



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)

Interim Report 2002

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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 six months ended 31 August 2002 was HK\$0.52 million. 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 six months ended 31 August 2002 was approximately HK\$11.49 million as compared to HK\$6.61 million for the corresponding period in the previous fiscal year. The increase was mainly attributable to the increase in salary expenses of approximately HK\$3.50 million, the amortization of goodwill of approximately HK\$0.59 million and professional fees in relation to continuing listing obligations of HK\$0.21 million.
- Loss per share of the Group was approximately HK2.53 cents for the six months ended 31 August 2002.
- The Board does not recommend the payment of any dividend for the six months ended 31 August 2002.

PRESIDENT'S MESSAGE

Since listing on the GEM board in June 2002, I am pleased to provide to you the first half yearly report for Kinetana International Biotech Pharma Limited (the "Group" or "Kinetana"). The Group has been built around its platform technology, SimBioDAS[®], the artificial gut. This patented technology was developed to predict the absorption of drug candidates which are from synthetic and natural origins. In the pharmaceutical world, the artificial gut technology has shown significant promise in screening leads that have potential therapeutic activities. In the world of natural products, this technology is being applied to produce high quality food supplements and to modernize traditional Chinese medicines.

The Group has developed a business model that includes short term and long term revenue generation. In the short term, the Group has several sources from which revenue can be derived: licensing of our technology; providing screening services to multi-national pharmaceutical and biotech companies; and manufacturing high quality food supplements. In the long term, the Group intends to generate a pipeline of natural medicines which are directed towards treating cancers, cardiovascular diseases and arthritis.

It is my pleasure to report that the Group has made significant strides towards the goals that have been set forth in the prospectus. We have either met or exceeded the timelines set by our Group.

The artificial gut technology has attracted the attention of several multi-national pharmaceutical companies. After we filed a provisional patent application to the United States patent office in August 2002, we are now in a position to provide these companies with more technical information for evaluation. It is expected that formal relationships between our Group and these multinational companies can be established by the end of this year or early next year.

There is currently a real concern regarding the lack of quality control in the health supplements and herbal remedies presently marketed. Recently, some of the slimming products manufactured in China have been linked to the deaths of several Japanese consumers. A strong demand exists for quality herbal products in the market and Kinetana has the technology to meet this challenge. Strategically, we would like to build a global marketing network starting with Hong Kong and North America.

Kinetana has retained APSO International Group (H.K.) Ltd. to be the sole distributor of its products in Hong Kong and Japan. The first health supplement product, pro-IQ[™] Ginkgo, has been launched in the Hong Kong market in the fourth week of August 2002. It is also expected that three other products namely, Ginseng, St. John's Wort and Echineacea will be introduced into the Hong Kong market by the end of this year. It is also further expected that these products will be introduced into the Canadian market by the end of this year and the American market in the first quarter of 2003. Furthermore, our goal is to have a marketing network in Asia and North America firmly established by the end of 2003.

I am pleased to report that the long term research and development program of Kinetana is on track for the development of the SimBioDAS® technology. A provisional patent application has been filed in August 2002 to cover the cell technology and application of that technology to study the various absorbable ingredients of herbs. As well, the Innovation Technology Fund projects with the Chinese University of Hong Kong and the Hong Kong University of Science and Technology are progressing according to established timelines.

In summary, Kinetana, through its innovative technologies, is well positioned as a biotechnology and pharmaceutical company which is capable of generating revenue in the near term. The management is fully committed to achieving the long term prospects of the Group.

Sincerely,
Dr. Tam Yun Kau
President & Chief Executive Officer

UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of Kinetana International Biotech Pharma Limited (the “Company”) announces that the unaudited condensed consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and six months ended 31 August 2002, together with the unaudited condensed pro forma consolidated and pro forma combined results for the corresponding period in 2001, are as follow:–

		Unaudited pro forma consolidated	Unaudited pro forma combined	Unaudited consolidated	Unaudited pro forma consolidated	Unaudited pro forma combined
		For the three months ended 31 August			For the six months ended 31 August	
		2002	2001	2001	2002	2001
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	3	225	–	–	525	–
Cost of sales		119	–	–	353	–
Gross profit		106	–	–	172	–
Other revenue		337	8	8	474	8
Selling and distribution costs		(554)	–	–	(554)	–
Administrative expenses		(5,340)	(1,856)	(2,405)	(9,406)	(1,856)
Other operating expenses		(1,507)	(423)	(539)	(2,058)	(423)
LOSS FROM OPERATING ACTIVITIES		(6,958)	(2,271)	(2,936)	(11,372)	(2,271)
Finance costs		(53)	(8)	(97)	(120)	(8)
Share of loss of a jointly-controlled entity		–	(9)	(9)	(1)	(9)
LOSS BEFORE TAX	4	(7,011)	(2,288)	(3,042)	(11,493)	(2,288)
Tax	5	–	–	–	–	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(7,011)</u>	<u>(2,288)</u>	<u>(3,042)</u>	<u>(11,493)</u>	<u>(2,288)</u>
Dividend	6	–	–	–	–	–
Loss per share – basic (HK cents)	7	<u>1.35</u>	<u>0.69</u>	<u>0.92</u>	<u>2.53</u>	<u>0.73</u>

