



普施基因生物科技有限公司
PLASMAGENE BIOSCIENCES LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock code : 8250

FIRST QUARTERLY REPORT 2006/07
for the three months ended 30 September 2006

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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 2006

- The Group recorded a turnover of approximately HK\$313,000 which was similar to the corresponding period in 2005.
- Loss attributable to equity holders of the Company amounted to approximately HK\$496,000, representing a decrease of 58.1% as compared to approximately HK\$1,185,000 for the corresponding period in 2005.
- Loss per share of the Group was approximately 0.13 HK cents (2005: approximately 0.31 HK cents).
- The Directors do not recommend the payment of any dividend for the three months ended 30 September 2006 (2005: Nil).

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 2006, together with the comparative unaudited figures for the corresponding period in 2005, as follows:

| | | Three months ended 30 September | |
|---|--------------|--|-------------|
| | | 2006 | 2005 |
| | | HK\$ | HK\$ |
| | <i>Notes</i> | | |
| Turnover | 2 | 313,041 | 313,079 |
| Cost of sales | | (222,100) | (274,674) |
| | | 90,941 | 38,405 |
| Other revenue and gains | 3 | 450,858 | 360,237 |
| | | 541,799 | 398,642 |
| Selling and distribution expenses | | (34,528) | (28,210) |
| Administration expenses | | (878,000) | (1,161,403) |
| Other operating expenses | | (125,762) | (393,773) |
| Loss before taxation | | (496,491) | (1,184,744) |
| Taxation | 4 | – | – |
| Loss attributable to equity holders of the Company | | (496,491) | (1,184,744) |
| Loss per share – basic | 5 | (0.13 cent) | (0.31 cent) |

Notes:

1. General

The Company is incorporated as an exempted company with limited liability in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM Board") of the The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Group.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

2. Turnover

The Group is principally engaged in 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 | |
|---|--|--------------|
| | 2006 HK\$ | 2005 HK\$ |
| Sales of diagnostic testing services and products | | |
| Related parties | – | 7,145 |
| Third parties | 313,041 | 305,934 |
| | 313,041 | 313,079 |

3. Other revenue and gains

| | Three months ended 30 September | |
|--|--|---------|
| | 2006 | 2005 |
| | HK\$ | HK\$ |
| Other revenue | | |
| Interest income | 336,635 | 254,104 |
| Handling charges received | 1,800 | 1,400 |
| | 338,435 | 255,504 |
| Gains | | |
| Gain on disposal of financial assets at fair value through profit or loss | 112,423 | – |
| Gain on disposal of property, plant and equipment | – | 104,733 |
| | 112,423 | 104,733 |
| | 450,858 | 360,237 |

4. Taxation

No provision for Hong Kong profits tax is required since the Group has no assessable profits for the three months ended 30 September 2006 (2005: Nil).

There was no material unprovided deferred taxation for the three months ended 30 September 2006 (2005: Nil).

5. Loss per share

The calculation of the basic loss per share is based on the unaudited loss for the three months ended 30 September 2006 attributable to the equity holders of the Company of HK\$496,491 (2005: HK\$1,184,744) and on the weighted average number of ordinary shares of 373,592,000 (2005: 379,961,870) in issue during the period.

The computation of diluted loss per share for the three months ended 30 September 2005 and 2006 has not been presented because the assumed exercises of share options, which were outstanding during the periods, had anti-dilutive effects on the basic loss per share.

6. Movement in reserves

The movement in reserves for the three months ended 30 September 2006 is as follows:

| | Share premium <i>HK\$</i> | Share option reserve <i>HK\$</i> | Accumulated losses <i>HK\$</i> | Total <i>HK\$</i> |
|--|---------------------------------|---|--------------------------------------|----------------------|
| Balance at 1 July 2006 | 45,244,638 | 1,919,326 | (23,036,088) | 24,127,876 |
| Loss for the three months ended 30 September 2006 | - | - | (496,491) | (496,491) |
| Balance at 30 September 2006 | 45,244,638 | 1,919,326 | (23,532,579) | 23,631,385 |

The movement in reserves for the three months ended 30 September 2005 is as follows:

| | Share premium <i>HK\$</i> | Share option 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) |
| Recognition of 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 |

INTERIM DIVIDEND

The Directors do not recommend the payment of any dividend for the three months ended 30 September 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group recorded a turnover of approximately HK\$313,000 for the three months ended 30 September 2006 which was similar to the corresponding period in the previous financial year.

The cost of sales of the Group amounted to approximately HK\$222,000 for the period, representing a decrease of approximately 19.1% as compared to approximately HK\$275,000 for the corresponding period in the previous financial year. This mainly due to no royalties are payable since 28 March 2006 because of expiry of the patent relating to gene amplification process known as polymerase chain reaction technology in Hong Kong and decrease in depreciation as certain laboratory machines and equipment have been fully depreciated during the year ended 30 June 2006 thus the cost of sales was decreased accordingly.

