and Plasmagene as part of the Reorganisation (as varied and supplemented by a supplemental agreement dated 26 September, 2003 entered into between the same parties), details of which are set out in the sub-paragraph headed "Group reorganisation" in this appendix;
- (13) an agreement dated 25 June, 2003 between Chemosino International Limited and Dr. Yeung and Ms. Margaret Tsui in respect of the disposal of Chemosino International Limited's entire shareholding interest in the capital of Century Year Company Limited as part of the Reorganisation (as varied and supplemented by a supplemental agreement dated 26 September, 2003 entered into between the same parties), details of which are set out in the sub-paragraph headed "Group reorganisation" in this appendix;

- (14) a novation agreement dated 25 March, 2003 between Century Year Company, the Company and Induna Limited in respect of the novation to the Company of a tenancy agreement dated 6 November, 2002 relating to the premises at Flat B, 1st Floor, No. 1 Garden Terrace, 8 Old Peak Road, Hong Kong, being the place of residence of Dr. Yeung;
- (15) a research collaboration agreement dated 6 June, 2003 between Plasmagene and the Chinese University relating to a collaborative research program for the treatment and diagnosis of SARS between the parties;
- (16) a sub-lease agreement dated 29 August, 2003 entered into between the Company and Wellchamp Capital Limited, recording the arrangements of sharing the Company's premises at 5th Floor, Club Lusitano, 16 Ice House Street, Central, Hong Kong for the period of one year commencing from 26 May, 2003 for a monthly rental of HK\$25,000 (including air-conditioning and building management fees).
- (17) the Sponsor's Agreement dated 7 June, 2004 entered into between the Company and the Sponsor in relation to the appointment of the Sponsor to act as sponsor of the Company pursuant to the GEM Listing Rules;
- (18) a deed of indemnity dated 7 June, 2004 between the Company and Dr. Yeung, Ms. Margaret Tsui, Mr. Cheng Yan Tak, Angus Ronald, Mr. Hase Wong, Dr. Cho Kwai Chee, Vanbarry Corporation, Diamond Tech Investment Limited, Spring Biotech, Town Health Bio-Medical Technology Limited and Town Health International Holdings Company Limited (the "Indemnifiers") in favour of the Group containing certain indemnities being, amongst other terms, the indemnities referred to in the paragraph headed "Other information — Estate duty and other matters" in this appendix;
- (19) the Public Offer Underwriting Agreement;
- (20) a deed of assignment dated 17 February, 2004 between Dr. Yeung as assignor and Plasmagene as assignee pursuant to which Dr. Yeung assigned all of his rights in respect of US patent application by Dr. Yeung and Professor Lo dated 3 June, 2003 (No. 10/455, 041) relating to the combination of circulating EBV DNA in the serum or plasma of patients and a method to assess EBV sub types for the prediction and detection of EBV associated cancers (claiming priority on US provisional patent application no. 60/265, 508 and US regular patent application no. 10/057, 579) and related documents for a nominal consideration;
- (21) a termination agreement dated 2 March, 2004 entered into between Spring Biotech (China) Limited and Plasmagene relating to the termination of an exclusive sub-licence agreement dated 25 February, 2002 entered into between the same parties in respect of the sub-licence of certain of the PDx Technology in the PRC, further details of which are set out in the section headed "History and Development" of this prospectus;

- (22) a deed of assignment dated 8 April, 2004 between Dr. Yeung as assignor and 3 Ben as assignee pursuant to which Dr. Yeung assigned all of his rights in respect of Republic of China (Taiwan) patent application by Dr. Yeung filed on 18 December, 2001 (Application No.: 090131362) relating to “Treating of cancer and other diseases by administration of positron-emitting radio-pharmaceuticals” (claiming priority on US provisional patent application numbered 60/256,671 filed on 18 December, 2000) and related documents for a nominal consideration;
- (23) a termination of consultancy agreement dated 20 June, 2003 between Century Year Company Limited and Plasmagene relating to the termination of a consultancy agreement dated 15 July, 2002 and supplemental consultancy agreement dated 6 September, 2002 between them, with effect from 1 October, 2002;
- (24) a termination of consultancy agreement dated 20 June, 2003 between Century Year Company Limited and 3 Ben relating to the termination of a consultancy agreement dated 15 July, 2002 and supplemental consultancy agreement dated 6 September, 2002 between them, with effect from 1 October, 2002; and
- (25) a supplemental letter agreement dated 23 April, 2004 relating to the Convertible Notes entered into between each member of the Group, the Noteholders, Dr. Yeung, Ms. Margaret Tsui, Mr. Wong Kim Wing, Spring Biotech, Vanbarry Corporation and Diamond Tech Investment Limited.

(b) **Intellectual property**

Assigned rights

Date of the relevant deeds of assignments	Assignor	Assignee	Countries of application	Assigned patent rights in respect of the technology as set out below
6 September, 2002	Dr. Yeung	3 Ben	USA and under PCT	“Treatment of cancer and other diseases by Administration of Positron-Emitting Radio-Pharmaceutical” under the PCT international patent application no. PCT/US01/48193 and U.S. patent application no. 10/020,368 (claiming priority on U.S. provisional patent application numbered 60/256,671)

24 September, 2003	Dr. Yeung Plasmagene USA	the US patent application (no. 10/455,043) relating to a new sensitive diagnostic testing methodology using multiplex real time PCR with one dye (MOD) and its use in severe acute respiratory syndrome and the US patent application (no. 60/469,812) relating to diagnostic tests and kits for severe acute respiratory syndrome and other diseases with or without new amplification methods
17 February, 2004	Dr. Yeung Plasmagene USA	United States patent application (no. 10/455,041) relating to the combination of circulating EBV DNA in the serum or plasma of patients and a method to assess EBV subtypes for the prediction and detection of EBV associated cancers (claiming priority on US provisional patent application numbered 60/265,568 and US regular patent application numbered 10/057,579) and related documents
8 April, 2004	Dr. Yeung 3 Ben Taiwan	Taiwan patent application (no. 090131362) relating to “Treatment of cancer and other diseases by administration of position-emitting radio-pharmaceuticals” (claiming priority on US provisional patent application (no. 60/256,671) filed on 18 December, 2000) and related documents

Note: All the relevant filing requirements in relation to the assignments are expected to be complied with before September 2004.

