



**Kinetana International Biotech Pharma Limited**  
**健諾國際生化科技藥業有限公司**  
*(incorporated in the Cayman Islands with limited liability)*

**First Quarterly Report 2002**

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

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*This report, for which the directors of Kinetana International Biotech Pharma Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Kinetana International Biotech Pharma Limited. 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.*

## **HIGHLIGHTS**

- Turnover of the Group for the three months ended 31 May 2002 was HK\$300,000. There is no corresponding figure, as the Group had not recorded any revenue until the last quarter of the previous fiscal year.
- Net loss of the Group for the three months ended 31 May 2002 was approximately HK\$4.5 million as compared to HK\$3.6 million for the corresponding period in the previous fiscal year.
- Loss per share of the Group was approximately HK1.16 cents for the three months ended 31 May 2002.
- The Board does not recommend the payment of any dividend for the three months ended 31 May 2002.

## FIRST QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Kinetana International Biotech Pharma Limited (the “Company”) announce the unaudited consolidated first quarterly results of the Company and its subsidiaries (together the “Group”) for the three months ended 31 May 2002 (the “Period”), together with the unaudited pro forma combined results for the corresponding period in 2001, as follow:–

		<b>Unaudited consolidated</b>	<b>Unaudited pro forma combined</b>
		<b>For the three months ended 31 May</b>	
		<b>2002</b>	2001
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
TURNOVER	2	<b>300</b>	–
Cost of services rendered		<b>(234)</b>	–
Gross profit		<b>66</b>	–
Other revenue		<b>137</b>	24
Administrative expenses		<b>(4,066)</b>	(2,791)
Other operating expenses		<b>(551)</b>	(787)
<b>LOSS FROM OPERATING ACTIVITIES</b>		<b>(4,414)</b>	(3,554)
Finance costs		<b>(67)</b>	(16)
Share of (loss) of a jointly-controlled entity		<b>(1)</b>	–
<b>LOSS BEFORE TAX</b>		<b>(4,482)</b>	(3,570)
Tax	3	–	–
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b><u>(4,482)</u></b>	<b><u>(3,570)</u></b>
Loss per share – basic (HK cents)	4	<b><u>1.16</u></b>	<b><u>1.20</u></b>

*Notes:*

## **1. Group reorganization and basis of presentation**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 18 October 2001. Pursuant to a group reorganization completed on 13 May 2002 (the “Reorganization”) to establish the Group’s structure in preparation for the listing of the shares on GEM, the Company became the ultimate holding company of the subsidiaries of the Group. The Company’s shares have been listed on the GEM since 3 June 2002.

The Group’s results are presented using the following basis:

- a) The unaudited consolidated profit and loss account includes the results of the Group for the Period.
- b) For information purposes, the unaudited pro forma combined profit and loss account includes the results of the Company’s subsidiaries for the three months ended 31 May 2001 on a combined basis as if the current Group structure had been in existence throughout the three months ended 31 May 2001.

Although the reorganized Group structure did not legally exist until 13 May 2002, the directors consider that it is appropriate to present the unaudited pro forma combined profit and loss account for the three months ended 31 May 2001 on the basis as set out in (b) above since the principal activities of the Group were carried out by those subsidiaries prior to and after the completion of the Reorganization.

Since there is a proportionate change in the shareholding following the listing of the Company, the merger method of consolidation, which was used in the preparation of the Company’s Prospectus dated 22 May 2002, could no longer apply and acquisition method of consolidation has been used in the preparation of this first quarterly results.

## **2. Turnover and other revenue**

Turnover represents revenue generated from the provision of services on evaluation of ingredient absorption in traditional Chinese medicines based formulae during the Period. Other revenue represents mainly interest income.

## **3. Tax**

In accordance with the relevant tax rules and regulations in Hong Kong and Alberta, Canada, certain of the Group’s subsidiaries incorporated in Hong Kong and Alberta, Canada are subject to profits tax/income tax rates of 16% and 39.6%, respectively.

No provision for Hong Kong profits tax or overseas income tax has been made during the Period as the Group had no assessable profits arising in Hong Kong and overseas.

#### **4. Loss per share**

The calculation of basic loss per share for the Period is based on the unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$4.5 million and on the weighted average number of approximately 387,841,184 ordinary shares in issue during the Period.

