



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)

Third 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 nine months ended 30 November 2002 was HK\$525,000. There is no corresponding figure in 2001 as the Group had not recorded any revenue until the last quarter of the previous fiscal year.
- Net loss of the Group for the nine months ended 30 November 2002 was approximately HK\$20.10 million as compared to HK\$10.83 million for the corresponding period in the previous fiscal year.
- Loss per share of the Group was approximately HK4.22 cents for the nine months ended 30 November 2002.
- The Board does not recommend the payment of any dividend for the nine months ended 30 November 2002.

PRESIDENT'S MESSAGE

I am pleased to report that we have made substantial progress on Kinetana's SimBioDAS™, our patented artificial gut platform technology which is used to predict the absorption of drug candidates on an in vitro basis for compounds that are either synthetic or natural in origin. In the pharmaceutical world, our SimBioDAS™ technology has shown strong potential in screening compound leads that hold potential therapeutic activities. For natural products, SimBioDAS™ is being applied to produce high quality food supplements and to develop traditional Chinese medicines.

Since the half-yearly report, management has strived to meet several important milestones. On the pharmaceutical side, I presented our SimBioDAS™ technology internationally at the In Vitro and In Vivo Correlation Conference in London, England in November 2002. The reception to this presentation was very enthusiastic. Kinetana has been successful in attracting one of the largest pharmaceutical companies to evaluate our SimBioDAS™ technology and an evaluation agreement has been signed. It is estimated that the evaluation process and period will last until the end of February 2003. In November of 2002, Kinetana was commissioned by an European pharmaceutical company to evaluate the absorption of its leading candidate which is currently going through clinical trials. The engagement of these multinational pharmaceutical companies in using and testing our SimBioDAS™ technology signals the acceptance of our innovative technology. We can anticipate that Kinetana is well positioned to generate revenue from these sources in the near future. Our goal is to attract more multinational pharmaceutical companies to use the SimBioDAS™ technology for absorption screening. We anticipate that additional multinational pharmaceutical companies will begin using or evaluating our SimBioDAS™ technology in the future.

During the last quarter, Kinetana has successfully manufactured three new formulations; namely Ginseng, St. John's Wort and Echinacea and they are all scheduled to enter the Hong Kong and Canadian markets in January 2003. In addition to developing single herb formulations for Silymarin, Soy, Cordycep and Lingzhi, Kinetana is working on several multi-herb formulas for arthritis and enhancing vitality. These products are expected to be introduced to the markets by the third quarter of 2003.

In November 2002, Kinetana signed a distribution agreement with Nutri-Dyn Products Ltd. of Canada. This distributor specializes in selling products to various health professionals in Canada. Over the past two months, Nutri-Dyn Products Ltd. has focused on introducing Kinetana's SimBioDAS™ technology and the superiority of Kinetana products to health professionals in Canada. Kinetana is also working on establishing markets in the United States and East Asia.

The management and myself are fully committed to transforming Kinetana from a developmental biotechnology company to one that generates revenues and is ultimately profitable. I am happy to report to our investors that we are well on our way to fulfilling our targets.

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

Hong Kong, 10 January 2003

UNAUDITED THIRD QUARTERLY RESULTS

The Board of Directors (the “Board”) of Kinetana International Biotech Pharma Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and nine months ended 30 November 2002, together with the unaudited pro forma consolidated and pro forma combined results for the corresponding period in 2001, are as follows:–

		Unaudited pro forma consolidated	Unaudited pro forma combined	Unaudited consolidated	Unaudited pro forma consolidated	Unaudited pro forma combined
		For the three months ended 30 November			For the nine months ended 30 November	
		2002	2001	2001	2002	2001
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	3	-	-	-	525	-
Cost of sales		-	-	-	(353)	-
Gross profit		-	-	-	172	-
Other revenue		232	62	62	706	70
Selling and distribution costs		(863)	-	-	(1,417)	-
Administrative expenses		(6,514)	(3,410)	(3,214)	(15,920)	(5,266)
Other operating expenses		(1,442)	(1,038)	(1,038)	(3,500)	(1,461)
LOSS FROM OPERATING ACTIVITIES		(8,587)	(4,386)	(4,190)	(19,959)	(6,657)
Finance costs		(21)	(32)	(32)	(141)	(40)
Share of loss of a jointly-controlled entity		-	-	-	(1)	(9)
LOSS BEFORE TAX		(8,608)	(4,418)	(4,222)	(20,101)	(6,706)
Tax	4	-	-	-	-	-
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(8,608)	(4,418)	(4,222)	(20,101)	(6,706)
Loss per share – basic (HK cents)	5	1.66	1.20	1.15	4.22	2.02
		3.26				

NOTES TO THE UNAUDITED THIRD QUARTERLY RESULTS

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 consolidated results of the Group are presented using the following basis:

- a) The unaudited consolidated results include the results of the Group for the nine months ended 30 November 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 is not applicable and the acquisition method of consolidation has been used in the preparation of the Group’s results since the aforesaid reorganization.

2. Accounting policies

The accounting policies and methods of computation used in the preparation of the unaudited consolidated results are consistent with those adopted in the interim report for the period ended 31 August 2002.

3. Turnover and other revenue

Turnover represents revenue generated from the provision of services on evaluation of ingredient absorption in traditional Chinese medicines based formulae and sales of herbal products during the three and nine months ended 30 November 2002. Other revenue represents mainly interest income.