The unaudited condensed consolidated balance sheet of the Group as at 31 August 2002, together with the unaudited condensed pro forma consolidated balance sheet as at 28 February 2002, are as follow:–

	Unaudited consolidated 31 August 2002	Unaudited pro forma consolidated 28 February 2002
<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Fixed assets	5,073	5,298
Intangible assets	7,487	6,549
Goodwill	14,184	14,979
Negative goodwill	(3,707)	(3,914)
Interest in a jointly-controlled entity	(1)	(34)
	23,036	22,878
CURRENT ASSETS		
Short term investments, unlisted	1	–
Inventories	19	–
Tax recoverable	186	446
Trade receivables	475	650
Prepayments, deposits and other receivables	2,133	7,443
Amount due from a contract customer	109	–
Cash and cash equivalents	54,938	70
	57,861	8,609
CURRENT LIABILITIES		
Trade payables	10	–
Other payables and accruals	1,620	4,430
Amount due to a contract customer	–	100
Loan from a director	–	826
Loan from a related party	–	250
Finance lease payables	336	316
	1,966	5,922
NET CURRENT ASSETS	55,895	2,687

		Unaudited consolidated 31 August 2002	Unaudited pro forma consolidated 28 February 2002
	<i>Notes</i>	HK\$'000	HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		78,931	25,565
NON-CURRENT LIABILITIES			
Finance lease payables		<u>345</u>	<u>519</u>
		<u>78,586</u>	<u>25,046</u>
CAPITAL AND RESERVES			
Issued capital	<i>10</i>	5,200	155
Reserves	<i>11</i>	<u>73,386</u>	<u>24,891</u>
		<u>78,586</u>	<u>25,046</u>

The unaudited condensed consolidated statement of changes in equity of the Group for the six months ended 31 August 2002, together with the unaudited condensed pro forma consolidated statement of changes in equity for the corresponding period in 2001, are as follow:–

	Unaudited consolidated	Unaudited pro forma consolidated
	For the six months ended 31 August	
	2002	2001
	HK\$'000	HK\$'000
At beginning of the period – total equity	25,046	–
Net gain not recognised in the profit and loss account		
– exchange differences on translation of financial statements of foreign entities	–	8
Loss for the period	(11,493)	(2,288)
Issue of shares, including share premium	80,859	33,092
Shares issued expenses	(15,826)	–
	<hr/>	<hr/>
At end of the period – total equity	<u>78,586</u>	<u>30,812</u>

The unaudited condensed consolidated cash flow statement of the Group for the six months ended 31 August 2002, together with the unaudited condensed pro forma consolidated cash flow statement for the corresponding period in 2001, are as follow:–

	Unaudited consolidated	Unaudited pro forma consolidated
	For the six months ended 31 August	
	2002	2001
	HK\$'000	HK\$'000
Net cash used in operating activities	(7,734)	(1,522)
Net cash used in investing activities	(1,082)	(5,879)
Net cash generated from financing activities	63,684	17,612
	<hr/>	<hr/>
Net increase in cash and cash equivalents	54,868	10,211
Cash and cash equivalents at beginning of period	70	–
Effect of foreign exchange changes, net	–	(9)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>54,938</u>	<u>10,202</u>

NOTES TO THE CONDENSED INTERIM ACCOUNTS

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 unaudited condensed consolidated interim accounts (“interim accounts”) are presented using the following basis:

- a) The interim accounts include the consolidated results of the Group for the six months ended 31 August 2002 and the corresponding period in the previous year.
- b) For information and comparative purposes, the unaudited pro forma combined results of the Company’s subsidiaries are prepared on a combined basis as if the current Group structure had been in existence.

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 results on the bases 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 reorganization of the Group in July 2001, the merger method of consolidation in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 2.127 “Accounting for Group Reconstruction” issued by the Hong Kong Society of Accountants, which is not applicable and acquisition method of consolidation has been used in the preparation of the Group’s results since the aforesaid reorganization. Accordingly, the consolidated results of the corresponding period has been presented.

2. Basis of preparation and accounting policies

The interim accounts have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Listing Rules of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and with SSAP No. 2.125 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The accounting policies and methods of computation used in the preparation of the interim financial reports are consistent with those adopted in the prospectus of the Company dated 22 May 2002, except that the Group has adopted the new and revised SSAPs which became effective during the period.

- SSAP 1 (Revised): “Presentation of Financial Statements”
- SSAP 11 (Revised): “Foreign Currency Translation”
- SSAP 15 (Revised): “Cash Flow Statements”
- SSAP 34: “Employee Benefits”

These SSAPs prescribed new accounting measurement and disclosure practices. The adoption of these SSAPs during the financial period does not have any significant impact on the Group’s loss or shareholders’ equity, except that the presentation of certain items and balances in the condensed consolidated interim financial statements have been revised to comply with the new requirements.

