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Interim Report



PLASMAGENE BIOSCIENCES LIMITED



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

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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 six months ended 31 December 2004:

- The Group recorded a turnover of approximately HK\$556,000, representing a decrease of approximately 38.5% as compared to that of approximately HK\$905,000 for the corresponding period in the previous financial year.
- Net loss of the Group amounted to approximately HK\$2,875,000 for the six months ended 31 December 2004, representing an increase of approximately 27.3% as compared to that of approximately HK\$2,258,000 for the corresponding period in the previous financial year.
- Loss per share of the Group was approximately 0.87 HK cent for the six months ended 31 December 2004 as compared to that of approximately 0.95 HK cent for the corresponding period in the previous financial year.
- The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2004 (2003: Nil).

INTERIM 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 and six months ended 31 December 2004, together with the comparative unaudited figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT For the three months and six months ended 31 December 2004

		Three months ended 31 December (Unaudited)		Six months ended 31 December (Unaudited)	
	Notes	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Turnover	3	288,400	414,905	556,215	904,550
Cost of sales		(248,389)	(338,762)	(508,332)	(691,617)
		40,011	76,143	47,883	212,933
Other revenue	5	214,958	20,398	222,805	21,221
		254,969	96,541	270,688	234,154
Selling and distribution expenses		(291,764)	(44,707)	(342,249)	(67,937)
Administration expenses		(876,314)	(1,367,340)	(2,182,093)	(1,982,914)
Other operating expenses		(479,412)	(176,253)	(621,653)	(441,547)
Loss before taxation	6	(1,392,521)	(1,491,759)	(2,875,307)	(2,258,244)
Taxation	7	-	-	-	-
Loss attributable to shareholders		(1,392,521)	(1,491,759)	(2,875,307)	(2,258,244)
Loss per share – basic	8	(0.42) cent	(0.63) cent	(0.87) cent	(0.95) cent

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Notes	31 December 2004 (Unaudited) HK\$	30 June 2004 (Audited) HK\$
Non-current assets			
Intangible assets		4,147,342	4,192,650
Plant and equipment		771,827	922,404
		4,919,169	5,115,054
Current assets			
Other investment	9	7,783,751	-
Inventories		24,414	41,997
Trade receivables	10	146,350	148,010
Other receivables and prepayments		493,141	575,683
Cash and bank balances		28,066,227	39,092,537
		36,513,883	39,858,227
Less: Current liabilities			
Other payables and accrued charges		560,497	1,225,455
Amount due to a related company		449	413
		560,946	1,225,868
Net current assets		35,952,937	38,632,359
Total assets less current liabilities		40,872,106	43,747,413
Non-current liabilities			
Convertible notes	11	6,450,000	15,050,000
Total net assets		34,422,106	28,697,413
Financed by:			
Share capital	12	3,622,000	3,278,000
Reserves		30,800,106	25,419,413
		34,422,106	28,697,413

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2004

	Six months ended 31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Net cash used in operating activities	(3,229,628)	(2,718,416)
Net cash used in investing activities	(7,796,682)	(679,834)
Net cash from financing activities	–	–
Net decrease in cash and cash equivalents	(11,026,310)	(3,398,250)
Cash and cash equivalents at beginning of period	39,092,537	18,373,656
Cash and cash equivalents at end of period	28,066,227	14,975,406
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	28,066,227	14,975,406

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY (UNAUDITED)

For the six months ended 31 December 2004 are as follows:

	Issued capital HK\$	Share premium HK\$	Accumulated losses HK\$	Sub-total of reserves HK\$	Total HK\$
Balance at 1 July 2004 (Audited)	3,278,000	33,294,368	(7,874,955)	25,419,413	28,697,413
Second conversion of Convertible Notes (Note 11)	344,000	8,256,000	-	8,256,000	8,600,000
Loss for the six months ended 31 December 2004	-	-	(2,875,307)	(2,875,307)	(2,875,307)
Balance at 31 December 2004 (Unaudited)	3,622,000	41,550,368	(10,750,262)	30,800,106	34,422,106

For the six months ended 31 December 2003 are as follows:

	Issued capital HK\$	Share premium HK\$	Accumulated losses HK\$	Sub-total of reserves HK\$	Total HK\$
Balance at 1 July 2003 (Audited)	10,100	7,727,060	(3,640,651)	4,086,409	4,096,509
Loss for the six months ended 31 December 2003	-	-	(2,258,244)	(2,258,244)	(2,258,244)
Balance at 31 December 2003 (Unaudited)	10,100	7,727,060	(5,898,895)	1,828,165	1,838,265

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 Enterprise 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.