Licences from third parties

The Group has acquired, in most instances, exclusive licences to use, sub-licence and/or develop various patents or patent applications, details of which are set out in the sub-section headed “Intellectual property” in the section headed “Business” on pages 95 to 104 of this prospectus. The following sets out further details as regards such patents or patent applications (as the case may be):

Item No.	Patent title	Patent application No.	Country of application	Filing date of patent application	Applicant/ Inventor's name	Assignee for published patent applications	Date of grant of patent	Registration No.	Date of the relevant licence agreement	Licensed territory	Effective licensed period	Cross reference to numbers of licences set out in pages 97 to 102 of this Prospectus	Notes
1.	Process for amplifying, detecting and/or cloning nucleic acid sequences	94000788	Hong Kong	14/07/1994 (deemed date of filing: 27/03/1986)	F. Hoffman- Roche A.G.	N/A	18/08/1994	HK0940849	29/05/2001	Hong Kong	until patent expiry date on 27/03/2006 subject to renewal fee paid	1	
2.	Process for amplifying nucleic acid sequences	94000774	Hong Kong	13/07/1994 (deemed date of filing: 27/03/1986)	F. Hoffman- Roche A.G.	N/A	18/08/1994	HK0940840	29/05/2001	Hong Kong	until patent expiry date on 27/03/2006 subject to renewal fee paid	1	
3.	Non invasive pre-natal monitoring	60/241,417	US	17/10/2000	Professor Lo and Poon Lit Man	The Chinese University	N/A	N/A	04/06/2001	USA, EU, Japan, Australia, HK	from 22/06/2001 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	2	Pending grant of patent
4.	Non invasive pre-natal monitoring	09/876,005	US	6/06/2001	Professor Lo and Poon Lit Man	The Chinese University	16/12/03	US6,664,056B2	04/06/2001	USA, EU, Japan, Australia, HK	from 22/06/2001 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	2	Claims benefit of US patent application no. 60/241, 417 above
5.	Non invasive pre-natal monitoring	PCT/GB 01/04629	PCT in the UK	17/10/2001 (priority date: 17/10/2000)	The Chinese University	The Chinese University	25/4/2002	W002/33120A3	04/06/2001	USA, EU, Japan, Australia, HK	from 22/06/2001 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	2	Claims benefit of US patent application no. 60/241,417 and 09/876,005 above
6.	Non Invasive Pre-Natal Diagnosis	645074/98	Australia	04/03/1998 (Priority date: 04/03/1997)	ISIS	N/A	19/04/2001 (patent period - 20 yrs from 04/03/1998)	727919	22/06/2001	Australia, Hong Kong, Japan, PRC	7 years from 22/06/2001	3	
7.	Non Invasive Pre-Natal Diagnosis	00105959.8	Hong Kong	21/09/2000	ISIS	N/A	11/9/03	HK1026720	22/06/2001	Australia, Hong Kong, Japan, PRC	7 years from 11/09/2003	3	
8.	Non Invasive Pre-Natal Diagnosis	10-538290/98	Japan	04/03/1998	ISIS	N/A	N/A	N/A	22/06/2001	Australia, Hong Kong, Japan, PRC	7 years from the date a patent derived from the application is granted in Japan	3	Pending grant of patent
9.	Non Invasive Pre-Natal Diagnosis	N/A	PRC	N/A	ISIS	N/A	N/A	N/A	22/06/2001	Australia, Hong Kong, Japan, PRC	10 years from 22/06/2001 for the PRC	3	the Company has confirmed that no patent application has been made by ISIS in the PRC in respect of this technology
10.	Methods for detecting DNA originating from different individuals	09/944,951	US	31/08/2001	Professor Lo and Poon Lit Man	The Chinese University	N/A	N/A	21/05/2002	Anywhere in the world	from 01/04/2002 to the last expiry date of all the licensed patents or initial term of 20 years, whichever is the later unless terminated earlier	4	Pending grant of patent
11.	Methods for detecting DNA originating from different individuals	PCT/GB 02/03941	PCT	30/08/2002	The Chinese University	The Chinese University	13/03/03	WO 03/020974	21/05/2002	Anywhere in the world	from 01/04/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	4	Pending grant of patent
12.	Methods for evaluating stroke or cardiac ischemia by nucleic acid detection	60/380,719	US	14/05/2002	Timothy Hudson Rainer, Professor Lo, Lam Yuk Lau, Wong Ka Sing Lawrence	The Chinese University	N/A	N/A	31/07/2002	Anywhere in the world	from 01/04/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	5	Pending grant of patent