3. Turnover and segment information

Turnover represents revenue generated from the provision of services on evaluation of ingredient absorption in traditional Chinese medicines (“TCM”) based formulae and sales of herbal products during the three and six months ended 31 August 2002. Other revenue mainly represents interest income.

a) Business segments

The unaudited business segment information for the six months ended 31 August 2002 and the corresponding period in 2001 is as follows:

	Service rendering			Product sales			Total		
	Pro forma		Pro forma	Pro forma		Pro forma	Pro forma		Pro forma
	Consolidated	consolidated	combined	Consolidated	consolidated	combined	Consolidated	consolidated	combined
	2002	2001	2001	2002	2001	2001	2002	2001	2001
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
External turnover	<u>450</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>-</u>	<u>-</u>	<u>525</u>	<u>-</u>	<u>-</u>
Segment results	<u>(201)</u>	<u>-</u>	<u>-</u>	<u>(481)</u>	<u>-</u>	<u>-</u>	<u>(682)</u>	<u>-</u>	<u>-</u>
Other revenue							474	8	32
Unallocated expenses							<u>(11,164)</u>	<u>(2,279)</u>	<u>(6,522)</u>
Loss from operating activities							<u>(11,372)</u>	<u>(2,271)</u>	<u>(6,490)</u>
Finance costs							<u>(120)</u>	<u>(8)</u>	<u>(113)</u>
Share of loss of a jointly controlled entity							<u>(1)</u>	<u>(9)</u>	<u>(9)</u>
Loss before tax							<u>(11,493)</u>	<u>(2,288)</u>	<u>(6,612)</u>
Tax							<u>-</u>	<u>-</u>	<u>-</u>
Net loss attributable to shareholders							<u>(11,493)</u>	<u>(2,288)</u>	<u>(6,612)</u>

b) Geographical segments

All of the Group's turnover and other revenue are mainly derived from activities in Hong Kong in both periods.

4. Loss before tax

Loss before tax is arrived at after charging/(crediting):

	Unaudited consolidated	Unaudited pro forma consolidated	Unaudited pro forma combined	Unaudited consolidated	Unaudited pro forma consolidated	Unaudited pro forma combined
		For the three months ended 31 August			For the six months ended 31 August	
	2002 HK\$'000	2001 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2001 HK\$'000
Amortization of goodwill	397	245	–	794	245	–
Negative goodwill recognised as income	(103)	(64)	–	(207)	(64)	–
Amortization of deferred development costs	98	–	–	161	–	–
Depreciation	392	88	397	736	88	549
Interest on borrowings	52	8	97	120	8	113
Interest income	(337)	(8)	(8)	(464)	(8)	(32)

5. Tax

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

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

6. Dividend

The Board does not recommend the payment of an interim dividend for the three months and six months ended 31 August 2002 (2001: Nil).

7. Loss per share

The calculation of basic loss per share for the three months and six months ended 31 August 2002 is based on the respective unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$7,011,000 and HK\$11,493,000 and on the weighted average number of 520,000,000 and 453,920,000 ordinary shares in issue during the periods.

The calculation of basic loss per share for the three months and six months ended 31 August 2001 is based on the unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$2,288,000 for both periods and on the weighted average number of 330,884,000 and 314,472,000 ordinary shares in issue during the periods.

The calculation of basic pro forma loss per share for the corresponding period in 2001 is based on the respective unaudited pro forma net loss from ordinary activities attributable to shareholders of approximately HK\$3,042,000 and HK\$6,612,000 and on the pro forma weighted average number of 330,884,000 and 314,472,000 ordinary shares in issue during the periods.

No diluted loss per share for the three months and six months ended 31 August 2002 and 31 August 2001 has been presented as the share options outstanding during the periods had an anti-dilutive effect on the respective basic loss per share for the periods.

8. Trade receivables

The credit period of the Group given to its customers is normally within 30 to 60 days. The aging analysis of the Group's trade receivables as at 31 August 2002 and 28 February 2002 is as follows:

	Unaudited 31 August 2002 <i>HK\$'000</i>	Unaudited 28 February 2002 <i>HK\$'000</i>
0 – 90 days	75	650
Over 90 days	<u>400</u>	<u>–</u>
	<u>475</u>	<u>650</u>

9. Trade payables

An aging analysis of the Group's trade payables as at 31 August 2002 and 28 February 2002 is as follows:

	Unaudited 31 August 2002 HK\$'000	Unaudited 28 February 2002 HK\$'000
0 – 90 days	10	–
Over 90 days	–	–
	10	–
	<u> </u>	<u> </u>

