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First Quarterly Report



PLASMAGENE BIOSCIENCES LIMITED



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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 more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange 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. 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 <http://www.hkgem.com> in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Plasmagene Biosciences Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS**For the three months ended 30 September 2004:**

- The Group recorded a turnover of approximately HK\$268,000, representing a decrease of approximately 45% as compared to approximately HK\$490,000 for the corresponding period in the previous financial year.
- Net loss of the Group amounted to approximately HK\$1,483,000 for the three months ended 30 September 2004, representing an increase of approximately 94% as compared to approximately HK\$766,000 for the corresponding period in the previous financial year.
- Loss per share of the Group was approximately 0.45 HK cent for the three months ended 30 September 2004 as compared to loss per share of approximately 0.32 HK cent for the corresponding period in the previous financial year.
- The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2004 (2003: Nil).

QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 September 2004, together with the comparative unaudited figures for the corresponding period in 2003 as follows:

		Three months ended 30 September	
		2004	2003
		HK\$	HK\$
	<i>Notes</i>		
Turnover	3	267,815	489,645
Cost of sales		(259,943)	(352,855)
		7,872	136,790
Other revenue	4	72,093	823
		79,965	137,613
Selling and distribution expenses		(50,485)	(23,230)
Administration expenses		(1,305,779)	(615,574)
Other operating expenses		(206,487)	(265,294)
Loss before taxation		(1,482,786)	(766,485)
Taxation	5	–	–
Loss attributable to shareholders		(1,482,786)	(766,485)
Loss per share – basic	6	0.45 cent	0.32 cent

NOTES:

1. Organisation and operations

The Company was incorporated in the Cayman Islands on 27 June 2002 under the Companies Law of the Cayman Islands, as an exempted company limited by shares. Pursuant to the corporate reorganisation of the Group in preparation for the listing of the Company's shares on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the companies now comprising the Group. The results of the Group are accounted for under acquisition accounting method.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of diagnostic testing services and products and related research and development.

2. Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). They have been prepared under the historical cost convention.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

3. Turnover

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

	Three months ended 30 September	
	2004 HK\$	2003 HK\$
Sales of diagnostic testing services and products		
Related parties	22,290	313,275
Third parties	245,525	176,370
Total	267,815	489,645

4. Other revenue

	Three months ended 30 September	
	2004	2003
	HK\$	HK\$
Bank interest income	7,847	823
Unrealised holding gain from other investment	64,246	–
	72,093	823

5. Taxation

No provision for Hong Kong profits tax is required since the Group has no assessable profits for the three months ended 30 September 2004 (2003: Nil).

There was no material unprovided deferred taxation for the three months ended 30 September 2004 (2003: Nil).

6. Loss per share

The calculation of the basic loss per share for the three months ended 30 September 2004 is based on the unaudited loss attributable to the shareholders of approximately HK\$1,483,000 (2003: loss of approximately HK\$766,000) and on the number of ordinary shares of 327,800,000 (2003: 238,000,000 ordinary shares after adjustment for the capitalisation issue) in issue during the period.

The computation of diluted loss per share for the three months ended 30 September 2004 and 2003 has not been presented because the assumed conversion of the Company's convertible notes at the date of issue, which were outstanding during the period, had anti-dilutive effects on the respective basic loss per share.

7. Movement in reserves

The movement in reserves for the three months ended 30 September 2004 is as follows:

Group	Share premium <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
Balance at 1 July 2004	33,294,368	(7,874,955)	25,419,413
Loss for the three months ended 30 September 2004	–	(1,482,786)	(1,482,786)
Balance at 30 September 2004	<u>33,294,368</u>	<u>(9,357,741)</u>	<u>23,936,627</u>

The movement in reserves for the three months ended 30 September 2003 is as follows:

Group	Share premium <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
Balance at 1 July 2003	7,727,060	(3,640,651)	4,086,409
Loss for the three months ended 30 September 2003	–	(766,485)	(766,485)
Balance at 30 September 2003	<u>7,727,060</u>	<u>(4,407,136)</u>	<u>3,319,924</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2004 (2003: Nil).

BUSINESS REVIEW

There was a drop in the gross revenue of the Group for the three months ended 30 September 2004 as compared with the corresponding period in the last financial year. The major reason was the reduction in the revenue from community research programme. The Group is now working on the marketing research and ultimate marketing of the tests that have gone through the different stages of pre-launch testing to Japan, Australia and the PRC.