Item No.	Patent title	Patent application No.	Country of application	Filing date of patent application	Applicant/ Inventor's name	Assignee for published patent applications	Date of grant of patent	Registration No.	Date of the relevant licence agreement	Licensed territory	Effective licensed period	Cross reference to numbers of licences set out in pages 97 to 102 of this Prospectus	Notes
13	Methods for evaluating stroke or cardiac ischemia by nucleic acid detection	10/194,523	US	07/11/2002	Timothy Hudson Rainer, Professor Lo, Lam Yuk Lau, Wong Ka Sing Lawrence	The Chinese University	N/A	N/A	31/07/2002	Anywhere in the world	from 01/04/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	5	(i) Claims benefit of patent application no. 60/380,719 above; (ii) pending grant of patent
14	Methods for evaluating a disease condition by Nucleic Acid Detection and Fractionation	60/380,708	US	14/05/2002	Professor Lo, Ng Kai On, Tsui Bo Yin, Chiu Wai Kwun Rossa, Chan Yuen Shan Lisa, Timothy Hudson Rainer, Lam Yuk Lan	The Chinese University	N/A	N/A	31/07/2002	Anywhere in the world	from 01/05/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	6	Pending grant of patent
15	Novel classification methods for pleural effusions	10/278,278	US	22/10/2002	Professor Lo, Michael Ho-Ming Chan	The Chinese University	N/A	N/A	15/08/2002	Anywhere in the world	from 01/06/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	7	Pending grant of patent
16	Circulating Epstein-Barr virus DNA in the serum of patients with gastric carcinoma	60/265,568 (Provisional)	US	31/01/2002	Professor Lo Y. M. Dennis, Chan Wing Yee, Ng Kwok Wai	The Chinese University	N/A	N/A	25/11/2002	Anywhere in the world	from 25/11/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	8	Pending grant of patent
17	Circulating Epstein-Barr virus DNA in the serum of patients with gastric carcinoma	10/057,579	US	25/01/2002	Professor Lo, Poon Lit Man, Chau Wing Yee, Ng Kwok Wai	The Chinese University	N/A	N/A	25/11/2002	Anywhere in the world	from 25/11/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	8	(i) Pending grant of patent (ii) Licence also covers US provisional patent application no. 60/265,568 above.
18	Circulating Epstein-Barr virus DNA in the serum of patients with gastric carcinoma	PCT/GB02/00411	PCT in the UK	30/01/2002 (priority date: 31/01/01)	Professor Lo and Poon Lit Man and Chan Wing Yee (For US only); the Chinese University (for PCT)	The Chinese University	08/08/02	WO 02/061148	25/11/2002	Anywhere in the world	from 25/11/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	8	(i) Pending grant of patent (ii) Claims benefit of patent application no. US(60/265,568) above
19	Circulating Epstein-Barr virus DNA in the serum of patients with gastric carcinoma	91101576	Taiwan	30/01/2002	Professor Lo and Chan Wing Yee	The Chinese University	N/A	N/A	25/11/2002	Anywhere in the world	from 25/11/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	8	(i) Patent application made under PCT/GB02/00411 (ii) Pending grant of patent
20	Circulating Epstein-Barr virus DNA in the serum or plasma of patients for the prediction and detection of Epstein-barr virus associated cancers apart from head, neck and lymphoid malignancies	10/455,042	US	03/06/2003	Professor Lo, Chan Wing Yee, Ng Kwok Wai	The Chinese University	N/A	N/A	25/11/2002	Anywhere in the world	from 25/11/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	8	(i) Division of US patent application no. 10/057,579 filed on 25/01/2002 which claims the benefit of patent application no. 60/265,568 filed on 31/01/2001 above. (ii) Pending grant of patent
21	Combination of circulating Epstein-Barr virus (EBV) DNA in the serum or plasma of patients and a method to assess EBV subtypes for the prediction and detection of Epstein-Barr virus associated cancers	10/455,041	US	8/8/2003	Professor Lo, Dr. Yeung	Plasmagene and the Chinese University	N/A	N/A	25/11/2002	Anywhere in the world	from 25/11/2002 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	8	(i) Continuation in part of US patent application no. 10/057,579 filed on 25/01/2002 which claims the benefit of patent application no. 60/265,568 filed on 31/01/2001 (ii) Pending grant of patent (iii) Partly assigned by Dr. Yeung to Plasmagene pursuant to a deed dated 17/02/2004
22	Circulating mRNA as diagnostic markers for pregnancy-related disorders	60/440,906	US	17/01/2003	Professor Lo, Ng Kai On, Tsui Bo Yin, Rossa Chiu Wai Kwun	The Chinese University	N/A	N/A	01/03/2003	Anywhere in the world	from 01/03/2003 to the last expiry date of the patent or initial term of 20 years, whichever is the later unless terminated earlier	9	Pending grant of patent

Domain name

As at the Latest Practicable Date, the Group has registered the following domain name:

Domain Name	Registrant Organisation	Registration Date
plasma-gene.com	Plasmagene Limited	11 April, 2001

III. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF**(a) Disclosure of interests****(1) *Interests and short positions of Directors in the share capital of the Company after the Share Offer, the Capitalisation Issue and the Initial IPO Conversion***

Immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion and taking no account of any Shares which may be taken up under the Share Offer by any of the persons referred to in this paragraph and any Shares which may fall to be allotted and issued pursuant to 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 any Shares which may fall to be allotted and issued or repurchased by the Company pursuant to the mandates referred to in the section headed “Further information about the Company” in this appendix or pursuant to the First Post IPO Conversion or the Second Post IPO Conversion, the interests and short positions of each of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, in each case once the Shares are listed, will be as follows:

Long positions in Shares

Name of Directors	Nature of ownership	Personal interest	Family interest	Corporate interest	Other interest	Total	Approximate % of holding
Dr. Yeung <i>(Note 1)</i>	Beneficial	2,368,454	121,538,824	Nil	Nil	121,538,824	37.07
Ms. Margaret Tsui <i>(Note 2)</i>	Beneficial	119,170,370	121,538,824	Nil	Nil	121,538,824	37.07
Mr. Cheng Yan Tak, Angus Ronald	Beneficial	Nil	Nil	12,574,648	Nil	12,574,648	3.84

*(Note 4)**(Note 3)*

Notes:

1. Under the SFO, Dr. Yeung will be deemed to be interested in the 119,170,370 Shares, representing approximately 36.35% of the issued share capital of the Company immediately following the completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Ms. Margaret Tsui, his spouse.
2. Under the SFO, Ms. Margaret Tsui will be deemed to be interested in the 2,368,454 Shares, representing approximately 0.72% of the issued share capital of the Company immediately following the completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Dr. Yeung, her spouse.
3. Under the SFO, Mr. Cheng Yan Tak, Angus Ronald will be deemed to be interested in the 12,574,648 Shares, representing approximately 3.84% of the issued share capital of the Company immediately following the completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Vanbarry Corporation which is beneficially wholly owned by him.
4. The calculation of percentage holdings is on the basis of 327,800,000 Shares in issue upon completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion but not taking into account of any Shares issued or to be issued upon the exercise of any options to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or upon the occurrence of the First Post IPO Conversion and/or the Second Post IPO Conversion or any Shares allotted and issued or repurchased by the Company pursuant to the mandates referred to in the section headed “Further information about the Company” in this appendix.

So far as the Directors are aware, taking no account of any Shares which may be taken up under the Share Offer by any of the persons referred to in this paragraph, any Shares to be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement and/or upon the occurrence of the First Post IPO Conversion and the Second Post IPO Conversion or any Shares allotted and issued or repurchased by the Company pursuant to the mandates referred to in the section headed “Further information about the Company” in this appendix and save as disclosed above, none of the Directors or chief executive of the Company has interests and short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules once the Shares are listed on GEM.