10. Share capital

Ordinary shares of HK\$0.01 each
Issued and fully paid

	Unaudited Number of shares '000	Unaudited Share capital HK\$'000
Balance as at 1 March 2002	15,538	155
Issue of shares prior to the public offer and placing	817	8
Issue of shares pursuant to public offer and placing	120,000	1,200
Capitalization issue of shares	383,645	3,837
	<u> </u>	<u> </u>
Balance as at 31 August 2002	520,000	5,200
	<u> </u>	<u> </u>

11. Reserves

	Unaudited Share premium HK\$'000	Unaudited Contribution surplus HK\$'000	Unaudited Exchange reserve HK\$'000	Unaudited Accumulated losses HK\$'000	Unaudited Total HK\$'000
Balance as at 1 March 2002	–	35,945	8	(11,062)	24,891
Premium on issue of shares prior to the public offer and placing	2,851	–	–	–	2,851
Premium on issue of shares pursuant to public offer and placing	76,800	–	–	–	76,800
Capitalization issue of shares	(3,837)	–	–	–	(3,837)
Share issue expenses	(15,826)	–	–	–	(15,826)
Loss for the period	–	–	–	(11,493)	(11,493)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance as at 31 August 2002	59,988	35,945	8	(22,555)	73,386
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

12. Capital commitments

As at balance sheet date, the Group had the following capital commitments:

	Unaudited 31 August 2002 HK\$'000	Unaudited 28 February 2002 HK\$'000
Capital commitments in respect of contributions to research and development projects:		
Contracted, but not provided for	2,876	4,005
Capital commitments in respect of additional investment in a jointly-controlled entity:		
Contracted, but not provided for	500	500
	<u>3,376</u>	<u>4,505</u>

13. Related party transactions

	Unaudited consolidated 2002 HK\$'000	Unaudited pro forma consolidated 2001 HK\$'000	Unaudited pro forma combined 2001 HK\$'000	
	Notes	For the six months ended 31 August		
Continuing transactions:				
Salaries, bonuses, allowances, and benefits in kind paid to Dr. Tam-Zaman Nuzhat and retirement benefits scheme contributions thereof	(i)	250	29	203
Consultancy fees paid to Patrick C. Young Professional Corporation, Chartered Accountant	(ii)	122	17	146
Discontinued transactions:				
Interest expenses paid to Dr. Tam Yun Kau	(iii)	72	8	53
Interest expenses paid to Mr. Young Shui Chung	(iv)	–	–	35
		<u>–</u>	<u>–</u>	<u>35</u>

Notes:

- (i) Dr. Tam-Zaman Nuzhat is the wife of Dr. Tam Yun Kau, a director of the Company. The amounts paid to Dr. Tam-Zaman Nuzhat during each of the Relevant Periods as an employee of the Group were based on mutually-agreed terms. In addition, pursuant to the employment agreement entered into between Dr. Tam-Zaman Nuzhat and Kinetana Group Inc. ("KGI") on 1 July 1999, 70,000 share options were granted to Dr. Tam-Zaman Nuzhat during the six months ended 31 August 2001 which allow her to subscribe for common shares of KGI at CAN\$0.50 per share. No value is included in the amount of salaries, bonuses, allowances and benefits in kind in respect of the share options granted because, in the absence of a readily available market value for the options on KGI's common shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.
- (ii) Mr. Young Chiu Kit, Patrick, a director of the Company, has beneficial interests in Patrick C. Young Professional Corporation, Chartered Accountant. The consultancy fees paid were based on a mutually-agreed rate of CAN\$100 for each hour of accounting services provided, which was considered by the directors of the Company to be in line with the then prevailing rate for such services.
- (iii) Interest expenses paid to Dr. Tam Yun Kau, a director of the Company, arose from advances made to the Group prior to the listing of the Company on GEM. The advances bore interest at 8% to 12% per annum, which was considered by the directors of the Company to be in line with the then prevailing rate for such loan advanced.
- (iv) Interest expenses paid to Mr. Young Shui Chung, a deceased director of the Company, arose from a loan of HK\$2,000,000 to the Group during the period ended 31 August 2001. Such loan was fully repaid before 31 August 2001. The loan bore interest at 1.75% per month, which was considered by the directors of the Company to be in line with the then prevailing rate for such loan advanced, taking into account of the then financial position of the Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Review of operations

The Board announces the Group's unaudited interim results since its listing on GEM. For the six months ended 31 August 2002, the Group recorded a turnover of HK\$524,597 which included service income for the evaluation of ingredient absorption in traditional Chinese medicines of HK\$450,000 and sales of the Group's own Gingko product in Hong Kong, launched in the fourth week of August 2002, of HK\$74,597. The Group had no turnover for the corresponding period in 2001.

For the six months ended 31 August 2002, the Group incurred a loss attributable to shareholders of approximately HK\$11.49 million as compared to HK\$6.61 million for the corresponding period in the previous year. The increase was mainly attributable to the increase in salary expenses of approximately HK\$3.50 million, the amortization of goodwill of approximately HK\$0.59 million and professional fees in relation to continuing listing obligations of HK\$0.21 million.

