PLASMAGENE BIOSCIENCES LIMITED

INTERIM REPORT 2005/06

For the six months ended 31 December 2005

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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 2005

- The Group recorded a turnover of approximately HK$601,000, representing an increase of approximately 8.1% as compared to that of approximately HK$556,000 for the corresponding period in the previous financial year.

- Net loss of the Group amounted to approximately HK$2,143,000 for the six months ended 31 December 2005, representing a decrease of approximately 25.5% as compared to that of approximately HK$2,875,000 for the corresponding period in the previous financial year.

- Loss per share of the Group was approximately 0.57 HK cent for the six months ended 31 December 2005 as compared to that of approximately 0.87 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 2005 (2004: 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 2005, together with the comparative unaudited figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 31 December 2005

		Three months ended 31 December (Unaudited)		**Six months ended 31 December (Unaudited)**	
		2005	2004	**2005**	2004
	Notes	***HK$***	*HK$*	***HK$***	*HK$*
Turnover	3	**288,130**	288,400	**601,209**	556,215
Cost of sales		**(220,657)**	(248,389)	**(495,331)**	(508,332)
		67,473	40,011	**105,878**	47,883
Other revenue	5	**237,509**	214,958	**597,746**	222,805
		304,982	254,969	**703,624**	270,688
Selling and distribution expenses		**(19,100)**	(291,764)	**(47,309)**	(342,249)
Administration expenses		**(917,768)**	(876,314)	**(2,079,171)**	(2,182,093)
Other operating expenses		**(326,515)**	(479,412)	**(720,289)**	(621,653)
Loss before taxation	6	**(958,401)**	(1,392,521)	**(2,143,145)**	(2,875,307)
Taxation	7	**–**	–	**–**	–
Loss attributable to shareholders		**(958,401)**	(1,392,521)	**(2,143,145)**	(2,875,307)
Loss per share – basic	8	**(0.26) cent**	(0.42) cent	**(0.57) cent**	(0.87) cent

CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 December 2005

	Notes	31 December 2005 (Unaudited) HK$	30 June 2005 (Audited) HK$
Non-current assets			
Intangible assets		**3,376,397**	3,504,711
Plant and equipment		**1,494,318**	606,109
		4,870,715	4,110,820
Current assets			
Other investments	9	**7,553,147**	7,730,989
Inventories		**50,684**	33,514
Trade receivables	10	**124,513**	130,548
Other receivables and prepayments		**627,168**	671,348
Amount due from a related company		**268**	–
Cash and bank balances		**21,090,647**	24,862,719
		29,446,427	33,429,118
Less: Current liabilities			
Other payables and accrued charges		**806,501**	545,984
Amount due to a related company		**–**	618
		806,501	546,602
Net current assets		**28,639,926**	32,882,516
Total net assets		**33,510,641**	36,993,336
Financed by:			
Share capital	11	**3,735,920**	3,830,760
Reserves		**29,774,721**	33,162,576
		33,510,641	36,993,336

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2005

	Six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$	*HK$*
Net cash used in operating activities	**(1,663,325)**	(3,229,628)
Net cash used in investing activities	**(630,341)**	(7,796,682)
Net cash used in financing activities	**(1,478,406)**	–
Net decrease in cash and cash equivalents	**(3,772,072)**	(11,026,310)
Cash and cash equivalents at beginning of period	**24,862,719**	39,092,537
Cash and cash equivalents at end of period	**21,090,647**	28,066,227
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**21,090,647**	28,066,227

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY (UNAUDITED)

For the six months ended 31 December 2005 are as follows:

	Issued capital HK$	Share premium HK$	Capital reserve HK$	Accumulated losses HK$	Sub-total of reserves HK$	Total HK$
Balance at 1 July 2005 (Audited)	3,830,760	46,628,204	–	(13,465,628)	33,162,576	36,993,336
Shares repurchase	(94,840)	(1,383,566)	–	–	(1,383,566)	(1,478,406)
Share-based payment	–	–	138,856	–	138,856	138,856
Loss for the six months ended 31 December 2005	–	–	–	(2,143,145)	(2,143,145)	(2,143,145)
Balance at 31 December 2005 (Unaudited)	3,735,920	45,244,638	138,856	(15,608,773)	29,774,721	33,510,641