(2) ***Interests and short positions of Substantial Shareholders in the share capital of the Company after the Share Offer, the Capitalisation Issue and the Initial IPO Conversion***

So far as is known to the Directors and taking no account of any Shares which may be taken up under the Share Offer by any of the persons referred to in this paragraph and any Shares to be allotted and issued pursuant to the exercise of any options granted or to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement and/or upon the occurrence of the First Post IPO Conversion and the Second Post IPO Conversion or any Shares allotted and issued or repurchased by the Company pursuant to the mandates referred to in the section headed “Further information about the Company” in this appendix, the following persons

will, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in Shares

Name of Shareholder	Capacity	Number of Shares	Approximate shareholding percentage <i>(Note 7)</i>
Dr. Yeung <i>(Note 1)</i>	beneficial owner and attributed interest	121,538,824	37.07%
Ms. Margaret Tsui <i>(Note 2)</i>	beneficial owner and attributed interest	121,538,824	37.07%
Spring Biotech	beneficial owner	67,747,524	20.67%
Town Health Bio-Medical Technology Limited <i>(Note 3)</i>	attributed interest	67,747,524	20.67%
Town Health <i>(Note 4)</i>	attributed interest	67,747,524	20.67%
Origin Limited <i>(Note 5)</i>	attributed interest	67,747,524	20.67%
Dr. Cho Kwai Chee <i>(Note 6)</i>	attributed interest	67,747,524	20.67%

Notes:

- Under the SFO, Dr. Yeung will be deemed to be interested in the 119,170,370 Shares, representing approximately 36.35% of the issued share capital of the Company, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Ms. Margaret Tsui.
- Under the SFO, Ms. Margaret Tsui will be deemed to be interested in the 2,384,454 Shares, representing approximately 0.72% of the issued share capital of the Company, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, held by Dr. Yeung.
- Under the SFO, Town Health Bio-Medical Technology Limited will be deemed to be interested in the same block of 67,747,524 Shares, representing approximately 20.67% of the issued share capital of the Company, immediately following completion of the Share Offer, Capitalisation Issue and the Initial IPO Conversion as Spring Biotech is beneficially wholly-owned by Town Health Bio-Medical Technology Limited.
- Under the SFO, Town Health will be deemed to be interested in the same block of 67,747,524 Shares, representing approximately 20.67% of the issued share capital of the Company, immediately following completion of the Share Offer, Capitalisation Issue and the Initial IPO Conversion as Town Health Bio-Medical Technology Limited is beneficially wholly-owned by Town Health.
- Under the SFO, Origin Limited will be deemed to be interested in the same block of 67,747,524 Shares, representing approximately 20.67% of the issued share capital of the Company, immediately following completion of the Share Offer, Capitalisation Issue and the Initial IPO Conversion as Town Health is beneficially owned as to 0.1% by Mr. Cho Kam Luk and 13.08% by, and it is accustomed to act in accordance with the directions or instructions of, Origin Limited which in turn is beneficially wholly owned by Dr. Cho Kwai Chee.

6. Under the SFO, Dr. Cho Kwai Chee will be deemed to be interested in the same block of 67,747,524 Shares, representing approximately 20.67% of the issued share capital of the Company, immediately following completion of the Share Offer, Capitalisation Issue and the Initial IPO Conversion as Dr. Cho Kwai Chee indirectly (through Origin Limited) holds approximately 13.08% of the issued share capital of Town Health as at the Latest Practicable Date.
7. The calculation of percentage holdings is on the basis of 327,800,000 Shares in issue upon completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion but not taking into account of any Shares issued or to be issued upon the exercise of the options to be granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement or upon the occurrence of the First Post IPO Conversion and/or the Second Post IPO Conversion or any Shares allotted and issued or repurchased by the Company pursuant to the mandates referred to in the section headed “Further information about the Company” in this appendix.
8. The effect of the First Post IPO Conversion and the Second Post IPO Conversion on the shareholding percentages is set out in the sub-section headed “Convertible Notes” in the section headed “Share capital” in this prospectus. Following the First Post IPO Conversion and the Second Post IPO Conversion, The Applied Research Council will hold 12.06% of the then issued share capital of the Company.

So far as is known to the Directors, taking no account of any Shares which may be taken up pursuant to the Share Offer by any of the persons referred to in this paragraph and any Shares to be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement and/or upon the occurrence of the First Post IPO Conversion and the Second Post IPO Conversion or any Shares allotted and issued or repurchased by the Company pursuant to the mandates referred to in the section headed “Further information about the Company” in this appendix and save as disclosed above, no person will, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion, be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(3) *Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO*

Save as disclosed in paragraph (1) and (2) above, so far as is known to the Directors and taking no account of any Shares which may be taken up under the Share Offer by any of the persons referred to in this paragraph and any Shares to be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or pursuant to the Right of First Refusal Agreement and/or upon the occurrence of the First Post IPO Conversion and the Second Post IPO Conversion or any Shares allotted and issued or repurchased by the Company pursuant to the mandates referred to in the section headed “Further information about the Company” in this appendix, no person, not being a Director or chief executive of the Company, will, immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(4) *Particulars of the service agreements and terms of engagement as Directors*

- (i) Dr. Yeung has entered into a service agreement with the Company on 20 April, 2004. Particulars of such agreement are set out below:
- (a) the service agreement is of an initial term of 3 years commencing on the Listing Date and shall continue thereafter until terminated by either party giving to the other not less than 3 months' prior written notice;
 - (b) the annual salary for Dr. Yeung from commencing on the Listing Date shall be HK\$62,500 per month and he will also be granted housing allowance of up to HK\$78,000 per month. Dr. Yeung is entitled to a grant of options by the Company under the Share Option Scheme to subscribe for Shares up to a maximum value of HK\$500,000 per annum, respectively, and such grant shall be made annually in arrears conditional upon the completion of each consecutive 12 months of employment with the Company by Dr. Yeung and in accordance with the terms of the Share Option Scheme;
 - (c) Dr. Yeung is entitled to an annual performance — related discretionary bonus to be determined by the Board which shall not exceed the amount budgeted for in the Group's annual budget for the relevant financial year;
 - (d) Dr. Yeung shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of remuneration payable to himself;
 - (e) Dr. Yeung is entitled to the use of a company car with petrol allowance and he and his dependants are entitled to medical and travel insurance. The Company will provide Dr. Yeung and his dependants with annual round trip first class plane tickets from Hong Kong to the United States of America or any other destination.
- (ii) Each of Mr. Cheng Yan Tak, Angus Ronald, Mr. Cho Kam Luk and Ms. Margaret Tsui has entered into a service agreement with the Company on 20 April, 2004. Particulars of such agreements are set out below:
- (a) the service agreements for each of Mr. Cheng Yan Tak, Angus Ronald, Mr. Cho Kam Luk and Ms. Margaret Tsui are for an initial term of 2 years commencing on the Listing Date and shall continue thereafter until terminated by either party giving to the other not less than 3 months' prior written notice;
 - (b) Each of Mr. Cheng Yan Tak, Angus Ronald, Mr. Cho Kam Luk and Ms. Margaret Tsui is entitled to the grant of options by the Company to subscribe for Shares under the Share Option Scheme up to a maximum value of HK\$250,000 per