Prospects

Business Development

In Canada, the Group continues to introduce multi-national pharmaceutical companies to the SimBioDAS® platform technology. In general, these companies were interested in this innovative technology after their scientists had seen presentations on the system. The Group is focusing its resources on gathering information of interest to attract contracts for conducting validation studies for these potential customers in the near future.

In Hong Kong, the Group has appointed APSO International Group (Hong Kong) Limited as its exclusive distributor for the promotion, sale and distribution of the Group's product in Hong Kong and Macau. The Group's product was launched during the fourth week of August 2002 in Watson's outlets across Hong Kong.

Product Launch

The Group completed the development of its own biopharmaceutically tested Ginkgo product 'pro-IQ™ Ginkgo' and the product was launched in Hong Kong in the fourth week of August 2002.

Product Research and Development

The Canadian unit is developing assays for its own trademark brand of Echinacea and St. John's Wort products; while the Hong Kong unit is developing Ginseng and Cordyceps products. The development of Echinacea, St. John's Wort and Ginseng is expected to be completed and the new products ready for the market by the last quarter of 2002.

A provisional patent has been submitted to the US patent office to cover the cell culturing conditions, applications on TCM modernization and essential ingredient profile of pro-IQ™ ginkgo. There is a list of 17 trademark applications that has been filed for pro-IQ™ ginkgo.

Sales and Marketing

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.

Segment Information

The Group has started generating revenue from product sales during the six months ended 31 August 2002. It was attributable to the sale of pro-IQ™ Ginkgo product which was launched in the fourth week of August 2002. The Group continues to render testing service to customers during the six months ended 31 August 2002. All of the Group's revenue for the six months ended 31 August 2002 was derived in Hong Kong.

Future plans for material investments

The Group entered into an agreement with the Hong Kong Government on 15 June 2001 in relation to the collaboration with The Hong Kong University of Science and Technology (“HKUST”) to establish and validate the SimBioDAS® technology for the development of TCM-based products and to evaluate the activity and absorption of a TCM formula that is intended to be used for treatment of liver cancer.

On 30 July 2001, the Group entered into another agreement with the Hong Kong Government in relation to the collaboration with The Chinese University of Hong Kong (“CUHK”) to validate the Group’s biotechnological approach for the modernization of TCM and for the development of a new modernized TCM herbal pre-formulation with consistently high quality and known active ingredients and confirmed pharmacological activities for the treatment of cardiovascular diseases.

As at 31 August 2002, the outstanding amount committed by the Group to be contributed by installments towards the development costs pursuant to the above two agreements was approximately HK\$2.88 million.

It is expected that the above projects will be funded by the cash proceeds obtained from the Company’s initial public offering.

Save as disclosed above, the Group presently does not have any other material investment plans.

Liquidity, Financial Resources and Capital Structure

The Group continues to be in a strong financial position. The Group’s net current assets as at 31 August 2002 was approximately HK\$55.90 million (28 February 2002 : HK\$2.68 million).

Cash and cash equivalents as at 31 August 2002 were approximately HK\$54.94 million (28 February 2002 : HK\$0.07 million). During the six months ended 31 August 2002, the Group used substantially its internal resources and part of the proceeds from the initial public offering to finance its operations. There was no bank borrowings and capital instruments as at 31 August 2002 (28 February 2002 : Nil).

The Group continues to adopt a conservative treasury policy with all banks. The Group’s sales for the six months ended 31 August 2002 were denominated in Hong Kong Dollars and the Group’s regular expenses for the six months ended 31 August 2002 denominated in foreign currency is immaterial to the Group. Deposits are mainly in Hong Kong Dollars. No foreign currency exposure has been identified so far, and therefore the Group did not have any financial instrument for hedging purpose as at 31 August 2002.

Significant investments held

The Group had not held any significant investment during the six months ended 31 August 2002.

Employee information

As at 31 August 2002, the Group had 24 full-time employees, a decrease by 1 from 25 as at 28 February 2002. During the first six months of the year, employee costs, excluding Director's emoluments, totalled HK\$3.59 million. The Group's employment and remuneration policies remained the same as detailed in the prospectus dated 22 May 2002.

Charges on group assets

The Group had not pledged any of its assets to banks and financial institutions as security for general banking facilities during the six months ended 31 August 2002 (28 February 2002: Nil).

Gearing ratio

As at 31 August 2002 the Group did not have any borrowings and, therefore, the gearing ratio was zero (28 February 2002: 0.04).

Contingent liability

The Group did not have any contingent liabilities as at 31 August 2002 (28 February 2002: Nil).