The calculation of basic pro forma loss per share for the prior period is based on the unaudited pro forma net loss from ordinary activities attributable to shareholders of approximately HK\$3.6 million and on the pro forma weighted average number of approximately 297,425,961 ordinary shares in issue during the period.

No diluted loss per share for the Period has been presented as the share options outstanding during the Period had an anti-dilutive effect on the basic loss per share for the Period.

No pro forma diluted loss per share for the prior period has been presented as no diluting events existed during that period.

#### **5. Reserves**

There was no transfer to and from reserves during the Period. (2001: Nil)

#### **6. Dividend**

The Board does not recommend payment of any dividend for the Period. (2001: Nil)

### **BUSINESS REVIEW & PROSPECTS**

#### **Review of operations**

The Board announces the Group's first quarterly results since its listing on GEM. For the three months ended 31 May 2002, the Group recorded a turnover of HK\$300,000 and the Group had no turnover for the corresponding period in 2001.

For the three months ended 31 May 2002, the Group incurred a loss attributable to shareholders of approximately HK\$4.5 million as compared to HK\$3.6 million for the corresponding period in the previous year. The increase was attributable mainly to the increase in salary expenses of approximately HK\$0.7 million and the amortization of goodwill of approximately HK\$0.2 million.

## **Prospects**

### ***Business Development***

In Canada, the Group continues to approach multi-national pharmaceutical companies to the SimBioDAS™ platform technology. In general, these companies have shown interest in our innovative technology after their experts had examined our system. These experts would like to have some features of our technology highlighted. The Group is focusing our resources on addressing these aspects in order to attract further interest in the form of validation compounds from these potential customers in the near future. In Hong Kong, the Group has approached different potential distributors with the intent to form strategic alliances to market our Ginkgo products through different channels. Positive replies have been received in our preliminary negotiations.

### ***Product Launch***

The Group is finalizing the development of its propriety biopharmaceutically tested Ginkgo product and expects to official launch the product in the fourth quarter of 2002. The first trial batch of 200,000 capsules were manufactured in Edmonton, Canada had been shipped to Hong Kong to be packaged for product promotion and test marketing.

### ***Product Research and Development***

Having completed most of the development of its Ginkgo product, the Canadian Group has commenced the development of assays for its own Echinacea and St. John's Wort products; while the Hong Kong Group is developing Ginseng and Cordyceps products.

### ***Sales and Marketing***

Having received crucial feedback on the SimBioDAS™ technology from several of large pharmaceutical companies, the Group continues to identify a wider base of potential customers, among pharmaceutical and biotechnology companies, laboratories and research institutes who may be interested in using the SimBioDAS™ technology. The Group is also continuing to develop, establish and implement its marketing plans in North America, Europe and Asia.

## **COMPETING INTEREST**

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates have any interest in any business which competes or may compete with the business of the Group.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 May 2002, the interests of the directors of the Company in the securities of the Company and any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance) (the "SDI Ordinance") which would have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were taken or deemed to have taken under section 31 of, or Part I of the schedule to, the SDI Ordinance) or would be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein or would be required, pursuant to rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM, once the shares of the Company were listed on GEM on 3 June 2002, were as follows:

### A. Ordinary shares of HK\$0.01 each of the Company ("Shares")

<u>Name of Director</u>	<u>Personal Interest</u>	<u>Corporate Interest</u>	<u>Total</u>
Dr. Tam Yun Kau	22,011,161	118,737,854 <i>(Note 1)</i>	140,749,015
Mr. Young Patrick Chiu Kit	1,614,150		1,614,150
Dr. Noujaim Antoine A.	855,989		855,989

*Notes:*

1. The 118,737,854 Shares referred to above is held by 943788 Alberta Ltd. which is an investment holding company wholly owned by Dr. Tam Yun Kau.
2. Mr. Young Shui Chung holds an approximate 16.67% interest in Grand Interest Development Limited, which holds 30,815,591 Shares in the Company.

Subsequent to the Period on 5 June 2002, Mr. Chan Mo Po, an independent non-executive Director, has acquired 400,000 Shares from the open market.