annum each and such grant shall be made annually in arrears conditional upon the completion of each consecutive 12 months of employment with the Company by each of Mr. Cheng Yan Tak, Angus Ronald, Mr. Cho Kam Luk and Ms. Margaret Tsui in accordance with the terms of the Share Option Scheme;

- (c) Each of Mr. Cheng Yan Tak, Angus Ronald, Mr. Cho Kam Luk and Ms. Margaret Tsui shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of remuneration payable to himself or herself, as the case may be.

Save as disclosed herein, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any other member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(5) ***Directors' remuneration***

- (i) The Company's policies concerning remuneration of the Directors are:
 - (a) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
 - (b) non-cash benefits may be provided to the Directors under their remuneration packages; and
 - (c) the executive Directors may be granted, at the discretion of the Board, options pursuant to the Share Option Scheme as part of their remuneration package.
- (ii) Mr. Lau Kam Shan has entered into a letter of appointment as a non-executive director with the Company on 20 April, 2004 whereupon Mr. Lau Kam Shan is entitled to a grant of options by the Company pursuant to the Share Option Scheme to subscribe for Shares up to a maximum value of HK\$250,000 per annum and, such options shall be granted annually in arrears conditional upon the completion of 12 months of appointment as a non-executive Director with the Company by Mr. Lau Kam Shan and shall be subject to the terms of the Share Option Scheme.
- (iii) Each of Professor Chung Sheung Chee, Sydney, Dr. Kevin Loh Kai Tsu, Dr. Matthew Ngan Man Wong and Mr. Chan Siu Wing, Raymond has been appointed by the Company to act as its independent non-executive directors pursuant to which each Professor Chung Sheung Chee, Sydney, Dr. Kevin Loh Kai Tsu and Dr. Matthew Ngan Man Wong shall be entitled to a grant of options by the Company pursuant to the terms of the Share Option Scheme to subscribe for Shares up to a maximum value of HK\$300,000 per annum each and, such options shall be granted annually in arrears

conditional upon the completion of 12 months of the appointment as independent non-executive directors with the Company by each of Professor Chung Sheung Chee, Sydney, Dr. Kevin Loh Kai Tsu, Dr. Matthew Ngan Man Wong and Mr. Chan Siu Wing, Raymond and shall be subject to the terms of the Share Option Scheme.

- (iv) During the year ended 30 June, 2003, the aggregate emoluments paid by the Group to the Directors were approximately HK\$647,000. Details of the Directors' remuneration are set out in note 9 in the section headed "Directors' and senior management's emoluments" of the accountants' report set out in appendix I to this prospectus.
- (v) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 30 June, 2004 are estimated to be HK\$900,000.
- (vi) Save as disclosed in note 10 in the section headed "Directors' and senior management's emoluments" of the accountants' report set out in Appendix I to this prospectus, no Director has received any remuneration or benefits in kind from the Group for the two years ended 30 June, 2002.

(b) **Disclaimers**

Save as disclosed in this prospectus:

- (1) none of the Directors nor any of the persons whose names are listed in the section headed "Other Information — Consents of experts" in this appendix is interested, directly or indirectly, in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (2) none of the Directors nor any of the persons whose names are listed in the section headed "Other Information — Consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (3) none of the persons whose names are listed in the section headed "Other Information — Consents of experts" in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (4) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);

- (5) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Share Offer or related transaction as mentioned in this prospectus; and
- (6) so far as is known to the Directors, none of the Directors, their respective associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

IV. SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme by resolutions of the Shareholders passed at an extraordinary general meeting of the Company held on 20 April, 2004, a summary of the main terms of which is set out in the section headed “Summary of the terms of the Share Option Scheme” in this appendix. The Group aims to be a premier biotechnology company in Hong Kong and the PRC and to continue to stay ahead of its competitors, it is necessary for the Group to attract, retain and motivate, inter alia, talented employees, officers, advisers and business consultants to strive towards the success of the Group. Under the Share Option Scheme, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed such number of Shares as shall represent 30% of the Shares in issue from time to time. No options have yet been granted under the Share Option Scheme although the Directors and certain employees of the Group are entitled to be granted options to subscribe for Shares under the Share Option Scheme pursuant to the terms of their respective service agreements, letters of appointment or employment contracts, generally, upon the completion of 12 months of service with the Group by the relevant individual.

Summary of the terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the shareholders of the Company by way of ordinary resolution passed on 20 April, 2004.

(1) *Purpose of the Share Option Scheme*

The Share Option Scheme shall serve to encourage its participants to contribute to the success of the Group.

(2) *Who may join*

The Board or a duly authorised committee thereof which shall include the independent non-executive Directors (for the purpose of this summary of the terms of the Share Option Scheme, the “Board” shall mean the board of Directors from time to time or such duly authorised committee thereof) may, at its discretion, invite any employee, Director, adviser, consultant, licensors, distributors, suppliers, agents, customers, joint venture partners, strategic partners and

services providers of and/or to any member of the Group whom the Board considers in its sole discretion, to have contributed to the Group from time to time (together “Participants”) to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (5) below (the “Offer”).

In determining the basis of eligibility of each Participant, the Directors would mainly take into account of the experience of the Participant with the Group’s business, the length of service of the Participant with the Group (if the Participant is an employee or a director of any member of the Group), the length of business relationship the Participant has established with the Group (if the participant is an adviser, consultant, distributor, supplier, agent, customer, licensor, joint venture partner, strategic partner and services provider of and/or to any member of the Group), the amount of support, assistance, guidance, advice, efforts and contributions the Participant has exerted and given towards the success of the Group and/or the amount of potential support, assistance, guidance, advice, efforts and contributions the Participant is likely to be able to give or make towards the success of the Group in the future.