Use of Proceeds from the initial public offering

The net proceeds from the initial public offering, after deducting expenses is approximately HK\$62 million. During the six months ended 31 August 2002, HK\$9 million of the net proceeds has been used as follows:

- as to approximately HK\$1 million for the matching fund obligations under the collaborative projects with HKUST and CUHK;
- as to approximately HK\$1 million for marketing and promotion activities of the Group's herbal products;
- as to approximately HK\$3 million for funding the manpower cost in respect of research and development staff, including those in analytical chemistry and cell biology, for the refinement and upgrades of the SimBioDAS® technology;
- as to approximately HK\$1 million for funding the manpower cost in respect of sales and marketing of the Group's drug screening and analysis services and products, including Ginkgo, Echinacea, Ginseng, St. John's Wort and *Cordyceps militaris*; and
- as to approximately HK\$3 million as general working capital of the Group.

There was no material deviation from the intended use of net proceeds for the period ended 31 August 2002 as disclosed in the prospectus dated 22 May 2002.

As to the remaining HK\$53 million of the unused net proceeds, the directors currently intend to use such net proceeds as follows:

- as to approximately HK\$17 million for acquisition/leasing of chemical analysis equipment and machines for pilot formulations and production of natural herbal products;
- as to approximately HK\$4 million for hiring additional technical staff and consultant for pilot formulation and production of natural herbal products;
- as to approximately HK\$1 million for funding the manpower cost in respect of additional research and development staff, including those in analytical chemistry and cell biology, for the refinement and upgrades of the SimBioDAS® technology;
- as to approximately HK\$3 million for funding the manpower cost in respect of sales and marketing of the Group's drug screening and analysis services and products;
- as to approximately HK\$3 million for the matching fund obligations under the collaborative projects with HKUST and CUHK;
- as to approximately HK\$5 million for acquisition/leasing of analytical chemistry and cell biology equipment for refinement and upgrades of the SimBioDAS® technology;
- as to approximately HK\$2 million for establishing a facility in Canada for development of an automated SimBioDAS® system;
- as to approximately HK\$1 million for acquisition of equipment to perform contract services, especially in pre-clinical testing of drug candidates and absorption screening analyses of drug compounds using the SimBioDAS® technology;
- as to approximately HK\$10 million for marketing and promotion activities of the Group's herbal products and for developing and promoting the Group's corporate image and product image;
- as to approximately HK\$5 million for additional manpower cost in respect of herbal product development; and
- as to approximately HK\$2 million as additional general working capital of the Group.

The directors of the Company presently do not anticipate any material deviation from the intended use of the net proceeds as disclosed in the prospectus dated 22 May 2002.

To the extent that the net proceeds are not immediately applied for the above purposes, it is the present intention of the directors to maintain such net proceeds from the initial public offering as short term deposits with financial institutions in Hong Kong until such time as they are required.

COMPARISON OF THE BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Business objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development during the period from 1 March 2002 to 31 August 2002	Remarks
Drug-screening services		
<i>Product development</i>		
<ul style="list-style-type: none"> To continue the development of the SimBioDAS[®] technology, particularly in the areas of refining the culture conditions of the Kinetana Cells, by addition of various hormones, growth promoters and other factors, and refining the computational modeling system. 	<ul style="list-style-type: none"> Tested several growth promoters and other factors and found a promising compound for improving the characteristics of the cells. The capabilities of the computational modeling system were expanded to include the effects of product formulation factors. 	
<ul style="list-style-type: none"> To explore the possibility of having a partner for developing a robotic system on the SimBioDAS[®] technology for rapid screening. 	<ul style="list-style-type: none"> The Group terminated plans for one prospective partner. 	<ul style="list-style-type: none"> Their robotics technology did not perform to expectations. However, the Group has identified several commercial sources where the robotics can be adapted to the Group's use readily.
<ul style="list-style-type: none"> To begin locating human liver cell lines to test in the development of the second generation of the SimBioDAS[®] technology which includes the process of elimination of drugs by liver metabolism. 	<ul style="list-style-type: none"> Some promising cell lines were located for future acquisition. 	
<ul style="list-style-type: none"> To file 3 patent applications of certain inventions or processes related to the SimBioDAS[®] technology. 	<ul style="list-style-type: none"> One comprehensive patent application was filed which may be expanded to several separate applications later. 	

Business objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development during the period from 1 March 2002 to 31 August 2002	Remarks
<i>Sales and marketing</i>		
<ul style="list-style-type: none"> To identify customers, such as pharmaceutical companies, biotechnology companies, laboratories and research institutes, for validation of SimBioDAS® technology 	<ul style="list-style-type: none"> A list of potential client companies was developed from several industry sources; specifically, 5 companies in the Eastern US were approached and validation studies were discussed with their absorption screening groups. 	
<ul style="list-style-type: none"> To begin to identify and sign agreements with potential customers for the SimBioDAS® technology. 	<ul style="list-style-type: none"> No progress has been made in identifying potential customers for the SimBioDAS® technology in Hong Kong. 	<ul style="list-style-type: none"> In Hong Kong, management has considered and decided that it is more beneficial to concentrate its existing resources on herbal product development.
<i>Resources Deployment</i>		
<ul style="list-style-type: none"> To acquire additional instrumentation, such as, 2 LC/MS instruments (Liquid Chromatography/Mass Spectrometry for providing chemical analysis on samples being produced by the Group) (1 for Canada and 1 for Hong Kong), 1 LC instrument, 1 incubator and 3 bio-safety hoods (which will be used by the Group for the purposes of air filtration and prevention of contamination of sterile cell cultures). 	<ul style="list-style-type: none"> The Hong Kong unit has already acquired the instruments as planned. 	<ul style="list-style-type: none"> The Canadian unit has however postponed the purchase because the management found that the existing equipment was still sufficient to support the current operation. The Canadian unit will process the purchase in the future when the need arises.