During the period from the last week of June to early September 2004, the Group has carried out market launching of the test kits for foetal maternal tests for Down's syndrome and pre-eclampsia. The Group has established an exhibition booth as well as purchased a back page advertising in a prenatal diagnostic meeting in Europe. Subsequently, the Group had pursued leads established during the meeting. There was, however, no sale of these research kits up to date. The use of the Group's foetal RNA test kit in the form of beta HCG to test for Down's syndrome has not shown any statistical significance as yet in the most recent clinical update. Further research has to be carried out. Marketing effort to Australia in connection with foetal maternal tests such as RhD has also been in progress since July 2004, as well as a first meeting with one of the world's leading manufacturer in prenatal foetal testing. So far, this is still in the preliminary discussion stage.

In late July 2004, the first marketing effort to introduce stroke and pleural effusion tests in Hong Kong was carried out. There were a few leads and inquires about these tests. No sale was recorded up to now and there will be a renewed effort to market the above two products in Hong Kong and in nearby countries such as the PRC, Japan and Australia.

Locally, the Group is liaising with insurance companies to offer cancer test plans to their clients. The discussion is still in the preliminary stage but steady progress has been made.

Both Food and Drug Administration of the United States (the "FDA") and State of Food and Drug Administration of the PRC (the "SFDA") registration applications are in progress. A late July 2004 meeting with the FDA and subsequent discussion has been optimistic that the Group can achieve its goal. A clinical study of 150 to 500 United States citizens using our test has to be done and the Group is now organising efforts to complete this within the next year.

FUTURE PLANS AND PROSPECTS

The Group will try to expand its local market of *EBgene* through massive screening schemes which may involve insurance companies and major companies.

The Group has initiated and will expand its market research for those new tests that will be launched. For countries outside Hong Kong, the Group has continued negotiations with laboratories in Japan and Australia with a view to introducing the Group's existing cancerous testing services and foetal maternal diseases testing services. As at the date of this report, these negotiations are still at a preliminary stage. The Group will proceed to launch its testing services and products to the market upon the successful negotiations and favorable results of market research. The market research in the PRC would be assisted by the various channels of the Group's PRC agent.

Despite of the facts that progress is being made in the Company's plan to gain FDA and SFDA approval as well as marketing of the Group's products to insurance companies, efforts may not materialise as increase in revenue in the next two quarters. Additional manpower has been and will be recruited for overall increase of marketing research and actual marketing activities locally as well as to nearby countries. As a consequence, losses are expected to continue in the near future.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$268,000, representing a decrease of approximately 45% as compared to approximately HK\$490,000 for the corresponding period in the previous financial year. This is mainly due to the expiry of the community research programme jointly conducted with Spring Biotech Limited, an indirectly wholly owned subsidiary of Town Health International Holdings Company Limited (collectively the "Town Health Group") on 30 June 2004. Such programme will likely be continued in a limited scale upon further negotiations with Town Health Group.

Net loss of the Group amounted to approximately HK\$1,483,000 for the three months ended 30 September 2004, representing an increase of approximately 94% as compared to approximately HK\$766,000 for the corresponding period in the previous financial year. The increase in loss is mainly due to (1) the increase in direct salaries after the Company's listing on GEM; (2) the increase in compliance costs including listing fees, sponsors fees, branch share registrar fees and printing costs of financial reports and announcements; (3) the increase in costs for overseas launch of testing services and products; (4) the increase in entertainment after the listing of the Company on GEM; and (5) the increase in research and registration expenses.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, the interests of the directors and chief executive of the Company in the shares and underlying shares of the Company or its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to (a) Divisions 7 and 8 of Part XV of SFO (including interests and short position which they were taken or deemed to have under such provisions of SFO); or (b) which were required, pursuant to Sections 352 of the SFO, to be entered in the register referred to in that section; or (c) which were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Notes	Number of shares held, capacity and nature of interests			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse	Through a controlled corporation		
Dr. Yeung Wah Hin, Alex	1	2,368,454	119,170,370	-	121,538,824	37.07%
Mrs. Yeung Tsui Mai Ling, Margaret	2	119,170,370	2,368,454	-	121,538,824	37.07%
Mr. Cheng Yan Tak, Angus Ronald	3	-	-	12,574,648	12,574,648	3.84%

Notes:

- Under the SFO, Dr. Yeung Wah Hin, Alex will be deemed to be interested in the 119,170,370 shares, representing 36.35% of the issued share capital of the Company held by Mrs. Yeung Tsui Mai Ling, Margaret, his spouse and who is also a Director.
- Under the SFO, Mrs. Yeung Tsui Mai Ling, Margaret will be deemed to be interested in the 2,368,454 shares, representing 0.72% of the issued share capital of the Company held by Dr. Yeung Wah Hin, Alex, her spouse and who is also a Director.
- 12,574,648 shares were held by Vanbarray Corporation, representing 3.84% of the Company's shares in issue as at 30 September 2004. Vanbarray Corporation is wholly owned by Mr. Cheng Yan Tak, Angus Ronald.

