



PLASMAGENE BIOSCIENCES LIMITED

FIRST QUARTERLY REPORT 2005/06

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 three months ended 30 September 2005:

- The Group recorded a turnover of approximately HK\$313,000, representing an increase of approximately 16.9% as compared to approximately HK\$268,000 for the corresponding period in the previous financial year.
- Net loss of the Group amounted to approximately HK\$1,185,000 for the three months ended 30 September 2005, representing a decrease of approximately 20.1% as compared to that of approximately HK\$1,483,000 for the corresponding period in the previous financial year.
- Loss per share of the Group was approximately 0.31 HK cent for the three months ended 30 September 2005 as compared to that of approximately 0.45 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 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 ended 30 September 2005, together with the comparative unaudited figures for the corresponding period in 2004 as follows:

		Three months ended 30 September	
		2005	2004
		HK\$	HK\$
	<i>Notes</i>		
Turnover	3	313,079	267,815
Cost of sales		(274,674)	(259,943)
		38,405	7,872
Other revenue	4	360,237	72,093
		398,642	79,965
Selling and distribution expenses		(28,210)	(50,485)
Administration expenses		(1,161,403)	(1,305,779)
Other operating expenses		(393,773)	(206,487)
Loss before taxation		(1,184,744)	(1,482,786)
Taxation	5	–	–
Loss attributable to shareholders		(1,184,744)	(1,482,786)
Loss per share – basic	6	0.31 cents	0.45 cents

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.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sales 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 (the "HKICPA"). They have been prepared under the historical cost convention.

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

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the preparation of its consolidated financial statements for the year ended 30 June 2005. The Group does not expect that the adoption of these new HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented except the following:

(a) HKFRS 2 "Share-based payment"

HKFRS 2 "Share-based payment" requires an expense to be recognised where the Group buys or obtains services in exchange for share or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of share options granted to the Directors and The Chinese University of Hong Kong (the "Chinese University") for the year ended 30 June 2005. The Group did not recognise any expenses relating to the share options issued by the Company. Such share options should be accounted for retrospectively in accordance with HKFRS 2.

The Directors consider the adoption of HKFRS 2 does not have material impact on the financial results and accordingly, no prior year adjustment has been made to reflect the impact of applying HKFRS 2. Had the prior year adjustment on application of HKFRS 2 been applied, the Group's loss attributable to shareholders and accumulated losses for the year ended 30 June 2005 would increase by approximately HK\$139,000. Such amount of approximately HK\$139,000 has been adjusted to the accompanying unaudited consolidated results for the three months ended 30 September 2005.

- (b) *HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: recognition and measurement"*

HKAS 32 and HKAS 39 require all investments to be reclassified into available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. Currently, the investments held by the Group are classified as current assets at fair value on the consolidated balance sheet.

The adoption of HKAS 32 and HKAS 39 does not have a material effect on the Group's results of operations and financial position for the year ending 30 June 2006.

3. Turnover

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

	Three months ended 30 September	
	2005	2004
	HK\$	HK\$
Sales of diagnostic testing services and products		
Related parties	7,145	22,290
Third parties	305,934	245,525
Total	313,079	267,815

4. Other revenue

	Three months ended 30 September	
	2005 HK\$	2004 HK\$
Interest income	254,104	7,847
Gain on disposals of fixed assets	104,733	–
Handling charges received	1,400	–
Unrealised holding gain of other investments	–	64,246
	360,237	72,093

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 2005 (2004: Nil).

There was no material unprovided deferred taxation for the three months ended 30 September 2005 (2004: Nil).

6. Loss per share

The calculation of the basic loss per share for the three months ended 30 September 2005 is based on the unaudited loss attributable to the shareholders of approximately HK\$1,185,000 (2004: loss of approximately HK\$1,483,000) and on the weighted average number of ordinary shares of 379,961,870 (2004: 327,000,000 ordinary shares) in issue during the period.

The computation of diluted loss per share for the three months ended 30 September 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.

The computation of diluted loss per share for the share options granted during the three months ended 30 September 2005 has not been presented because the assumed exercises of share options, which were outstanding during the three months ended 30 September 2005 (2004: Nil), 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 2005 was as follows:

	Share premium <i>HK\$</i>	Capital reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
Balance at 1 July 2005	46,628,204	–	(13,465,628)	33,162,576
Shares repurchase	(620,796)	–	–	(620,796)
Share – based payment	–	138,856	–	138,856
Loss for the three months ended 30 September 2005	–	–	(1,184,744)	(1,184,744)
Balance at 30 September 2005	46,007,408	138,856	(14,650,372)	31,495,892

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

	Share premium <i>HK\$</i>	Capital reserve <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	33,294,368	–	(9,357,741)	23,936,627

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2005 (2004: Nil).