Net loss of the Group amounted to approximately HK\$496,000 for the three months ended 30 September 2006, representing a decrease of approximately 58.1% as compared to approximately HK\$1,185,000 for the corresponding period in the previous financial year. The decrease in loss is mainly due to (i) general tighten on costs and expenditures; (ii) decrease in directors' remuneration after the appointment of new management; and (iii) no amortisation of intangible assets as impairment loss was fully made during the year ended 30 June 2006.

Business review and outlook

After the appointment of the new management team in August 2006, the Group is in the process of restructure of its business during the quarter under review. In the meanwhile, the new management has made its first success in stringent control on costs and expenditures.

In addition to the existing diagnostic testing services and products, the Group is developing new business of selling of medical and healthcare products. Currently, the Group is preparing its first retail shop and expects that the shop can be launched in middle of November 2006. In the near future, the Group may also engage in sales of medical and healthcare products in mainland China. It is also expected that capital expenditures will be increased.

The new management is trying to explore new business in Hong Kong and China with a hope to increase revenue, and even more, can be breakeven in the coming year. In view of the continuing recovery of the Hong Kong economy and general trend on health conscious, the Group is optimistic about the business prospects.

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

As at 30 September 2006, the interests of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of HK\$0.01 each of the Company:

| Name of Directors | 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 | | |
| Mr. Lui Chi Wah, Johnny | 18,716,000 | - | - | 18,716,000 | 5.01% |

Saved as disclosed above and 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 2006 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 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests or short position in the shares or underlying shares of the Company:

Long positions in ordinary shares of HK\$0.01 each 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 | | |
| Mr. Lui Chi Wah, Johnny | 1 | 18,716,000 | - | - | 18,716,000 | 5.01% |
| Spring Biotech Limited | 2 | 32,895,524 | - | - | 32,895,524 | 8.81% |
| Town Health Bio-Medical Technology Limited | 2 | - | - | 32,895,524 | 32,895,524 | 8.81% |
| Town Health International Holdings Company Limited ("Town Health") | 2 & 3 | - | - | 32,895,524 | 32,895,524 | 8.81% |
| Broad Idea International Limited | 3 | - | - | 32,895,524 | 32,895,524 | 8.81% |
| Dr. Cho Kwai Chee | 3 | - | - | 32,895,524 | 32,895,524 | 8.81% |
| Dr. Francis Choi Chee Ming J.P. | 3 | - | - | 32,895,524 | 32,895,524 | 8.81% |
| Dr. Yeung Wah Hin, Alex | 4 | 2,368,454 | 33,170,370 | - | 35,538,824 | 9.51% |
| Mrs. Yeung Tsui Mai Ling, Margaret | 5 | 33,170,370 | 2,368,454 | - | 35,538,824 | 9.51% |
| The Applied Research Council | | 46,596,000 | - | - | 46,596,000 | 12.47% |

Notes:

1. Mr. Lui Chi Wah, Johnny is also Director of the Company.
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 listed on GEM. As at the date of this report, Town Health is beneficially owned as to approximately 50.07% by Broad Idea International Limited and as to approximately 5.87% by Prudential Plc. Broad Idea International Limited is beneficially owned as to 50.1% by Dr. Cho Kwai Chee and as to 49.9% by Dr. Francis Choi Chee Ming *J.P.* Mr. Cho Kam Luk (the father of Dr. Cho Kwai Chee), an executive Director who resigned on 2 August 2006, directly beneficially owns 0.02% of Town Health.
4. Under the SFO, Dr. Yeung Wah Hin, Alex (resigned as executive Director on 2 August 2006) will be deemed to be interested in the 33,170,370 shares, representing 8.88% of the issued share capital of the Company held by Mrs. Yeung Tsui Mai Ling, Margaret, his spouse.
5. Under the SFO, Mrs. Yeung Tsui Mai Ling, Margaret (resigned as executive Director on 2 August 2006) 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.

Saved as disclosed above and 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 2006 as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTIONS

- Share option scheme (the "Share Option Scheme") was adopted by the then shareholders of the Company on 20 April 2004 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Board may, at its discretion, invite any employee, Directors, advisor, consultant, licensors, distributors, suppliers, agents, customers, joint venture partners, strategic partners and services providers of and/or to any member of the Group whom the Board considers in its sole discretion, to have contributed to the Group from time to time to take up options to subscribe for shares of the Company.

Movements of share options granted to the Directors under the Share Option Scheme for the three months ended 30 September 2006 are as follows:

| Name of Director | Date of grant | Number of underlying shares in respect of which share options were granted | | | | Exercise price HK\$ |
|---------------------------------------|---------------|--|---------|------------------------------------|---------------------------|------------------------|
| | | Outstanding at 01/07/2006 | Granted | Exercised/ Cancelled/ Lapsed | Outstanding at 30/09/2006 | |
| Dr. Yeung Wah Hin, Alex | 20/06/2005 | 2,222,222 ^(a & c) | - | - | 2,222,222 | 0.225 |
| | 19/06/2006 | 1,000,000 ^(d & f) | - | - | 1,000,000 | 0.105 |
| Mr. Cheng Yan Tak, Angus Ronald | 20/06/2005 | 669,711 ^(a & c) | - | - | 669,711 | 0.225 |
| | 19/06/2006 | 500,000 ^(d & f) | - | - | 500,000 | 0.105 |
| Mrs. Yeung Tsui Mai Ling, Margaret | 20/06/2005 | 1,111,111 ^(a & c) | - | - | 1,111,111 | 0.225 |
| | 19/06/2006 | 500,000 ^(d & f) | - | - | 500,000 | 0.105 |
| Mr. Cho Kam Luk | 20/06/2005 | 1,111,111 ^(a & c) | - | - | 1,111,111 | 0.225 |
| | 19/06/2006 | 500,000 ^(d & f) | - | - | 500,000 | 0.105 |
| Mr. Lau Kam Shan | 20/06/2005 | 1,111,111 ^(a & c) | - | - | 1,111,111 | 0.225 |
| | 19/06/2006 | 500,000 ^(d & f) | - | - | 500,000 | 0.105 |
| Dr. Ngan Man Wong, Matthew | 20/06/2005 | 1,333,333 ^(b & c) | - | - | 1,333,333 | 0.225 |
| | 19/06/2006 | 455,342 ^(e & f) | - | - | 455,342 | 0.105 |
| Dr. Loh Kai Tsu, Kevin | 20/06/2005 | 1,333,333 ^(b & c) | - | - | 1,333,333 | 0.225 |
| | 19/06/2006 | 600,000 ^(e & f) | - | - | 600,000 | 0.105 |
| Mr. Chan Siu Wing, Raymond | 20/06/2005 | 1,333,333 ^(b & c) | - | - | 1,333,333 | 0.225 |
| | 19/06/2006 | 600,000 ^(e & f) | - | - | 600,000 | 0.105 |
| Mr. Chan Po Kwong | 19/06/2006 | 948,493 ^(e & f) | - | - | 948,493 | 0.105 |
| | Total | 15,229,100 | - | - | 15,229,100 | |

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.
- (d) The share options are exercisable at any time for a period of three years from the date of grant.
- (e) The share options are exercisable at any time for a period of ten years from the date of grant.
- (f) The closing price of the shares of the Company immediately before 19 June 2006 on which the options were granted was HK\$0.105.

Movements of share options granted to eligible participants other than Directors under the Share Option Scheme for the three months ended 30 September 2006 are as follows:

| | Date of grant | Number of underlying shares in respect of which share options were granted | | | | Exercise price HK\$ |
|-----------------------------|---------------|--|---------|------------------------------------|---------------------------|------------------------|
| | | Outstanding at 01/07/2006 | Granted | Exercised/ Cancelled/ Lapsed | Outstanding at 30/09/2006 | |
| Employees | 26/06/2006 | 4,700,000 ^(a & b) | - | - | 4,700,000 | 0.116 |
| Other eligible participants | 26/06/2006 | 3,600,000 ^(a & b) | - | - | 3,600,000 | 0.116 |

Notes:

- (a) The share options are exercisable at any time for a period of ten years from the date of grant.
- (b) The closing price of the shares of the Company immediately before 26 June 2006 on which the options were granted was HK\$0.115.

2. 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.

Movements of share options granted to the Chinese University for the three months ended 30 September 2006 are as follows:

| | Date of grant | Number of underlying shares in respect of which share options were granted | | | | Exercise price HK\$ |
|------------------------|---------------|--|---------|------------------------------------|---------------------------|------------------------|
| | | Outstanding at 01/07/2006 | Granted | Exercised/ Cancelled/ Lapsed | Outstanding at 30/09/2006 | |
| The Chinese University | 28/06/2005 | 4,484,305 ^(a) | - | - | 4,484,305 | 0.223 |
| | 26/06/2006 | 9,482,758 ^(b) | - | - | 9,482,758 | 0.116 |

Notes:

- (a) The share options are exercisable at any time for a period from 28 December 2005 to 27 June 2010. The closing price of the shares of the Company immediately before 28 June 2005 on which the options were granted was HK\$0.223.
- (b) The share options are exercisable at any time for a period from 26 December 2006 to 25 June 2011. The closing price of the shares of the Company immediately before 26 June 2006 on which the options were granted was HK\$0.115.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the paragraph headed "Directors' and chief executive's interests in shares and underlying shares" and "Share option" in this report, at no time during the three months ended 30 September 2006 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30 September 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares (2005: 3,500,000 shares).

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, interim reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing and supervising the Group's financial reporting and internal control procedures.

The audit committee comprises three independent non-executive directors, namely Mr. Kwok Shun Tim, Mr. Chan Po Kwong and Mr. Wong Kin Fung (resigned on 31 October 2006). Mr. Kwok Shun Tim is the chairman of the committee since his appointment on 13 September 2006.

This report, including the Group's unaudited consolidated results for the three months ended 30 September 2006, had been reviewed by the audit committee of the Company.

As at the date of this report, the executive Directors are Mr. Lui Chi Wah, Johnny and Mr. Wu Kai; the non-executive Director is Mr. Lau Kam Shan; and the independent non-executive Directors are Mr. Kwok Shun Tim and Mr. Chan Po Kwong.

By order of the Board
Plasmagene Biosciences Limited
Mr. Lui Chi Wah, Johnny
Chairman

Hong Kong, 6 November 2006