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Third 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.

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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 nine months ended 31 March 2005**

- The Group recorded a turnover of approximately HK\$826,000, representing a decrease of approximately 41.8% as compared to that of approximately HK\$1,419,000 for the corresponding period in the previous financial year.
- Net loss of the Group amounted to approximately HK\$4,717,000 for the nine months ended 31 March 2005, representing an increase of approximately 59.6% as compared to that of approximately HK\$2,956,000 for the corresponding period in the previous financial year.
- Loss per share of the Group was approximately 1.38 HK cent for the nine months ended 31 March 2005 as compared to that of approximately 1.24 HK cent for the corresponding period in the previous financial year.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 31 March 2005 (2004: 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 and nine months ended 31 March 2005, together with the comparative unaudited figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31 March 2005

		Three months ended 31 March (Unaudited)		Nine months ended 31 March (Unaudited)	
Notes		2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Turnover	3	269,863	513,950	826,078	1,418,500
Cost of sales		(244,909)	(291,619)	(753,241)	(983,237)
		24,954	222,331	72,837	435,263
Other revenue	4	196,589	18,819	419,394	40,040
		221,543	241,150	492,231	475,303
Selling and distribution expenses		(141,021)	(32,166)	(483,270)	(100,103)
Administration expenses		(1,001,069)	(732,997)	(3,183,162)	(2,715,910)
Other operating expenses		(920,667)	(173,772)	(1,542,320)	(615,319)
Loss before taxation		(1,841,214)	(697,785)	(4,716,521)	(2,956,029)
Taxation	5	-	-	-	-
Loss attributable to shareholders		(1,841,214)	(697,785)	(4,716,521)	(2,956,029)
Loss per share – basic	6	(0.51) cent	(0.29) cent	(1.38) cent	(1.24) 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 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 principal operating subsidiary is 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 under review, all of the Group's businesses were carried out in Hong Kong.

	Three months ended 31 March		Nine months ended 31 March	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Sales of diagnostic testing services and products				
Related parties	4,975	164,360	38,515	496,380
Third parties	264,888	349,590	787,563	922,120
Total	269,863	513,950	826,078	1,418,500

4. Other revenue

	Three months ended 31 March		Nine months ended 31 March	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Interest income				
Banks and financial institution	102,109	18,819	170,354	40,040
Five-year treasury notes of the United States	90,480	–	244,140	–
Handling income	4,000	–	4,900	–
	196,589	18,819	419,394	40,040

5. Taxation

No provision for Hong Kong profits tax has been made since the Group has no assessable profits for the nine months ended 31 March 2005 (2004: Nil).

There was no material unprovided deferred taxation for the nine months ended 31 March 2005 (2004: Nil).

6. Loss per share

The calculation of the basic loss per share for the three months ended 31 March 2005 is based on the unaudited loss attributable to the shareholders of approximately HK\$1,841,000 (2004: loss of approximately HK\$698,000) and on the weighted average number of ordinary shares of 361,268,178 (2004: 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 nine months ended 31 March 2005 is based on the unaudited loss attributable to the shareholders of approximately HK\$4,717,000 (2004: loss of approximately HK\$2,956,000) and on the weighted average number of ordinary shares of 340,550,861 (2004: 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 nine months ended 31 March 2005 and 2004 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 nine months ended 31 March 2005 is as follows:

Group	Share premium HK\$	Accumulated losses HK\$	Total HK\$
Balance at 1 July 2004	33,294,368	(7,874,955)	25,419,413
Second conversion of Convertible Notes	8,256,000	–	8,256,000
Repurchase of share for the period (<i>Note 8</i>)	(883,726)	–	(883,726)
Loss for the nine months ended 31 March 2005	–	(4,716,521)	(4,716,521)
Balance at 31 March 2005	40,666,642	(12,591,476)	28,075,166

The movement in reserves for the nine months ended 31 March 2004 is as follows:

Group	Share premium HK\$	Accumulated losses HK\$	Total HK\$
Balance at 1 July 2003	7,727,060	(3,640,651)	4,086,409
Loss for the nine months ended 31 March 2004	–	(2,956,029)	(2,956,029)
Balance at 31 March 2004	7,727,060	(6,596,680)	1,130,380

8. Repurchase of share

Pursuant to the general power granted to the Directors at the 2004 annual general meeting of the Company held on 25 October 2004, the Directors first exercise their power to repurchase shares of the Company on GEM in February 2005. For the nine months ended 31 March 2005, the total number of shares repurchased was 3,832,000 shares.

The above repurchased shares were cancelled upon repurchases and accordingly the issued share capital of the Company was reduced by the par value of these shares amounted to HK\$38,320. An aggregate amount of approximately HK\$883,726 equivalent to the premium portion and brokerage expenses payable on the repurchases was charged against the share premium account.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 March 2005 (2004: Nil).

BUSINESS REVIEW

There was a drop in the turnover of the Group for the nine months ended 31 March 2005 as compared with the corresponding period in the last financial year. The major reasons were (i) the reduction in the revenue from community research program and (ii) poor sales and marketing results of the foetal maternal research and other diseases' testing service or kits to various countries.

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 test kits up to date even though there were some encouraging but preliminary discussions with manufacturers. As mentioned in the interim report of the Group, 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 Group has been continuing and will continue to try to seek further research into other methodologies or other business opportunities in the foetal maternal field using the same basic scientific platform.