The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2004.

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

3. Turnover

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

	Three months ended 31 December		Six months ended 31 December	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Sales of diagnostic testing services and products				
Related parties	16,225	183,105	38,515	496,380
Third parties	272,175	231,800	517,700	408,170
Total	288,400	414,905	556,215	904,550

4. Segment information

Segment information is provided as follows:

Business activities

Provision of diagnostic testing services and products

Research and development

Nature of activities

The use of blood test in the diagnosis of cancerous diseases

Research and development relating to diagnosis of cancer and foetal maternal diseases.

(a) By business activities

	Sales of diagnostic testing services		Research and development		Total	
	For the six months ended 31 December					
	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$
REVENUE						
External sales	556,215	904,550	-	-	556,215	904,550
CONTRIBUTION TO LOSS FROM OPERATIONS	(1,890,221)	(1,294,005)	(1,144,829)	(985,460)	(3,035,050)	(2,279,465)
Interest income					221,905	21,221
Unrealised holding loss from other investment					(62,162)	-
Taxation					-	-
LOSS ATTRIBUTABLE TO SHAREHOLDERS					(2,875,307)	(2,258,244)
OTHER INFORMATION						
Capital expenditure	87,954	162,120	124,474	143,377	212,428	305,497
Depreciation and amortisation	408,313	462,735	-	-	408,313	462,735

(b) By geographical location

The revenue and results of the Group for the six months ended 31 December 2003 and 2004 are wholly derived from customers located in one geographical market, namely Hong Kong.

5. Other revenue

	Three months ended 31 December		Six months ended 31 December	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Interest income				
Bank interest income	60,398	20,398	68,245	21,221
Five-year treasury notes of the United States (Note 9)	153,660	–	153,660	–
Sundry income	900	–	900	–
	214,958	20,398	222,805	21,221

6. Loss before taxation

Loss before taxation is stated after charging the following:

	Three months ended 31 December		Six months ended 31 December	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Amortisation of intangible assets	192,446	184,279	384,349	364,894
Less: Amounts capitalised as development costs	(79,616)	(72,411)	(159,231)	(141,834)
	112,830	111,868	225,118	223,060
Costs of inventories sold	7,908	34,124	28,907	71,029
Depreciation	92,756	114,104	183,195	239,675
Directors' remuneration	360,774	222,000	673,174	432,000
Staff costs (excluding directors' remuneration)				
Staff salaries and wages	286,225	293,160	614,258	545,998
Retirement benefits scheme contributions	19,225	9,586	40,588	24,490
Other welfares	18,842	1,728	34,310	5,495
	324,292	304,474	689,156	575,983
Unrealised holding loss from other investment	126,408	–	62,162	–

7. Taxation

No provision for Hong Kong profits tax is required since the Group has no assessable profits for the six months ended 31 December 2004 (2003: Nil).

There was no material unprovided deferred taxation for the six months ended 31 December 2004 (2003: Nil).

8. Loss per share

The calculation of the basic loss per share for the three months ended 31 December 2004 is based on the unaudited loss attributable to the shareholders of approximately HK\$1,393,000 (2003: loss of approximately HK\$1,492,000) and on the weighted average number of ordinary shares of 333,034,783 (2003: 238,000,000 ordinary shares after adjustment for the capitalisation issue) in issue during the period.

The calculation of the basic loss per share for the six months ended 31 December 2004 is based on the unaudited loss attributable to the shareholders of approximately HK\$2,875,000 (2003: loss of approximately HK\$2,258,000) and on the weighted average number of ordinary shares of 330,417,391 (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 six months ended 31 December 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.

9. Other investments

In July 2004, surplus cash of approximately HK\$7,846,000 was invested in the five-year treasury notes of the United States with an interest rate of 4% per annum. An unrealised holding loss amounted to approximately HK\$62,000 has been charged to the consolidated income statement for the six months ended 31 December 2004.