### B. Share Options

#### *(i) KIBP Pre-IPO Share Option Scheme*

The Company conditionally adopted a pre-IPO share option scheme (the "KIBP Pre-IPO Share Option Scheme") on 7 May 2002. A summary of the principal terms of the KIBP Pre-IPO Share Option Scheme is set out in the subsection headed "Pre-IPO Share Option Scheme-(a) KIBP Pre-IPO Share Option Scheme" in Appendix IV to the prospectus of the Company dated 22 May 2002 (the "Prospectus"). As at



31 May 2002, the following directors of the Company were conditionally granted or interested in the following options under the KIBP Pre-IPO Share Option Scheme:

<u>Name of director</u>	<u>Date of Grant</u>	<u>Exercise price per Share</u>	<u>Total</u>
Dr. Tam Yun Kau	7 May 2002	HK\$0.325	24,456,818
	9 May 2002	HK\$0.325	733,705
			<i>(Note 1)</i>
Mr. Young Shui Chung	7 May 2002	HK\$0.325	6,114,205
Mr. Young Patrick Chiu Kit	7 May 2002	HK\$0.325	1,222,841
Dr. Noujaim Antoine A.	7 May 2002	HK\$0.325	1,222,841
Mr. Lee Chiu Kang	7 May 2002	HK\$0.325	1,222,841
Mr. Tam David Shong Tak	7 May 2002	HK\$0.325	1,222,841
Dr. Pang Cecilia Wai Bing	7 May 2002	HK\$0.325	1,222,841
Mr. Chan Paul Mo Po	7 May 2002	HK\$0.325	1,222,841

*Notes:—*

- (1) The 25,190,523 options referred to above include 24,456,818 and 733,705 options held by Dr. Tam Yun Kau and his wife, Dr. Tam-Zaman Nuzhat respectively.
- (2) The respective exercise periods of the above options are set out in the subsection headed “Pre-IPO Share Option Scheme-(a) KIBP Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus.

**(ii) KGI Pre-IPO Share Option Scheme**

Kinetana Group Inc. (“KGI”), a wholly owned subsidiary of the Company, adopted a pre-IPO share option plan (the “KGI Share Option Plan”) on 20 March 2000 (as amended on 31 March 2000 and 5 November 2001). A summary of the principal terms of the KGI Share Option Plan is set out in the subsection headed “Pre-IPO Share Option Scheme-(b) KGI Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus.

Pursuant to a conditional share exchange offer (the “Exchange Agreement”) made on 5 November 2001 by, among other parties, the Company (as supplemented by two letters dated 27 February 2002 and 28 March 2002) and accepted by each holder of option(s) under the KGI Share Option Plan, each such holder, among

other things, agreed to exchange common shares of KGI which would be issued and allotted pursuant to the exercise of option(s) in KGI for Shares on the basis of one common share of KGI for approximately 24.45 Shares.

As at 31 May 2002, the following directors of the Company were conditionally granted or interested in the following options under the KGI Share Option Plan (as supplemented by the Exchange Agreement) (the “KGI Pre-IPO Share Option Scheme”):

<u>Name of director</u>	<u>Date of Grant</u>	<u>No. of KGI shares subject to the options</u>	<u>No of Shares exchanged for pursuant to the share Exchange Agreement</u>	<u>Exercise price (per common share of KGI)</u>	<u>Approximate effective exercise price (per Share)</u>
Dr. Tam Yun Kau	31 March 2000	8,000	195,655	CAN\$0.50	HK\$0.10
	1 July 2001	70,000	1,711,977	CAN\$0.50	HK\$0.10
	19 December 2001	70,000	1,711,977	CAN\$0.50	HK\$0.10
	<i>(Note 1)</i>				
Mr. Young Shui Chung	31 March 2000	50,000	1,222,841	CAN\$0.50	HK\$0.10
Mr. Young Patrick Chiu Kit	31 March 2000	18,000	440,223	CAN\$0.50	HK\$0.10
Dr. Noujaim Antoine A.	31 March 2000	11,000	269,025	CAN\$0.50	HK\$0.10

*Notes:—*

- (1) The 148,000 options referred to above include 8,000 and 140,000 options held by Dr. Tam Yun Kau and his wife, Dr. Tam-Zaman Nuzhat respectively.
- (2) The respective exercise periods of the above options are set out in the subsection headed “Pre-IPO Share Option Scheme-(b) KGI Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus.