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

	Issued capital HK$	Share premium HK$	Capital reserve 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	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

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 condensed consolidated income statement for the six months ended 31 December 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 31 December		**Six months ended 31 December**	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Sales of diagnostic testing services and products				
Related parties	**3,375**	16,225	**10,520**	38,515
Third parties	**284,755**	272,175	**590,689**	517,700
Total	**288,130**	288,400	**601,209**	556,215

4. Segment information

Segment information is provided as follows:

Business activities	**Nature of activities**
Provision of diagnostic testing services and products	The use of blood test in the diagnosis of cancerous and certain other diseases
Research and development	Research and development relating to diagnosis of cancer and certain other illnesses

(a) By business activities

	Sales of diagnostic testing services		**Research and development**		**Total**	
	For the six months ended 31 December					
	2005	2004	**2005**	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*
REVENUE						
External sales	**601,209**	556,215	**–**	–	**601,209**	556,215
CONTRIBUTION TO LOSS FROM OPERATIONS	**(1,609,612)**	(1,890,221)	**(839,491)**	(1,144,829)	**(2,449,103)**	(3,035,050)
Interest income					**483,800**	221,905
Unrealised holding loss of other investments					**(177,842)**	(62,162)
Taxation					**–**	–
LOSS ATTRIBUTABLE TO SHAREHOLDERS					**(2,143,145)**	(2,875,307)
OTHER INFORMATION						
Capital expenditure	**1,135,634**	87,954	**86,507**	124,474	**1,222,141**	212,428
Depreciation and amortisation	**458,978**	408,313	**–**	–	**458,978**	408,313

(b) By geographical location

The revenue and results of the Group for the six months ended 31 December 2004 and 2005 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	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Interest income				
Bank interest income	**152,469**	60,398	**330,168**	68,245
Five-year treasury notes of the United States	**77,227**	153,660	**153,632**	153,660
Gain on disposals of fixed assets	**–**	–	**104,733**	–
Handling charges received	**7,350**	900	**8,750**	900
Sundry income	**463**	–	**463**	–
	237,509	214,958	**597,746**	222,805

6. Loss before taxation

Loss before taxation is stated after charging the following:

	Three months ended 31 December		Six months ended 31 December	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Amortisation of intangible assets	**179,742**	192,446	**359,421**	384,349
Less: Amounts capitalised as development costs	**(66,523)**	(79,616)	**(133,046)**	(159,231)
Amortisation included in other operating expenses	**113,219**	112,830	**226,375**	225,118
Costs of inventories sold	**35,655**	7,908	**61,698**	28,907
Depreciation	**116,532**	92,756	**232,604**	183,195
Directors' remuneration	**294,000**	360,774	**704,305**	673,174
Staff costs (excluding Directors' remuneration)				
Staff salaries and wages	**267,023**	286,225	**579,409**	614,258
Retirement benefits scheme contributions	**15,826**	19,225	**33,920**	40,588
Other welfares	**11,184**	18,842	**13,948**	34,310
	294,033	324,292	**627,277**	689,156
Unrealised holding loss of other investments	**49,904**	126,408	**177,842**	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 2005 (2004: Nil).

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

8. Loss per share

The calculation of the basic loss per share for the three months ended 31 December 2005 is based on the unaudited loss attributable to the shareholders of approximately HK$958,000 (2004: loss of approximately HK$1,393,000) and on the weighted average number of ordinary shares of 372,589,913 (2004: 333,034,783 ordinary shares) in issue during the period.

The calculation of the basic loss per share for the six months ended 31 December 2005 is based on the unaudited loss attributable to the shareholders of approximately HK$2,143,000 (2004: loss of approximately HK$2,875,000) and on the weighted average number of ordinary shares of 378,333,370 (2004: 330,417,391 ordinary shares) in issue during the period.

The computation of diluted loss per share for the six months ended 31 December 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 six months ended 31 December 2005 has not been presented because the assumed exercises of share options, which were outstanding during the six months ended 31 December 2005 (2004: Nil), had anti-dilutive effects on the respective basic loss per share.

9. Other investments

	31 December 2005 ***HK$***	30 June 2005 *HK$*
Five-year treasury notes of the United States	**7,553,147**	7,730,989

In July 2004, surplus cash 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 HK$177,842 has been charged to the condensed consolidated income statement for the six months ended 31 December 2005.