10. Trade receivables

	31 December 2004 HK\$	30 June 2004 HK\$
Trade receivables	146,350	148,010

The Group's policy is to allow an average credit period of 30 days to its customers. The following is an aging analysis of the trade receivables at the balance sheet date:

	31 December 2004 HK\$	30 June 2004 HK\$
0 – 30 days	87,110	116,840
31 – 60 days	52,130	23,410
61 – 90 days	2,530	3,880
Over 90 days	4,580	3,880
	146,350	148,010

11. Convertible notes

On 14, 16 and 27 December 2002, the Company issued non-interest bearing convertible notes (the "Convertible Notes") totalling HK\$21,500,000. Pursuant to the terms of the Convertible Notes:

- (a) Initial conversion of 30% of the aggregate nominal value of the notes into 25,800,000 ordinary shares of HK\$0.01 each of the Company took place on 17 June 2004 which was immediately before the listing date of the Company's shares on GEM.
- (b) Second conversion of 40% of the aggregate nominal value of the notes into 34,400,000 ordinary shares of HK\$0.01 each of the Company took place on 18 December 2004 which was the date six months after the listing date of the Company's shares on GEM (the "First Post IPO Conversion").
- (c) Final conversion of the remaining 30% of the aggregate nominal value of the notes into 25,800,000 ordinary shares of HK\$0.01 each of the Company will take place on the date twelve months after the listing date of the Company's shares on GEM.

On the basis of no share consolidation or sub-division of the shares of the Company, the conversion price was fixed at HK\$0.25 which represented 50% of the offer price for the placing and public offer shares as offered in the prospectus of the Company dated 8 June 2004 (the "Prospectus").

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 Mrs. Yeung Tsui Mai Ling, Margaret, and corporate guarantees executed by the Group. The pledges of assets, personal and corporate guarantees ceased to be of any effect since the listing date of the Company's shares on GEM.

Further details of the convertible notes are set out in the Prospectus.

12. Share capital

After the First Post IPO Conversion of the Convertible Notes of the Company, the issued share capital of the Company has increased from HK\$3,278,000 (divided into 327,800,000 shares of HK\$0.01 each) to HK\$3,622,000 (divided into 362,200,000 shares of HK\$0.01 each).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2004 (2003: Nil).

BUSINESS REVIEW

There was a drop in the gross revenue of the Group for the six months ended 31 December 2004 as compared with the corresponding period in the last financial year. The major reasons were the reduction in the revenue from community research program and no revenue return upon preliminary marketing of the foetal maternal research and other diseases' testing service or kits to various countries. This unexpected poor marketing result was mainly due to the unexpected success of the older methods in the detection of Down's syndrome as explained below.

Since the end of June 2004, marketing efforts have been made for the research test kits for foetal maternal diseases such as Down's syndrome and pre-eclampsia, both in Hong Kong and overseas countries like Japan and Australia. However, the Group has not made any sales of these research kits up to date even though there were some encouraging but preliminary discussions with manufacturers. The use of the Group's foetal RNA test kits 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. The unexpected news is that a recent multi-center and multi-national publication (in the October 2004's issue of the American College of Obstetricians and Gynecologists journal) showed that the older but more traditional standard non-invasive method, used in a new sequential manner, can achieve a near perfect, or 98%, sensitivity for the detection of Down's syndrome, one of the major diseases targeted by the Group's developing tests. This exceptional performance of the older methods dampened completely the demand for any new kits still in the research stage. It is, in the opinion of the Board, highly unlikely that the Group's tests based on some of the existing methodologies can achieve such a high degree of sensitivity in the foreseeable future. The Group will try to seek further research into other methodologies or other business opportunities in the foetal maternal field using the same basic scientific platform.

In late July 2004, the first marketing effort to introduce stroke prognosis and pleural effusion classification tests in Hong Kong was carried out. There were a few leads and inquires about these tests. Further marketing efforts have been made in October/November 2004 for introducing the tests to Australia and Japan, but no sales was recorded up to now. In view of such performance, the Group terminated two licences on 28 January 2005, for the invention named "methods for evaluating stroke or cardiac ischemia by nucleic acid" and "methods for classifying pleural effusions". Furthermore, two more licences, namely "methods for evaluating a disease condition by nucleic acid detection and fractionation" and "non-invasive pre-natal monitoring", were also terminated on 28 January 2005 due to the reasons that (i) there was severe restriction of the patent granted or (ii) no commercial product can be reasonably expected in the future. In the opinion of the Directors, the termination of these licences can save the future legal, research and development costs as well as further marketing expenses to be incurred, which will benefit to the shareholders of the Company as a whole. As the names implied, the first licence is intended to be used for the evaluation of prognosis of stroke, whereas the second one is for pleural effusion classifications, but none for the diagnosis of diseases in the cancer or foetal maternal fields. These licences have never been the principal business activities of the Group and have never generated any revenue.