BUSINESS REVIEW

There was an increase in the gross revenue of the Group for the three months ended 30 September 2005 as compared with the corresponding period in the last financial year. This was contributed by the revenue from the new hepatitis B DNA test which was launched in May 2005 and results of marketing efforts made to the Group's products/services through public seminars and diagnostic screening plans.

Both Food and Drug Administration of the United States (the "FDA") and State of Food and Drug Administration of the People's Republic of China (the "PRC") (the "SFDA") registration applications for the Group's *EBgene* are under way and in good progress. The preliminary marketing shows that most laboratories and physicians, especially those overseas, are only convinced to use the products after they have been registered with the FDA or SFDA. As a result, marketing/launching of the Group's products to Japan, Australia and the PRC will be delayed until successful registrations therewith can be made.

Locally, the Group has continued its marketing efforts for its cancerous tests and hepatitis B DNA test through public seminars and diagnostic screening plans. In addition, the Group is liaising with a group of doctors and a major pharmaceutical company to further expand Hepatitis B and liver cancer testing services to the public.

FUTURE PLANS AND PROSPECTS

The Group will try to expand its local market of *EBgene* and *HBeasy* through massive screening schemes which may involve insurance companies and major companies. By working with doctors and pharmaceutical companies, public seminars will be held. The next seminar is scheduled to be in late November 2005.

The Group is also negotiating for a molecular testing laboratory contract with a body-check centre. The major focus is on early cancer detection.

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\$313,000, representing an increase of approximately 16.9% as compared to approximately HK\$268,000 for the corresponding period in the previous financial year. This was mainly due to (i) the launch of new hepatitis B DNA test in May 2005 and earning a steady revenue; and (ii) the results of marketing efforts made to the Group's cancerous tests through public seminars and diagnostic screening plans.

Net loss of the Group amounted to approximately HK\$1,185,000 for the three months ended 30 September 2005, representing a decrease of approximately 20.1% as compared to approximately HK\$1,483,000 for the corresponding period in the previous financial year. The decrease in loss was mainly due to (i) the general tightness on expenditures; (ii) increase in interest income as a result of the general rise in interest rate; and (iii) the gain on disposal of a motor vehicle amounted to approximately HK\$100,000.

The unrealised holding loss of other investments (included under "Other operating expenses" in the unaudited consolidated results) was amounted to approximately HK\$128,000 for the three months ended 30 September 2005, while it was an unrealised gain of approximately HK\$64,000 for the three months ended 30 September 2004. Such unrealised loss of HK\$128,000 was partly compensated by the attributable interest income of approximately HK\$76,000.

As explained in note 2(a) to the section headed "Quarterly results (unaudited)" for the adoption of HKFRS 2, an amount of approximately HK\$139,000 has been charged to the unaudited consolidated results for the three months ended 30 September 2005 for the grant of options to the Directors and the Chinese University on 20 June 2005 and 28 June 2005 respectively. Please refer to the section headed "Share options" of this report for further details of options granted by the Company.

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

As at 30 September 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 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	32.02%
Mrs. Yeung Tsui Mai Ling, Margaret	2	119,170,370	2,368,454	-	121,538,824	32.02%
Mr. Cheng Yan Tak, Angus Ronald	3	-	-	12,574,648	12,574,648	3.31%

Notes:

1. Under the SFO, Dr. Yeung Wah Hin, Alex will be deemed to be interested in the 119,170,370 shares, representing 31.40% of the issued share capital of the Company held by Mrs. Yeung Tsui Mai Ling, Margaret, his spouse and who is also a Director.
2. Under the SFO, Mrs. Yeung Tsui Mai Ling, Margaret will be deemed to be interested in the 2,368,454 shares, representing 0.62% 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 3.31% of the Company's shares in issue as at 30 September 2005. Vanbarry Corporation is wholly-owned by Mr. Cheng Yan Tak, Angus Ronald.