10. Trade receivables

	31 December 2005 HK$	30 June 2005 HK$
Trade receivables	**124,513**	130,548

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 2005 HK$	30 June 2005 HK$
0 - 30 days	**73,053**	85,933
31 - 60 days	**46,180**	39,775
61 - 90 days	**3,990**	4,140
Over 90 days	**1,290**	700
	124,513	130,548

11. Share capital

Pursuant to the general power granted to the Directors at the 2004 and 2005 annual general meeting of the Company held on 25 October 2004 and 24 October 2005 respectively, the Directors exercise their power to repurchase shares of the Company on GEM. For the six months ended 31 December 2005, the number of shares repurchased by the Company on GEM was 9,484,000 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$94,840. An aggregate amount of approximately HK$1,383,566 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 six months ended 31 December 2005 (2004: Nil).

BUSINESS REVIEW

The Group's new hepatitis B DNA test, *HBeasy*, which was launched in May 2005 generated steady revenue and contributed to the increase in the gross revenue of the Group for the six months ended 31 December 2005.

The Food and Drug Administration of the United States (the "FDA") registration applications for the Group's *EBgene* is under way and the Group has submitted preliminary clinical study results to FDA. Clinical reproducibility and specificity data that had to be completed in the United States were finished by the beginning of December 2005. *EBgene* has fulfilled its International Organisation for Standardisation ("ISO 13485: 2003") compliance according to an external auditor, and an audit has been completed in January 2006. After ISO audit, the Group will start *EBgene's* application for the State of Food and Drug Administration of the People's Republic of China (the "PRC") (the "SFDA"). 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. In late December 2005, the Hong Kong Hepatitis Diagnosis Center was formed with the purchase of a FibroScan, a state of the art machine which can measure the amount of liver fibrosis in chronic hepatitis B patients.

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 other major companies. By working with doctors and pharmaceutical companies, public seminars will be held.

The Group will also try to work on an anti-ageing diagnosis panel for those individuals that are aged over 45. This panel will consist of state of the art diagnostic tests for hormones and other related compounds so that patients can be monitored during anti-ageing treatments.

The Group is also negotiating for a molecular testing laboratory contract with a body-check centre. The major focus is on early cancer detection. The start up date is now scheduled to be in June 2006.

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. As a consequence, losses are expected to continue in the near future.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$601,000, representing in increase of approximately 8.1% as compared to approximately HK$556,000 for the corresponding period in the previous financial year. This is mainly due to (i) the launch of new hepatitis B DNA test in May 2005 and earning a steady revenue and (ii) revenue of laboratory diagnostic tests received from members of the Group's health plan.

Net loss of the Group amounted to approximately HK$2,143,000 for the six months ended 31 December 2005, representing a decrease of approximately 25.5% as compared to that of approximately HK$2,875,000 for the corresponding period in the previous financial year. The decrease in loss is mainly due to (i) the cut back on selling and distribution expenses because of delay in geographical expansion of business to the PRC, Japan and Australia; (ii) the general tightness on expenditures; (iii) the increase in interest income as a result of the general rise in interest rate; and (iv) 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 condensed consolidated income statement) was amounted to approximately HK$178,000 for the six months ended 31 December 2005. Such unrealised loss of HK$178,000 was largely compensated by the attributable interest income of approximately HK$154,000.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

The following is a comparison of actual business progress for the period from 1 July 2005 to 31 December 2005 (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:
Strategic development	Strategic development
Launching a worldwide campaign for the Group's test for Down's syndrome	Due to the success of the old traditional standard non-invasive method, the Group has commenced to seek newer methodology research in this test since the last half of 2005 while continue to see whether the older licenses can still be refined enough to yield a perfect test
Launching a worldwide campaign with a view to forming close associations with other laboratories, health institutions and government agencies for joint launches of the Group's testing services	Associations with a major pharmaceutical company and a local biotech company in the launching of hepatitis B testing were done in the last half of 2005

Business objectives for the Review Period as set out in the Prospectus:	**Actual business progress in the Review Period:**
Research and product development	Research and product development
Completing the field testing and community research for:	
– prostate cancer test	Laboratory testing shows it is difficult and expensive to carry out the methylation specific polymerase chain reaction ("PRC") test, which takes over 1 day to complete. The test now is being replaced by simpler tests under research such as prolactin and insulin like growth factors, the testing is still in progress
– screening test for cancer	The field testing of a penal of general screening tests for cancer has begun, a version of the test in the research format will be available to the public in the second quarter of 2006