Despite the setbacks in the foetal maternal field, the Group's cancer tests are progressing well in their commercial development. The Food and Drug Administration of the United States (the "FDA") registration application is in good progress. The Group's EBgene test had been granted the Humanitarian Utilization Device (HUD) by the FDA in June 2004 and a United States cancer center has recently (in December 2004) adopted the protocol written by the Group for a clinical trial that would hopefully lead to the ultimate approval of the test by the FDA. For the State of Food and Drug Administration of the PRC (the "SFDA") registration application, there are a number of certifications and documentations required before proper filing can be made. The Directors expect that proper filing can be made within the year.

Research and development efforts have yielded three new patent applications from Dr. Yeung Wah Hin, Alex, the Director, the chairman and chief executive officer of the Company, and his team. These tests include those using small interfering RNAs (siRNA), conserved non genic sequences (CNGs) and regulatory T cells (Treg) percentages in patients with increased circulating Epstein Barr viral DNA. The likelihood of success of such tests will depend on future clinical research results.

FUTURE PLANS AND PROSPECTS

The Group will keep trying to expand its local market of EBgene and EBeasy through general screening schemes which may involve insurance companies, healthcare companies and other major companies.

The Group had also submitted two different diagnostic plans developed for either normal individuals and/or cancer patients to be marketed in Hong Kong. These plans were offered with co-marketing efforts with other well-known diagnostic and life sciences companies. The Group is expecting that revenues from these two new plans will start from the first quarter of 2005.

Research and development of new cancer and foetal maternal diseases will continue, utilising the acquired licences in the past and the newly assigned patents from the Group's research team.

The Group has expanded 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. 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 Group's plan to gain FDA and SFDA approval as well as marketing of the Group's products and diagnostic plans to insurance companies or/and life sciences companies, efforts may not materialise as increase in revenue in the near future. As a consequence, losses are expected to be further incurred in the second half of the financial year.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$556,000, representing a decrease of approximately 38.5% as compared to approximately HK\$905,000 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 was continued in a limited scale with Town Health Group during early of July 2004.

Net loss of the Group amounted to approximately HK\$2,875,000 for the six months ended 31 December 2004, representing an increase of approximately 27.3% as compared to that of approximately HK\$2,258,000 for the corresponding period in the previous financial year. The increase in loss is mainly due to (1) the increase in direct salaries and marketing staff salaries after the Company's listing on GEM; (2) the increase in compliance costs including listing fee, retained sponsor fee, branch share registrar fee and printing costs of financial reports and announcement; (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.

The increase in loss of the Group was partly lessened by the bank interest income (approximately HK\$68,000) and gain from the investment in the five-year treasury notes of the United States (interest income amounted to approximately HK\$154,000 with an unrealised holding loss amounted to approximately HK\$62,000).

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

The following is a comparison of actual business progress for the period from 1 July 2004 to 31 December 2004 (the "Review Period") and the business objective for the same period as set out in the Prospectus.

Business objectives for the Review Period as set out in the Prospectus:	Actual business progress in the Review Period:
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Strategic development

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

Strategic development

The process is ongoing, with no definite target is found up to now;

Research and product development

Start the field testing and community research of the Group's screening test for cancer;

Research and product development

The field testing of a general screening test for cancer has begun, a version of the test in the research format will be available to the public in the second quarter of 2005;

Complete the laboratory and clinical testing of the Group's test for prostate cancer and *EBonco*;

Laboratory testing of *EBonco* is near completion, while the test for prostate cancer is still ongoing;

Complete the field testing and community research relating to the Group's *EBcombo* test;

Field testing has been completed and evaluation of this test is being done at this moment;

Complete the refinement of test for Down's syndrome;

As explained in the section headed "Business review", the Group will seek to find newer methodology of research in this test starting from the second quarter of 2005, while continue to see whether the older licences can still be refined enough to yield a perfect test;

Sales and marketing

Launch the Group's test for pleural effusion, organ transplant failure, trauma and stroke and test for beta HCG and HPL 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;

Launch the Group's test for liver 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;

Sales and marketing

Since late June 2004, marketing efforts have been made for these tests in Hong Kong. However, no sales of these research kits up to date even there were preliminary and promising discussions with some end users;