Saved as disclosed above and the share options granted to the Directors as disclosed under the paragraph headed "Share options" in this report, 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 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 30 September 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	32.02%
Mrs. Yeung Tsui Mai Ling, Margaret	1	119,170,370	2,368,454	-	121,538,824	32.02%
Spring Biotech Limited	2	74,995,524	-	-	74,995,524	19.76%
Town Health Bio-Medical Technology Limited	2	-	-	74,995,524	74,995,524	19.76%
Town Health International Holdings Company Limited ("Town Health")	2&3	-	-	74,995,524	74,995,524	19.76%
Broad Idea International Limited	3	-	-	74,995,524	74,995,524	19.76%
Dr. Cho Kwai Chee	3	-	-	74,995,524	74,995,524	19.76%
Dr. Choi Chee Ming, Francis	3	-	-	74,995,524	74,995,524	19.76%
The Applied Research Council		46,596,000	-	-	46,596,000	12.28%

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.
3. Town Health is a company whose shares are also listed on GEM. As at the date of this report, Town Health is beneficially owned as to approximately 51.0% by Broad Idea International Limited. Broad Idea International Limited is beneficially owned as to 50.1% by Dr. Cho Kwai Chee and as to 49.9% by Dr. Choi Chee Ming, Francis. Mr. Cho Kam Luk (being the father of Dr. Cho Kwai Chee), an executive Director, directly beneficially owns 0.03% of Town Health.

Saved as disclosed above and the share options granted to Dr. Yeung Wah Hin, Alex, Mrs. Yeung Tsui Mai Ling, Margaret and Mr. Cho Kam Luk under the paragraph headed "Share options" in this report 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 2005 as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTIONS

1. The share option scheme was adopted by the then shareholders of the Company on 20 April 2004 (the "Share Option Scheme") 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.

Movements of share options under the Share Option Scheme for the three months ended 30 September 2005 were as follows:

Name of Directors	Date of grant	Number of underlying shares in respect of which share options were granted				Exercise price HK\$
		Outstanding at 01/07/2005	Granted	Exercised/ Cancelled/ Lapsed	Outstanding at 30/09/2005	
Dr. Yeung Wah Hin, Alex	20/06/2005	2,222,222 ^(a)	-	-	2,222,222	0.225
Mr. Cheng Yan Tak, Angus Ronald	20/06/2005	669,711 ^(a)	-	-	669,711	0.225
Mrs. Yeung Tsui Mai Ling, Margaret	20/06/2005	1,111,111 ^(a)	-	-	1,111,111	0.225
Mr. Cho Kam Luk	20/06/2005	1,111,111 ^(a)	-	-	1,111,111	0.225
Mr. Lau Kam Shan	20/06/2005	1,111,111 ^(a)	-	-	1,111,111	0.225
Dr. Ngan Man Wong, Matthew	20/06/2005	1,333,333 ^(b)	-	-	1,333,333	0.225
Dr. Loh Kai Tsui, Kevin	20/06/2005	1,333,333 ^(b)	-	-	1,333,333	0.225
Mr. Chan Siu Wing, Raymond	20/06/2005	1,333,333 ^(b)	-	-	1,333,333	0.225
Total		10,225,265	-	-	10,225,265	

Notes:

- (a) The share options are exercisable at any time for a period of three years from the date of grant.
 - (b) The share options are exercisable at any time for a period of ten years from the date of grant.
 - (c) The closing price of the shares of the Company immediately before 20 June 2005 on which the options were granted was HK\$0.225.
2. Pursuant to an agreement entered into by the Company 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, 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.

On 28 June 2005, share option of 4,484,305 shares was granted to the Chinese University with exercise period from 28 December 2005 to 27 June 2010 and exercise price at HK\$0.223. The closing price of the shares of the Company immediately before 28 June 2005 on which the options were granted was HK\$0.223. No share option was granted to the Chinese University for the three months ended 30 September 2005.

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 options" in this report, at no time during the three months ended 30 September 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 30 September 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 three months ended 30 September 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 three months ended 30 September 2005, 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	Lowest	
		HK\$	HK\$	
July 2005	3,500,000	0.207	0.178	655,796

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\$35,000. An aggregate amount of HK\$620,796 equivalent to the premium portion and brokerage expenses payable on the repurchases was charged against the share premium account.

The Directors have regard to the market price of the Company's shares at the time of the repurchases and considered that the Company's shares were undervalued in the market, so that it was the appropriate time to repurchase certain shares of the Company in order to support its share prices.

Apart from the repurchases of shares as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares listed on GEM during the three months ended 30 September 2005 (2004: Nil).

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, Dr. Loh Kai Tsu, Kevin (retired in October 2005), Mr. Chan Siu Wing, Raymond and Mr. Chan Po Kwong. 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 2005 had been reviewed by the audit committee of the Company.

CORPORATE GOVERNANCE CODE COMPLIANCE

The Company is in the process of reviewing its corporate governance practices and will report in its half-yearly results report for the six months ending 31 December 2005 on the compliance of the Code on Corporate Governance Practices.

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,, 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, 8 November 2005