Business objectives for the Review Period as set out in the Prospectus:	**Actual business progress in the Review Period:**
Sales and marketing	Sales and marketing
By first establishing and set product standards in its laboratory for the following tests and then market the tests to the appropriate end users, such as doctors in the specialised field, the Group will launch the testing services as follows:-	
In Hong Kong:	
– to launch the screening test for cancer	As explained in the paragraph headed "Research and product development" of this section relating to the "screening test for cancer", the launch of this test will be delayed until the second quarter of 2006
In Australia:	
– to launch the liver cancer test	The original liver cancer test done by methylation specific PRC, a difficult and expensive test, is now replaced by the HBV DNA test, *HBeasy*, which was launched in May 2005 in Hong Kong. This test is for monitoring of hepatitis B patients prone to the development of liver cancer. Marketing efforts to Australia will be delayed until the SFDA registration has been completed for the *HBeasy*

Business objectives for the Review Period as set out in the Prospectus:	**Actual business progress in the Review Period:**
– to launch the foetal sex test for X-linked diseases	Since October/November 2004, marketing efforts have been made in Australia with end users. However, no sales was recorded up to now
– to launch *EBonco*	The test will undergo community research in the first half of 2006. The launch of *EBonco* will be delayed until the Group has success in the Hong Kong market
In Japan:	
– to launch Rhesus D test	So far there was no positive response in Japan of finding a suitable partner after an extensive mailing to all the Obstetrics & Gynaecology hospitals and clinics in Japan
– to launch *EBonco*	The test will undergo community research in the first half of 2006. The launch of *EBonco* will be delayed until the Group success in the Hong Kong market
– to appoint hospitals and laboratories as sub-licensees for the technology underlying such products	A sublicense was contacted through a third party in the first part of December 2005 for the fetal maternal test and the Group is waiting to sign an initial non disclosure agreement with this potential sublicensee

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The use of proceeds for the period from 1 July 2005 to 31 December 2005 are as follows:

			Actual
		Planned	**(Approximately)**
	Notes	*HK$*	*HK$*
Patent expenditures	a	990,000	98,000
Product marketing	b	2,110,000	47,000
Compliance requirements	c	700,000	248,000
Research and development (including salaries and material costs)	d	500,000	160,000
		4,300,000	553,000

Notes:

a. Decrease in patent expenditures was mainly due to (i) termination of four licence agreements in January 2005 and (ii) the territories of two worldwide exclusive licence agreements have been restricted to Japan, Australia, the PRC and Hong Kong only in February 2005. These significantly reduce the legal costs that would be incurred during pursuance of worldwide patent applications.

b. Similar to patent expenses, decrease in product marketing was mainly due to termination of four licence agreements in January 2005 and the delay of geographical expansion of business to the PRC, Japan and Australia. The planned budget will be used in other commercially viable testing services/ products.

c. Registrations of the Group's *EBgene* in the FDA and the SFDA are under way. Included in the compliance expenses for the six months ended 31 December 2005, there are deposits of approximately HK$23,000 paid to a consultant for *EBgene*'s ISO 13485:2003 certification application. Currently, the Group focused on the registration of *EBgene* first in the United States and the PRC so that planned budget for Japan and Australia will be delayed.

d. Similar to patent expenses, decrease in research and development expenses was mainly due to termination of four licence agreements in January 2005. The planned budget will be used in other commercially viable testing services/ products.

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

As at 31 December 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:

		Number of shares held, capacity and nature of interests				
Name of Directors	*Notes*	**Directly beneficially owned**	**Through spouse**	**Through a controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Dr. Yeung Wah Hin, Alex	1	2,368,454	119,170,370	–	121,538,824	32.53%
Mrs. Yeung Tsui Mai Ling, Margaret	2	119,170,370	2,368,454	–	121,538,824	32.53%
Mr. Cheng Yan Tak, Angus Ronald	3	–	–	12,574,648	12,574,648	3.37%

Notes:

1. Under the SFO, Dr. Yeung Wah Hin, Alex will be deemed to be interested in the 119,170,370 shares, representing 31.90% of the issued share capital of the Company held by Mrs. Yeung Tsui Mai Ling, Margaret, his spouse and who is also a Director.