4. 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 three and nine months ended 30 November 2002 as the Group had no assessable profits arising in Hong Kong and overseas.

5. Loss per share

The calculation of basic loss per share for the three months and nine months ended 30 November 2002 is based on the respective unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$8,608,000 and HK\$20,101,000 and on the weighted average number of 520,000,000 and 475,786,869 ordinary shares in issue during those periods.

The calculation of basic pro forma consolidated loss per share for the three months and nine months ended 30 November 2001 is based on the respective unaudited pro forma consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$4,418,000 and HK\$6,706,000 and on the weighted average number of 368,139,715 and 332,231,167 ordinary shares in issue during those periods.

The calculation of basic pro forma combined loss per share for the three months and nine months ended 30 November 2001 is based on the respective unaudited pro forma combined net loss from ordinary activities attributable to shareholders of approximately HK\$4,222,000 and HK\$10,834,000 and on the weighted average number of 368,139,715 and 332,231,167 ordinary shares in issue during those periods.

No diluted loss per share for the three and nine months ended 30 November 2002 and 30 November 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 those periods.

6. Reserves

There was no transfer to and from reserves during the nine months ended 30 November 2002. (2001: Nil)

7. Dividend

The Board does not recommend payment of any dividend for the three months and nine months ended 30 November 2002. (2001: Nil)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Review of operations

For the nine months ended 30 November 2002, the Group recorded a turnover of HK\$525,000 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 pro-IQ™ Ginkgo in Hong Kong, launched in the fourth week of August 2002, of HK\$75,000. The Group had no turnover for the corresponding period in 2001.

For the nine months ended 30 November 2002, the Group incurred a loss attributable to shareholders of approximately HK\$20.10 million as compared to HK\$10.83 million for the corresponding period in the previous year. The increase in loss was mainly due to increases in staff costs and benefits of HK\$3.73 million as a result of an increase in the number of staff in Hong Kong. The other reasons were increases in selling and distribution costs of HK\$1.40 million, increases in executive directors' remuneration of HK\$1.85 million and non-executive directors' fees of HK\$0.29 million and increases in goodwill amortization of HK\$0.88 million.

Prospects

Business Development

The Group is continuing to introduce our SimBioDAS™ platform technology to multi-national pharmaceutical companies. One of the international pharmaceutical companies has signed an evaluation contract with the Group in November 2002. The Group is also providing contract services using SimBioDAS™ to an European pharmaceutical company.

Product Launch

The Group finished the manufacturing of the first batch of Ginseng, St John's Wort and Echinacea capsules and they will be launched for sale in the Hong Kong and Canada by the end of January 2003.

Product Research and Development

The Group is continuing with the development of Silymarin, Soy, Cordycep and Lingzhi products using the SimBioDAS™ technology. The Group is also working on several multi-herb formulas for arthritis and enhancing vitality using SimBioDAS™.

Sales and Marketing

The Group has appointed Nutri-Dyn Products Ltd. as its distributor for the sales and distribution of the Group's products in Canada. The Group is also negotiating with distributors for the expansion of the distribution network to the United States and East 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 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 30 November 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	Family 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	2,114,150	–	–	2,114,150
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 30 November 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 as at 1 March 2002	Granted during period	Outstanding as at 30 November 2002	Expiration Date (Note 2)
Dr. Tam Yun Kau	7 May 2002	HK\$0.325	-	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	HK\$0.325	-	733,705 (Note 1)	733,705	3 December 2007
Mr. Young Patrick Chiu Kit	15 May 2002	HK\$0.325	-	1,222,841	1,222,841	3 December 2007
Dr. Noujaim Antoine A.	7 May 2002	HK\$0.325	-	1,222,841	1,222,841	3 December 2007
Mr. Lee Chiu Kang	7 May 2002	HK\$0.325	-	1,222,841	1,222,841	3 December 2007
Mr. Tam David Shong Tak	7 May 2002	HK\$0.325	-	1,222,841	1,222,841	3 December 2007
Mr. Chan Mo Po	7 May 2002	HK\$0.325	-	1,222,841	1,222,841	3 December 2007

Notes:—

- (1) The 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 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 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 on the basis of one common share of KGI for approximately 24.45 Shares of the Company.

As at 30 November 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”):

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 as at		Expiration Date (Note 2)
					1 March 2002 and	30 November 2002	
Dr. Tam Yun Kau	31 March 2000	8,000	CANS0.50	HK\$0.10	195,655	31 March 2005	
	1 July 2001	70,000	CANS0.50	HK\$0.10	1,711,977	1 July 2006	
	19 December 2001	70,000	CANS0.50	HK\$0.10	1,711,977	19 December 2006	
	(Note 1)						
Mr. Young Patrick Chiu Kit	31 March 2000	18,000	CANS0.50	HK\$0.10	440,223	31 March 2005	
Dr. Noujaim Antoine A.	31 March 2000	11,000	CANS0.50	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 30 November 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 30 November 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 of the Company 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 Yun Kau 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 30 November 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

During the period from 3 June 2002, being the date on which dealings of the shares first commenced on GEM, to 30 November 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

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 nine months ended 30 November 2002 have been reviewed by the audit committee, 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.

By order of the Board

Dr. Tam Yun Kau

President and Chief Executive Officer

Hong Kong, 10 January 2003