Business objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development during the period from 1 March 2002 to 31 August 2002	Remarks
<ul style="list-style-type: none"> To employ 2 more technicians in Canada for application and refinement of the SimBioDAS® technology. 	<ul style="list-style-type: none"> The Group has not yet employed the 2 additional technicians in Canada. 	<ul style="list-style-type: none"> The management considered that the existing manpower was sufficient to support the current operation. The Group will hire additional technicians immediately when there is such need.
<ul style="list-style-type: none"> To renovate the existing facilities in Canada in order to better utilize the office space and to improve the efficiency of the operation flow in the laboratory, in particular for development of a robotic system on the SimBioDAS® technology. 	<ul style="list-style-type: none"> The renovation of the existing facilities in Canada has not yet started. 	<ul style="list-style-type: none"> The Group is still discussing with the landlord on the terms of the renovation.

Herbal and TCM

Product development

- | | |
|--|--|
| <ul style="list-style-type: none"> To finalise the manufacturing procedure for Ginkgo as a food supplement. | <ul style="list-style-type: none"> The Group launched the sales of its Ginkgo product in Hong Kong in the fourth week of August 2002. |
| <ul style="list-style-type: none"> In Hong Kong, to commence the assay development for Ginseng and Cordyceps militaris. | <ul style="list-style-type: none"> The assay development for ginsenoside has been completed and the assay development for Cordyceps is progressing according to schedule. |
| <ul style="list-style-type: none"> In Canada, to commence the assay development for Echinacea and St. John's Wort. | <ul style="list-style-type: none"> Assay development for both herbs was commenced, as well as that for Silymarin. |

Business objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development during the period from 1 March 2002 to 31 August 2002	Remarks
<ul style="list-style-type: none"> To prepare regulatory documents, in respect of proposed regulations on the natural health products that were announced by Health Canada in December 2001 which are subject to 90-day consultation period and a two-year transition period following final approval, for submission of the Ginkgo formulation in Canada. 	<ul style="list-style-type: none"> Not yet completed 	<ul style="list-style-type: none"> Awaiting clarification on new regulations before proceeding with preparation of regulatory documents.
<ul style="list-style-type: none"> In Hong Kong, to support CUHK and HKUST to establish the Innovation Technology Fund (“ITF”) projects on TCM-based cardiovascular and liver cancer formulations 	<ul style="list-style-type: none"> The ITF projects on TCM-based cardiovascular and liver cancer formulations are progressing according to schedule. 	

Sales and marketing

<ul style="list-style-type: none"> To determine, establish and implement a marketing plan for the Group’s Ginkgo product in North American and European market. 	<ul style="list-style-type: none"> The marketing plan was determined and established. Product launch was set for the fourth quarter of 2002 to coincide with trade shows in North America.
<ul style="list-style-type: none"> To establish a marketing plan for the Group’s product, including the Group’s Joint Venture Partner, for the Asian market. 	<ul style="list-style-type: none"> The Group has appointed a sole distributor for the selling of its product primarily in Hong Kong and the Group is having a discussion with the same distributor for the selling of its product in the Asian market.

Business objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development during the period from 1 March 2002 to 31 August 2002	Remarks
<ul style="list-style-type: none"> To launch Ginkgo as a food supplement in North America and Asia. 	<ul style="list-style-type: none"> In Hong Kong, the Group launched its Ginkgo product in the fourth week of August 2002. The Group is working with a potential distributor for the launch of products in North America. Launching of the product to other Asian markets will be followed shortly. 	<ul style="list-style-type: none"> The management has decided to delay the launch of its Ginkgo product in North America until November 2002 because it is expected that more products would be available by then, and the whole product portfolio is expected to have better marketing effect.