For the purposes of this section, unless the context otherwise requires, “Grantee” means any Participant who has been offered accepted an option in accordance with the terms of the Share Option Scheme.

(3) *Grant of option*

Any grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of the Company’s results for any year, half-year period or quarterly period or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for the Company to publish announcement of its results for any year, half-year period or quarterly period under Rule 18.49, 18.78 or 18.79 or any other interim period (whether or not required under the GEM Listing Rules) of the GEM Listing Rules, and ending on the date of the results announcement, no option may be granted.

(4) *Payment on acceptance of option offer*

HK\$1.00 is payable by the Participants to the Company upon acceptance of the Offer.

(5) *Price of Shares*

The subscription price for Shares in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board in its absolute discretion and notified to each Participant and will be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date on which an option is granted, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date on which an option is granted; and (iii) the nominal value of a Share.

(6) *Maximum number of Shares*

Subject to the maximum entitlement of Shares to each Participant:

- (a) the total number of Shares which may be issued upon exercise of all outstanding options to be granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion unless the Company obtains a fresh approval from its Shareholders pursuant to sub-paragraph (b) below. On the basis of 327,800,000 Shares in issue on the Listing Date, assuming that the options which may be granted under the Share Option Scheme or any other options granted by the Company will not be exercised and that no Shares will be repurchased or issued and allotted under the general mandates for repurchases or issue and allot Shares referred to in the section headed “Share capital” of this prospectus, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other option schemes of the Company shall not exceed 32,780,000 Shares. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating such 10% limit.
- (b) the Company may seek approval of its Shareholders in general meeting for refreshing the 10% limit set out in sub-paragraph (a) above such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised options) will not be counted for the purpose of calculating such 10% limit as refreshed. The Company shall send a circular to its Shareholders containing all such information as may be required under the GEM Listing Rules in connection with the meeting at which such approval of the Shareholders will be sought.
- (c) the Company may seek separate approval by its Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. In such a case, the Company shall send a circular to its Shareholders containing a generic description of the identified Participants, the number and terms of the options to be granted, the purpose of granting options to the specified Participants, and how these options serve such purpose and all such information as may be required under the GEM Listing Rules.

Notwithstanding the above and subject to maximum entitlement of Shares to each Participant, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

Immediately after completion of the Share Offer, the Capitalisation Issue and the Initial IPO Conversion and taking no account of Shares which may be allotted and issued upon the occurrence of the First Post IPO Conversion or the Second Post IPO Conversion or any Shares allotted and issued or repurchased by the Company pursuant to the mandates referred to in the section headed “Further information about the Company” in this appendix, the total number of Shares which will be subject to the Share Option Scheme will be 32,780,000 Shares, representing 10% of the issued share capital of the Company at that time.

No Participant shall be granted an option which, if exercised in full, would result in such Participant becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued under all the options previously granted to him or her which have been exercised, and, issuable under all the outstanding options previously granted to him or her which are for the time being subsisting and unexercised, would exceed 1% of the total number of Shares in issue in any 12-month period up to the date of grant of the option (the “Individual Limit”).

Any further grant of options in excess of the Individual Limit shall be subject to approval by the Shareholders with such Participant and his or her associates abstaining from voting. A circular must be sent to Shareholders disclosing the identity of the Participant, the number and terms of the options granted and to be granted and such information as may be required under the GEM Listing Rules. The number and terms of the options to be granted to such Participant shall be fixed before the approval by the Shareholders and the date of meeting of Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(7) *Requirements on granting options to connected persons*

Any grant of options to a Participant who is a connected person of the Company must be approved by the independent non-executive Directors (excluding such independent non-executive Director as may be the proposed Grantee of the options).

Where the Board proposes to grant any option to a Participant who is a substantial Shareholder (as defined in the GEM Listing Rules) or an independent non-executive Director, or any of their respective associates and such option which if exercised in full, would result in such Participant becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares already issued, and issuable, to him or her pursuant to all the options granted to him or her in the 12 month period up to and including the date on which such proposal is made by the Board (the “Relevant Date”):

- (a) representing in aggregate more than 0.1% of the total number of Shares in issue at the Relevant Date; and
- (b) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the Relevant Date and if the Relevant Date is not a business day, the business day immediately preceding the Relevant Date, in excess of HK\$5,000,000,

such proposed grant of options must be approved by the Shareholders in general meeting and the Company shall send a circular to its Shareholders, containing all such information as may be required by GEM Listing Rules. All the Participants concerned and all other connected persons of the Company must abstain from voting in favour at such general meeting. In addition, any change in the number and terms of the options granted to a substantial Shareholder or an independent non-executive Director, or any of their respective associates, must be approved by the Shareholders in general meeting. Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote taken at the meeting to approve the grant of such options must be taken on a poll and the Company will comply with the requirements set out in Rules 17.47(5), 17.47A, 17.47B and 17.47C of the GEM Listing Rules.

The abovementioned circular must contain the following:

- (a) details of the number and terms of the options to be granted to each Participant (which must be fixed before shareholders' approval) and the date of board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the exercise price;
- (b) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a Grantee) and the Shareholders as to voting;
- (c) the information required under Rules 23.02(2)(c) and (d) of the GEM Listing Rules and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and
- (d) the information required under Rule 2.28 of the GEM Listing Rules.

The requirements for the granting of options to a Director or chief executive of the Company set out above do not apply where the Participant is only a proposed director or chief executive of the Company.

(8) *Exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period after the option has been granted by the Board. An option period is a period to be determined by the Board in its absolute discretion and notified by the Board to each Grantee as being the period during which an option may be exercised, such period to expire not later than 10 years after the date of the grant of the option.

The Board may in the offer letter to be given by the Board to any particular Participant under the Share Option Scheme stipulate that the options to be granted to this Participant would be subject to such minimum holding period and/or this Participant may have to achieve to such performance target as may be stipulated in the offer letter before the options and/or any other terms can be exercised, although the Share Option Scheme does not require a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised.