The product standards and performance of the liver cancer test is still undergoing evaluation at present, a version of the test in the research format will be available to the public in the second quarter of 2005;

Launch the Group's test for stomach cancer and organ transplant failure, trauma and stroke 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;

Launch the foetal sex test for X-linked diseases and *EBgastric* 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;

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;

Since late July 2004, marketing efforts have been made in Japan with end users. However, no sales was recorded up to now;

The foetal sex test for X-linked diseases was delayed due to the ethical reason of sex selection. The target of *EBgastric* will be replaced by a general screening offered in conjunction with the general healthcare plan in the first quarter of 2005;

Marketing efforts have been made to introduce the Group's EB tests to Japan. However, no sale was recorded up to now;

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;

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;

Launch the Group's test for Down's syndrome and *EBsens* 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.

This new test is still under evaluation;

The delivery of blood specimen to the Group's laboratory and ordering through the Internet are streamlined and working properly;

For PRC, the Group is now liaising with agents in PRC to introduce such tests to PRC. For Hong Kong, the Group will seek to find newer methodology of research in this test starting from the second quarter of 2005, while continue to see whether the older licences can still be refined enough to yield a perfect test.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The use of proceeds for the period from 1 July 2004 to 31 December 2004 are as follows:

	<i>Notes</i>	Planned <i>HK\$</i>	Actual (Approximately) <i>HK\$</i>
Patent expenditures	a	1,000,000	346,000
Product marketing	b	930,000	342,000
Compliance requirements	c	380,000	58,000
Research and development (including salaries and material costs)	d	660,000	238,000
		<u>2,970,000</u>	<u>984,000</u>

Notes:

- a. Progress in patent applications and prosecutions are not as fast as expected. As a result, the patent expenditures are lower than as planned.
- b. Marketing research and efforts for the Group's products were made by its internal marketing staff that are less expensive than planned.
- c. Registrations of the Group's products are still under way and expenses in compliance requirements have not been incurred as expected.
- d. Due to the publications relating to the Down's syndrome and terminations of certain unrelated licences with the licensor as described under the section headed "Business review", the research and development costs relating to these inventions are less than expected.

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

As at 31 December 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	33.56%
Mrs. Yeung Tsui Mai Ling, Margaret	2	119,170,370	2,368,454	-	121,538,824	33.56%
Mr. Cheng Yan Tak, Angus Ronald	3	-	-	12,574,648	12,574,648	3.47%

Notes:

- Under the SFO, Dr. Yeung Wah Hin, Alex will be deemed to be interested in the 119,170,370 shares, representing approximately 32.90% 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 approximately 0.66% 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 Vanbarry Corporation, representing approximately 3.47% of the issued share capital of the Company as at 31 December 2004. Vanbarry Corporation is wholly owned by Mr. Cheng Yan Tak, Angus Ronald.

No options were granted to the Directors during the six months ended 31 December 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 31 December 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 31 December 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			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	33.56%
Mrs. Yeung Tsui Mai Ling, Margaret	1	119,170,370	2,368,454	-	121,538,824	33.56%
Spring Biotech Limited	2	74,995,524	-	-	74,995,524	20.71%
Town Health Bio-Medical Technology Limited	2	-	-	74,995,524	74,995,524	20.71%
Town Health International Holdings Company Limited ("Town Health")	2	-	-	74,995,524	74,995,524	20.71%
The Applied Research Council		32,760,000	-	-	32,760,000	9.04%

Notes:

1. Dr. Yeung Wah Hin, Alex and Mrs. Yeung Tsui Mai Ling, Margaret are also the 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 International Holdings Company Limited (the "Town Health"). Town Health is beneficially owned as to approximately 0.1% by Mr. Cho Kam Luk, an executive Director and as to approximately 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).

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 31 December 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 six months ended 31 December 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 interim report, at no time during the six months ended 31 December 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 31 December 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 six months ended 31 December 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 of the Company 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 (for the period from 20 April 2004 to 1 July 2004), Dr. Loh Kai Tsu, Kevin, Mr. Chan Siu Wing, Raymond and Mr. Chan Po Kwong (commenced from 1 December 2004). Dr. Ngan Man Wong, Matthew is the chairman of the audit committee.

This report, including the Group's unaudited consolidated results for the six months ended 31 December 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.

DIRECTORS

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, Mr. Chan Siu Wing, Raymond and Mr. Chan Po Kwong.

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

Hong Kong, 1 February 2005