Resources Deployment

<ul style="list-style-type: none"> To outsource the manufacturing of Ginkgo. 	<ul style="list-style-type: none"> The Group has outsourced the manufacturing of Ginkgo already. 	
<ul style="list-style-type: none"> To employ a consultant for formulation of the Group's products. 	<ul style="list-style-type: none"> The Group has contracted a consultant in Canada for formulation of the Group's products already. 	
<ul style="list-style-type: none"> In Hong Kong, to employ 1 more technician, 1 marketing consultant, 1 marketing assistant and 1 product manager. 	<ul style="list-style-type: none"> In Hong Kong, the Group has contracted a marketing consultant and hired a marketing assistant. The Group has not, however, hired the additional technician and the product manager. 	<ul style="list-style-type: none"> In order to control operating costs, the workload is being shared by the existing staff of the Group.
<ul style="list-style-type: none"> To employ 1 marketing manager for North American and European markets in Canada. 	<ul style="list-style-type: none"> The Group has not employed the marketing manager for North American and European markets in Canada. 	<ul style="list-style-type: none"> The Group is considering to contract marketing consultants in Canada instead of hiring a marketing manager.

COMPETING INTEREST

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had 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 August 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, were as follows:

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

Name of Director	Personal Interest	Corporate Interest	Total
Dr. Tam Yun Kau	22,011,161	118,737,854 <i>(Note)</i>	140,749,015
Mr. Young Patrick Chiu Kit	1,614,150		1,614,150
Dr. Noujaim Antoine A.	855,989		855,989
Mr. Chan Mo Po	1,300,000		1,300,000

Note: 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.

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 Schemes-(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 August

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

Name of director	Date of Grant	Exercise price per Share	Outstanding at beginning of period	Granted during period	Outstanding at end of period	Expiration Date (Note 2)
Dr. Tam Yun Kau	7 May 2002	HKS0.325	-	24,456,818	24,456,818	(i) 3 December 2007 as to 50% of the options; (ii) 3 June 2008 as to 25% of the options; (iii) 3 June 2009 as to the remaining 25% of the options
	9 May 2002	HKS0.325	-	733,705 (Note 1)	733,705	3 December 2007
Mr. Young Patrick Chiu Kit	15 May 2002	HKS0.325	-	1,222,841	1,222,841	3 December 2007
Dr. Noujaim Antoine A.	7 May 2002	HKS0.325	-	1,222,841	1,222,841	3 December 2007
Mr. Lee Chiu Kang	7 May 2002	HKS0.325	-	1,222,841	1,222,841	3 December 2007
Mr. Tam David Shong Tak	7 May 2002	HKS0.325	-	1,222,841	1,222,841	3 December 2007
Mr. Chan Mo Po	7 May 2002	HKS0.325	-	1,222,841	1,222,841	3 December 2007

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 Schemes-(a) KIBP Pre-IPO Share Option Schemes” 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 Schemes-(b) KGI Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus.

Pursuant to a share exchange offer 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 (the “Exchange Agreement”), 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 August 2002, the following directors of the Company were 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”):

Name of director	Date of Grant	No. of KGI shares subject to the options	Exercise price (per common share of KGI)	Approximate effective exercise price (per Share)	Outstanding no. of shares exchanged for pursuant to the Share Exchange Agreement at beginning and end of period		Expiration Date (Note 2)
Dr. Tam Yun Kau	31 March 2000	8,000	CAN\$0.50	HK\$0.10	195,655		31 March 2005
	1 July 2001	70,000	CAN\$0.50	HK\$0.10	1,711,977		1 July 2006
	19 December 2001	70,000	CAN\$0.50	HK\$0.10	1,711,977		19 December 2006
	<i>(Note 1)</i>						
Mr. Young Patrick Chiu Kit	31 March 2000	18,000	CAN\$0.50	HK\$0.10	440,223		31 March 2005
Dr. Noujaim Antoine A.	31 March 2000	11,000	CAN\$0.50	HK\$0.10	269,025		31 March 2005

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 Schemes-(b) KGI Pre-IPO Share Option Scheme” 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 SCHEME

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 August 2002, no option had been granted or agreed to be granted under the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company has been notified of the followings interests in the Company's issued shares as at 31 August 2002 amounting to 10% or more:

Name of Shareholder	Number of Shares of the Company Held	% of holding
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 held by Dr. Tam Yun Kau and 118,737,854 Shares by 943788 Alberta Ltd. (as referred to in Note 1 above). Dr. Tam-Zaman Nuzhat is the wife of Dr. Tam and is deemed to be interested in such Shares.

SPONSOR'S INTEREST

Neither AMS Corporate Finance Limited ("AMS"), the continuing sponsor of the Company, nor its 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 31 August 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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the period from 3 June 2002, being the date on which dealings of the Shares first commenced on GEM, to 31 August 2002, none of the directors had been aware of information that would reasonably indicate that the Company was not in compliance with Rules 5.28 to 5.39 of the GEM Listing Rules.

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

During the period from 3 June 2002, being the date on which dealings of the Shares first commenced on GEM, to 31 August 2002, neither the Company nor any of its subsidiaries had 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. The audit committee consists of two independent non-executive Directors, namely Mr. Chan Mo Po and Dr. Chan Albert Wai Kit, 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 six months ended 31 August 2002 have been reviewed by the audit committee, which 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.

By order of the Board

Dr. Tam Yun Kau

President and Chief Executive Officer

Hong Kong, 8 October 2002