(9) *Rights are personal to Grantee*

An option may not be transferred or assigned and is personal to the Grantee and may be exercised or treated as exercised, as the case may be, in whole or in part.

(10) *Rights on cessation of employment by dismissal*

If the Grantee who is an employee ceases to be an employee of the Group or its subsidiaries on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse automatically and not be exercisable on the date of termination of his employment.

(11) *Rights on insolvency*

If the Board receives notice or becomes aware that the Grantee who is an adviser, consultant, distributor, supplier, agent, customer, joint venture partner or service provider to the Group appears either to be unable to pay or to have no reasonable prospect of being able to pay his, her or its debts or has become bankrupt or insolvent or entered into voluntary winding up or receivership or has made any arrangement or composition with his, her or its creditors generally or has winding up proceedings commenced against them, his, her or its option will automatically lapse.

(12) *Rights on ceasing employment or directorship*

In the event of the Grantee ceases to be a Participant for any reason other than on his or her death or (if applicable) the termination of his or her employment or directorship or office or appointment on ground(s) other than an event referred to in paragraph (10) above as a ground of termination, the Grantee may exercise the option up to his or her entitlement at the date of cessation (to the extent he or she is entitled to exercise at the date of cessation but not already exercised) within the period of three months following the date of such cessation, (if applicable) which date shall be the last actual working day with the relevant member(s) of the Group whether salary is paid in lieu of notice.

(13) *Right on cessation of business relationship*

If the Grantee, who is an adviser, consultant, distributor, supplier, agent, customer, joint venture partner or service provider to the Group ceases to be in such relationship with the Group, his or her or its option will lapse automatically in the event that the Board does not exercise its absolute discretion to determine a period in which the Grantee may exercise his, her or its option.

(14) *Rights on death*

If the Grantee (who is an employee of any member of the Group) of an option dies before exercising the option in full and none of the events referred to in paragraph (10) above which would be a ground for termination of his or her employment or directorship arises, his or her personal representative(s) may exercise the option in full (to the extent which has become exercisable and not already exercised) within a period of 12 months from the date of death.

(15) *Effects of alterations to capital*

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable by way of capitalisation issue, rights issue, subdivision, consolidation, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange or relevant laws excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party, or if Shares issued would be less than its nominal value, such corresponding alterations (if any) certified in writing to the Board by an independent financial adviser or the auditors for the time being of the Company as satisfying the GEM Listing Rules (except those made on a capitalisation issue), will be made to give the Grantee the same proportion of the capital of the Company as that which he or it was previously entitled. No such alteration shall be made so that a Share would be issued at less than its nominal value.

(16) *Rights on a general offer*

If a general offer (including any voluntary offer) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or its associates (as defined in the Code on Takeovers and Mergers and Share Repurchases) and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the Grantee will be entitled to exercise the option (to the extent which has become exercisable and not already exercised) to its full extent or to the extent specified in a notice provided to the Company by the Grantee at any time within such period notified by the Company.

(17) *Rights on winding up*

In the event a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to the Grantees and the Grantees may by notice in writing to the Company (such notice to be received by the Company not later than seven business days prior to the proposed Shareholders' meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise.

(18) *Rights on compromise or arrangement*

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and any Grantee may by notice in writing to the Company accompanied by the remittance for the exercise price in respect of the relevant option (such notice to be received by the Company not later than four business days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise credited as fully paid and register the Grantee as holder thereof.

(19) *General offer by way of scheme of arrangement*

If a general offer by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meeting(s), the Company shall forthwith give notice thereof to the Grantees and the Grantees shall be entitled to exercise the option either to its full extent or to the extent notified by the Company, at any time within such period as shall be notified by the Company.

(20) *Lapse of Option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the expiry of the periods referred to in sub-paragraphs (12), (14), (16) or (18) respectively;
- (c) subject to the scheme of arrangement (referred to in sub-paragraph (19)) becoming effective;
- (d) the expiry of the period referred to in sub-paragraph (19);
- (e) the date on which the Grantee of an option ceases to be a Participant by reason of the termination of his or her employment or directorship on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence involving his integrity or honesty;
- (f) the date of the commencement of the winding up of the Company;

- (g) where the Grantee is an employee of a member of the Group (other than the Company), the date on which such member ceases to be a subsidiary of the Company;
- (h) the date on which the Board shall become aware the Grantee becoming involved in insolvency proceedings referred to in sub-paragraph (11);
- (i) the date on which the Grantee ceasing to be a Participant by reason of an end to his, her or its business relationship with the Group referred to in sub-paragraph (13);
- (j) the date on which the Grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option in breach of the Share Option Scheme; or
- (k) the date on which the option is cancelled by the Board as provided in sub-paragraph (22).

(21) *Ranking of Shares*

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of their allotment and issue and accordingly will entitle the holders of the Shares to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date when the name of the Grantee is registered on the Company's register of members.

Unless the context otherwise requires, references to "Shares" in the Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

(22) *Cancellation of Options granted*

The Board may at any time cancel any option granted but not exercised if the Grantee so agrees. Where the Company cancels options and makes an offer of the grant of new options to the same option holder, the offer of the grant of such new options may only be made, under the Share Option Scheme with available options (excluding the cancelled options) within the limit approved by the Shareholders as mentioned in subparagraph (6).

(23) *Period of Share Option Scheme*

Unless early terminated earlier in accordance with the terms therein, the Share Option Scheme will remain valid and effective for a period of 10 years commencing on the Listing Date

after which period no further options shall be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(24) Alteration to Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme relating to matters set out in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of Participants and Grantees without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by the Shareholders, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.

(25) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on (i) the GEM Listing Committee granting or agreeing to grant approval (with such conditions as the Stock Exchange may impose) for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be allotted and issued pursuant to the exercise of options granted under the Share Option Scheme and (ii) the commencement of dealings in the Shares on GEM.

Application has been made to the GEM Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the Latest Practicable Date, no option has been granted or agreed to be granted by the Company under the Share Option Scheme save as disclosed herein, in the sub-paragraphs headed “Particulars of the service agreements and terms of engagement as Directors” and “Directors’ remuneration” in this section on pages 275 to 277 of this prospectus and as part of the terms of employment of the Company’s employees.