The Group entered into worldwide exclusive licence agreements with the licensor for the technology namely "Detection of cells or DNA of different origins within the body" and "Circulating mRNA as diagnostic markers for pregnancy-related disorders" on 21 May 2002 and 1 March 2003 respectively. In view of the poor market results for these two technologies, the Group entered an agreement with the licensor, on 3 February 2005, so that the exclusiveness of these two licences are now restricted to Japan, Australia, the PRC and Hong Kong. These four territories are the geographic target markets of the Group as disclosed in the prospectus of the Company dated 8 June 2004. In exchange, the licensor assigned to the Group totaling five patent applications in the PRC, Japan and Hong Kong relating to the technology namely "Circulating Epstein-Barr virus

DNA in the serum of patients with gastric carcinoma” and “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”.

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 as about one third of the required clinical study individuals has now been enrolled. For the State of Food and Drug Administration of the PRC (the “SFDA”) registration application, application for ISO compliance is now underway.

Diagnostic screening plans have been established in January 2005 for both normal individuals and/or cancer patients in Hong Kong. These plans are offered with co-marketing efforts with other well-known diagnostic and life sciences companies. Currently, there are approximately 100 enrolled members, and the numbers are increasing every month through these joint marketing efforts.

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 will further explore the potential market in the health screening field by establishing new molecular tests targeting other cancers.

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.

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 remaining quarter of the financial year ending 30 June 2005.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$826,000 for the nine months ended 31 March 2005, representing a decrease of approximately 41.8% as compared to approximately HK\$1,419,000 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 the Town Health Group during early of July 2004.

Net loss of the Group amounted to approximately HK\$4,717,000 for the nine months ended 31 March 2005, representing an increase of approximately 59.6% as compared to that of approximately HK\$2,956,000 for the corresponding period in the previous financial year. The increase in net loss is mainly due to (1) the written off of intangible assets amounted to approximately HK\$485,000 relating to termination of four licence agreements on 28 January 2005 which had already been disclosed in the interim report of the Group; (2) the increase in direct salaries and marketing staff salaries after the Company's listing on GEM; (3) the increase in compliance costs including listing fee, retained sponsor fee, branch share registrar fee and printing costs of financial reports and announcements; (4) the increase in costs for overseas launch of testing services and products; (5) the increase in entertainment after the listing of the Company on GEM; and (6) the increase in research and registration expenses.

For the investment in five-year treasury notes of the United States, an unrealised holding loss grouped under other operating expenses amounted to approximately HK\$216,000 was compensated by the attributable interest income of approximately HK\$244,000.

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

As at 31 March 2005, 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 Section 352 of the SFO, to be entered in the register referred to in that section; or (c) which were required, pursuant to Rules 5.46 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	33.91%
Mrs. Yeung Tsui Mai Ling, Margaret	2	119,170,370	2,368,454	-	121,538,824	33.91%
Mr. Cheng Yan Tak, Angus Ronald	3	-	-	12,574,648	12,574,648	3.51%

Notes:

- Under the SFO, Dr. Yeung Wah Hin, Alex will be deemed to be interested in the 119,170,370 shares, representing approximately 33.25% 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.

3. 12,574,648 shares were held by Vanbarry Corporation, representing approximately 3.51% of the issued share capital of the Company as at 31 March 2005. Vanbarry Corporation is wholly owned by Mr. Cheng Yan Tak, Angus Ronald.

No options were granted to the Directors during the nine months ended 31 March 2005.

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 March 2005 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 March 2005, 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	33.91%
Mrs. Yeung Tsui Mai Ling, Margaret	1	119,170,370	2,368,454	-	121,538,824	33.91%
Spring Biotech Limited	2	74,995,524	-	-	74,995,524	20.93%
Town Health Bio-Medical Technology Limited	2	-	-	74,995,524	74,995,524	20.93%
Town Health International Holdings Company Limited	2	-	-	74,995,524	74,995,524	20.93%
The Applied Research Council		32,760,000	-	-	32,760,000	9.14%

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 ("Town Health"). Town Health is beneficially owned as to approximately 0.07% by Mr. Cho Kam Luk, an executive Director, and as to approximately 9.35% 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 March 2005 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 employees, Directors, advisors, consultants, 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 nine months ended 31 March 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the paragraphs headed "Directors' and chief executive's interests in shares and underlying shares" and "Share options" in this quarterly report, at no time during the nine months ended 31 March 2005 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 March 2005.

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.

During the nine months ended 31 March 2005, First Shanghai Securities Limited, being a fellow subsidiary of the Sponsor, whose ordinary businesses involve the trading and dealing in securities (including derivatives), had acted as a broker for the Company to conduct share repurchases on GEM of the Stock Exchange and received commission and handling fee from the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, the Company repurchased its own shares on GEM as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
February 2005	832,000	0.240	0.238	200,465
March 2005	<u>3,000,000</u>	0.241	0.228	<u>721,581</u>
Total	<u>3,832,000</u>			<u>922,046</u>

The above shares were cancelled upon repurchases and accordingly the issued share capital of the Company was reduced by the par value of these shares amounted to HK\$38,320. An aggregate amount of approximately HK\$883,726 equivalent to the premium portion and brokerage expenses payable on the repurchases was charged against the share premium account.

Apart from the repurchases of shares as disclosed above, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares listed on GEM during the nine months ended 31 March 2005.

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 nine months ended 31 March 2005, 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, 9 May 2005