2. Under the SFO, Mrs. Yeung Tsui Mai Ling, Margaret will be deemed to be interested in the 2,368,454 shares, representing 0.63% 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 3.37% of the Company's shares in issue as at 31 December 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 31 December 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 December 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:

		Number of shares held, capacity and nature of interests				
Name of shareholders	*Notes*	**Directly beneficially owned**	**Through spouse**	**Through a controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Dr. Yeung Wah Hin, Alex	1	2,368,454	119,170,370	–	121,538,824	32.53%
Mrs. Yeung Tsui Mai Ling, Margaret	1	119,170,370	2,368,454	–	121,538,824	32.53%
Spring Biotech Limited	2	74,995,524	–	–	74,995,524	20.07%
Town Health Bio-Medical Technology Limited	2	–	–	74,995,524	74,995,524	20.07%
Town Health International Holdings Company Limited ("Town Health")	2 & 3	–	–	74,995,524	74,995,524	20.07%
Broad Idea International Limited	3	–	–	74,995,524	74,995,524	20.07%
Dr. Cho Kwai Chee	3	–	–	74,995,524	74,995,524	20.07%
Dr. Choi Chee Ming, Francis	3	–	–	74,995,524	74,995,524	20.07%
The Applied Research Council		46,596,000	–	–	46,596,000	12.47%

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 31 December 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 six months ended 31 December 2005 were as follows:

		Number of underlying shares in respect of which share options were granted				
Name of Directors	Date of grant	Outstanding at 01/07/2005	Granted	Exercised/ Cancelled/ Lapsed	Outstanding at 31/12/2005	Exercise price
						HK$
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 Tsu, 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 six months ended 31 December 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 six months ended 31 December 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 December 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 six months ended 31 December 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 six months ended 31 December 2005, the Company repurchased its own shares on GEM as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
July 2005	3,500,000	0.207	0.178	655,796
November 2005	5,984,000	0.145	0.126	822,610
	9,484,000			1,478,406

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$94,840. An aggregate amount of HK$1,383,566 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 six months ended 31 December 2005 (2004: Nil).

AUDIT COMMITTEE

The Company established an audit committee on 20 April 2004 with written terms of reference in compliance with 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, Dr. Loh Kai Tsu, Kevin, (for the period from 20 April 2004 to 23 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 six months ended 31 December 2005, had been reviewed by the audit committee of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company has adopted the standards set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding the Directors' securities transactions in securities of the Company. The Company has made specific enquiry to all the Directors and the Company was not aware of any non-compliance with the required standards of dealings.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the required code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules for the six months ended 31 December 2005, except for the following deviations:

Code Provision A.2.1

The code stipulates that the role of the chairman and chief executive officer should be separate and should not be performed by the same individual.

During the six months ended 31 December 2005, Dr. Yeung Wah Hin, Alex ("Dr. Yeung") is the chairman and chief executive officer of the Company who is responsible for managing the Board and the Group's business. The Board considers that Dr. Yeung's in-depth professional knowledge of medical and diagnostic field will definitely bring invaluable contribution to the Board. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the participation of experienced and high caliber members of the Board which meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Dr. Yeung and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Group. Nevertheless, the Board will continually review the function of the Board and its relationship with the management, especially the necessity and the benefits of separating the roles of the chairman and chief executive officer.

Code Provision A.4

This code stipulates that all directors should be subject to re-election at regular intervals.

The present Articles of Association of the Company do not require a director holding office as a managing director or joint managing director for retirement by rotation at a general meeting. The Board will seek to amend the relevant Articles in due course in order to ensure full compliance with this code.

Code Provision A.4.2

The code stipulates that all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

The present Articles of Association of the Company only requires such directors who are appointed to fill a casual vacancy to be re-elected at the next annual general meeting. The Board will seek to amend the relevant Articles in due course in order to ensure full compliance with this code.

Code Provision B.1.1

The code stipulates that listed issuers should establish a remuneration committee with specific written terms of reference.

The Company has not yet established a remuneration committee. The Board is actively searching for suitable candidates for the formation of the remuneration committee. The Board expects that such committee will be established with written terms of reference in the second half of the financial year ending 30 June 2006.

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, 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, 7 February 2006