V. OTHER INFORMATION

(a) Estate duty and other matters

Dr. Yeung, Ms. Margaret Tsui, Mr. Cheng Yan Tak, Angus Ronald, Mr. Wong Yan Kit, Dr. Cho Kwai Chee, Vanbarry Corporation, Diamond Tech Investment Limited, Spring Biotech, Origin Limited, Town Health Bio-Medical Technology Limited and Town Health International Holdings Company Limited (the “Indemnifiers”) have entered into a deed of indemnity referred to in the section headed “Summary of material contracts” in this appendix, with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities jointly and severally

in connection with, amongst other terms, (i) any liability for Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the Share Offer becomes unconditional (the “Effective Date”) and (ii) any taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the Effective Date, except in certain circumstances, including but not limited to, where provisions or allowance have been made in the audited accounts of the relevant member for the Group for a financial period ending on or before 30 June, 2003; and where such liability arises or is incurred as a result of the imposition of tax as a result of any retrospective change in the relevant tax legislation which came into force after the date of such deed of indemnity.

In the event of any member of the Group being or becoming liable for any losses, damages, costs, claims or liabilities as a result of any claim, action or proceedings brought by any Noteholder for any breach (actual or contingent) by any member of the Group of any of the terms of the Convertible Notes, each of the Indemnifiers covenants with each member of the Group that it/he/she will jointly and severally indemnify and at all times keep each member of the Group indemnified against any costs, claims, losses and liabilities which may be incurred or suffered by them and any other liabilities of whatever nature arising therefrom.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

Dealings in Shares registered on the Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty, which is payable by each of the purchaser and the seller or the transferor and transferee at the current rate of 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred.

Potential holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of applying for, purchasing, holding or disposing of, or dealing in, Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of, persons resulting from the application for, purchase, holding or disposal of, or dealing in Shares.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from stamp duty in Cayman Islands provided the Company does not hold land in the Cayman Islands.

(b) Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

(c) Address for service of process and notices

Dr. Yeung has been nominated as the agent to accept service of process and notices of the Company. The address for service of process and notices is 5th Floor, Club Lusitano, 16 Ice House Street, Central, Hong Kong.

(d) Sponsor

The Sponsor has made an application on behalf of the Company to the GEM Listing Committee for listing of, and permission to deal in, the Shares in issue and to be allotted and issued pursuant to the Capitalisation Issue, the Share Offer and any Shares falling to be allotted and issued upon the occurrence of the Initial IPO Conversion, the First Post IPO Conversion or the Second Post IPO Conversion or upon any exercise of options which may be granted under the Share Option Scheme or pursuant to the First Right of Refusal Agreement.

(e) Preliminary expenses

The preliminary expenses of the Company in relation to the Share Offer are estimated to be approximately HK\$97,000 and are payable by the Company.

(f) Promoter

The promoters of the Company are Dr. Yeung and Ms. Margaret Tsui.

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoters in connection with the Share Offer or the related transactions described in this prospectus.

(g) Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
First Shanghai Capital	a deemed licensed corporation licensed to perform type 6 regulated activity (i.e. advising on corporate finance) under the SFO
RSM Nelson Wheeler Maples and Calder Asia Chui & Lau	Certified Public Accountants Cayman Islands attorneys-at-law Legal advisers as to Hong Kong laws
CB Richard Ellis Limited	Property valuer

(h) **Consents of experts**

Each of First Shanghai Capital, RSM Nelson Wheeler, Maples & Calder Asia, Chui & Lau and CB Richard Ellis Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/ or the references to its name included herein in the form and context in which they are respectively included.

(i) **Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

(j) **Commission received**

The Underwriters will receive an underwriting commission and the Sponsor will receive a fee as mentioned in the section headed “Underwriting — Commission and expenses” of this prospectus.

(k) **Related party transactions**

The Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in, amongst other sections, the section headed “Related party transactions” of the accountants’ report set out in Appendix I to this prospectus.

(l) **Miscellaneous**

(1) Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus, no share or loan capital of any member of the Group has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of any member of the Group is under option or is agreed conditionally or unconditionally to be put under option;
- (c) no founders, management or deferred shares of any member of the Group have been issued or agreed to be issued;
- (d) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of the Group;

- (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except the commission payable to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any Shares in the Company;
 - (f) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December, 2003, the date to which the audited consolidated financial statements of the Group are made up;
 - (g) the Directors confirm that there has not been any interruption in the business of the Group which may have or have had a material adverse effect on the financial position of the Group in the 24 months preceding the date of this prospectus; and
 - (h) no arrangements has been made under which future dividends are waived or agreed to be waived.
- (2) None of First Shanghai Capital, RSM Nelson Wheeler, CB Richard Ellis Limited, Chui & Lau and Maples & Calder Asia:
- (a) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (b) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.
- (3) No company within the Group is presently listed on any stock exchange or traded on any trading system.
- (4) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (5) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by M&C Corporate Services Limited and a branch register of members of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus registered and filed by the Registrar of Companies in Hong Kong were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to in the paragraph headed “Other information — Consents of experts” in Appendix V to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V of this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Richards Butler, 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the accountants’ report prepared by RSM Nelson Wheeler, the text of which is set out in Appendix I to this prospectus;
- (c) such audited financial statements as have been prepared for each member of the Group for each of the two financial years ended or for the period from their respective dates of incorporation to 31 December, 2003 where this is a shorter period;
- (d) the letter prepared by RSM Nelson Wheeler relating to pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter, summary of valuations and valuation certificates relating to the property interests of the Group prepared by CB Richard Ellis Limited, the texts of which are set out in Appendix III to this prospectus;
- (f) the rules of the Share Option Scheme;
- (g) the Companies Law;
- (h) the letter of advice prepared by Maples and Calder Asia referred to in Appendix IV to this prospectus summarising certain aspects of Cayman Islands company law;
- (i) the service agreements with the executive Directors as referred to in the section headed “Further information about Directors, senior management and staff — Particulars of the service agreement” in Appendix V to this prospectus;
- (j) the material contracts referred to in the section headed “Summary of material contracts” in Appendix V to this prospectus;
- (k) the written consents referred to in the subsection headed “Other information — Consents of experts” in Appendix V to this prospectus; and
- (l) the legal opinion dated 1 March, 2004 issued by Chui & Lau, brief details of which are set out in the section headed “Regulatory Requirements — Hong Kong” of this prospectus.