**(iii) Warrants**

As at 31 May 2002, Grand Interest Development Limited, a company in which Mr. Young Shui Chung holds an approximate 16.67% interest, held 315,000 warrants to subscribe for an aggregate of 315,000 common shares of KGI at the exercise price of CAN\$3.10 per share. Pursuant to the Exchange Agreement, Grand Interest Development Limited, among other things, agreed to exchange common shares of KGI which would be issued and allotted pursuant to the exercise of the warrants for Shares on the basis of one common share of KGI for approximately 24.45 Shares. Exercise in full of the warrants by Grand Interest Development Limited would

result in the allotment and issue of 7,703,898 Shares at the effective exercise price of approximately HK\$0.63 per Share. A summary of the principal terms of the warrants and the exercise period are set out in the subsection headed “Warrants” in Appendix IV to the Prospectus.

Save as disclosed above, none of the directors or their associates as well as the chief executive of the Group had any interests in the share capital of the Company or its associated corporations. During the reporting period, there was no debt securities issued by the Group at any time.

## SHARE OPTION SCHEMES

The Company conditionally adopted a share option scheme (the Share Option Scheme”) on 7 May 2002 the principal terms of which are set out in the subsection headed “Share Option Scheme” in Appendix IV to the Prospectus.

As at 31 May 2002, no option had been granted or agreed to be granted under the Share Option Scheme.

## SUBSTANTIAL SHAREHOLDERS

As at 31 May 2002, so far as was known to the directors of the Company and taking no account of the Shares which might be taken up pursuant to the share offer in connection with the listing of the Shares on GEM, the persons (other than a director or a chief executive of the Company) who would be interested in, directly or indirectly, 10% or more of the Shares in issue immediately following the listing of the Shares on GEM on 3 June 2002, were as follows:

<u>Name of Shareholder</u>	<u>Number of Shares of the Company Held</u>	<u>% of holding</u>
943788 Alberta Ltd. ( <i>Note 1</i> )	118,737,854	22.83
Dr. Tam-Zaman Nuzhat ( <i>Note 2</i> )	140,749,015	27.07

### *Notes:*

1. 943788 Alberta Ltd. is an investment holding company wholly owned by Dr. Tam Yun Kau.
2. The 140,749,015 Shares of the Company referred to above include 22,011,161 Shares of the Company held by Dr. Tam Yun Kau and 118,737,854 Shares of the Company held by 943788 Alberta Ltd. (as referred to in Note 1 above). Dr. Tam-Zaman Nuzhat is the wife of Dr. Tam Yun Kau and is deemed to be interested in such Shares of the Company.

## **SPONSORS' INTEREST**

Neither the sponsor nor the co-sponsor of the Company to its listing application, namely, AMS Corporate Finance Limited ("AMS") and SBI-E2 Capital (HK) Limited respectively, their directors, employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options of rights to subscribe for such securities) as at 3 June 2002.

AMS has entered into a sponsorship agreement with the Company whereby, for a fee, AMS has agreed to act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 3 June 2002 to 28 February 2005.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

Since dealings in the shares of the Company only commenced on GEM on 3 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period under review.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year 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 Company's financial reporting and internal control procedures. During the Period, the audit committee consisted of two independent non-executive Directors, namely Dr. Pang Wai Bing Cecilia and Mr. Chan Mo Po, and a non-executive Director, Mr. Tam David Shong-Tak. Mr. Chan Mo Po is the chairman of the audit committee. The Group's unaudited results for the three months ended 31 May 2002 were reviewed by the audit committee on 28 June 2002, who was of the opinion that the preparation of such results complied with applicable accounting standards, the Exchange and legal requirements and that adequate disclosures had been made. Subsequent to the Period, Dr. Pang Wai Bing Cecilia resigned as an independent non-executive Director of the Company. She will join the Innovative and Technology Commission as a Director of Biotechnology. Pursuant to a meeting of the Board on 8 July 2002, Dr. Pang's resignation has been accepted with effect from 1 July 2002.

By order of the Board

**Dr. Tam Yun Kau**

*President and Chief Executive Officer*

Hong Kong, 8 July 2002