No options were granted to the Directors during the three months ended 30 September 2004.

Saved as disclosed above, none of the Directors, the chief executive of the Company, nor their associates had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations as at 30 September 2004 as recorded in the register required to be kept by the Company under section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, the following interest of 5% or more of the issued share capital and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name of shareholders	Notes	Number of shares held, capacity and nature of interests			Percentage of the Company's issued share capital	
		Directly beneficially owned	Through spouse	Through a controlled corporation	Total	
Dr. Yeung Wah Hin, Alex	1	2,368,454	119,170,370	-	121,538,824	37.07%
Mrs. Yeung Tsui Mai Ling, Margaret	1	119,170,370	2,368,454	-	121,538,824	37.07%
Spring Biotech Limited	2	74,995,524	-	-	74,995,524	22.88%
Town Health Bio-Medical Technology Limited	2	-	-	74,995,524	74,995,524	22.88%
Town Health International Holdings Company Limited ("Town Health")	2	-	-	74,995,524	74,995,524	22.88%

Notes:

1. Dr. Yeung Wah Hin, Alex and Mrs. Yeung Tsui Mai Ling, Margaret are also Directors.
2. Spring Biotech Limited is beneficially wholly owned by Town Health Bio-Medical Technology Limited which in turn beneficially wholly owned by Town Health. Town Health is beneficially owned as to 0.1% by Mr. Cho Kam Luk, an executive 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 (son of Mr. Cho Kam Luk).

Saved as disclosed above, the Company has not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company as at 30 September 2004 as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTIONS

Share option scheme (the "Share Option Scheme") was adopted by the then shareholders of the Company on 20 April 2004 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Board may, at its discretion, invite any employee, Directors, advisor, 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 to take up options to subscribe for shares of the Company.

Pursuant to an agreement entered into by the Company with The Chinese University of Hong Kong (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, as amended and supplemented by agreements dated 31 October 2003 and 16 April 2004 (the "Right of First Refusal Agreement"), share options would be granted to the Chinese University over the period of the term of such agreements of four years commencing from 18 June 2004.

No options under the Share Option Scheme or the Right of First Refusal Agreement were granted during the three months ended 30 September 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the paragraph headed "Directors' and chief executive's interests in shares and underlying shares" and "Share option" in this first quarterly report, at no time during the three months ended 30 September 2004 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

COMPETING INTERESTS

None of the Directors or the management shareholders or controlling shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had any interest in a business which competes or may compete with the business of the Group during the period under review.

SPONSOR'S INTEREST

As notified by First Shanghai Capital Limited (the "Sponsor"), neither the Sponsor nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or of any member of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any member of the Group as at 30 September 2004.

Pursuant to a sponsor agreement entered into between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 18 June 2004 to 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

AUDIT COMMITTEE

The Company established an audit committee on 20 April 2004 with written terms of reference based on 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 financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Group's financial reporting and internal control procedures.

The audit committee consists of all the independent non-executive Directors, namely Dr. Ngan Man Wong, Matthew, Professor Chung Sheung Chee, Sydney (from 20 April 2004 to 1 July 2004), Dr. Loh Kai Tsu, Kevin and Mr. Chan Siu Wing, Raymond. Dr. Ngan Man Wong, Matthew is the chairman of the audit committee.

This report, including the Group's unaudited consolidated results for the three months ended 30 September 2004 had been reviewed by the audit committee of the Company.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules since the listing of the Company's shares on the GEM of the Stock Exchange on 18 June 2004.

As at the date of this report, the executive Directors are Dr. Yeung Wah Hin, Alex, Mr. Cheng Yan Tak, Angus Ronald, Mr. Cho Kam Luk and Mrs. Yeung Tsui Mai Ling, Margaret; the non-executive Director is Mr. Lau Kam Shan; and the independent non-executive Directors are Dr. Ngan Man Wong, Matthew, Dr. Loh Kai Tsu, Kevin and Mr. Chan Siu Wing, Raymond.

By order of the Board
Plasmagene Biosciences Limited
Dr. Yeung Wah Hin, Alex
Chairman

Hong Kong, 8 November 2004