# 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)*

**ANNUAL RESULTS ANNOUNCEMENT**
**FOR THE YEAR ENDED 28 FEBRUARY 2003**

**Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement 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 year ended 28 February 2003 was approximately HK$717,000.
- Net loss of the Group for the year ended 28 February 2003 was approximately HK$27.15 million.
- Loss per share of the Group was approximately HK$0.056 for the year ended 28 February 2003.
- The Board does not recommend the payment of any dividend for the year ended 28 February 2003.

## PRESIDENT'S MESSAGE

Kinetana International Biotech Pharma Limited ("Kinetana") is a biopharmaceutical company that has proceeded through several significant stages of development this last year. Since the beginning of its operations in 1998, Kinetana has evolved from an R&D company to one that has a line of products on the market. On a corporate basis, Kinetana has grown from being privately owned and funded to that of a publicly traded GEM Board listed company on 3 June 2002. With this being the first annual message to our shareholders, I am pleased to take this opportunity to reflect on our performance over the past year.

The current cost of drug discovery and development is escalating at a significant rate despite the rapid advancement of technologies used in identifying new leads with potent activities. One of the major impediments has been a lack of technological breakthrough in the area of absorption technology. In response to industry's needs, Kinetana developed its SimBioDAS® technology to provide *in vitro* screening abilities to shorten drug development time. The uniqueness of the SimBioDAS® system is that it uses normal human small intestinal cells to offer better predictability of a drug candidate's absorbability. We have now standardized and verified this technology to the point where contracts can be signed with multi-national pharmaceutical companies for compound specific evaluation purposes.

The success in culturing human intestinal cells *in vitro* (outside the body) has also allowed Kinetana to use this technology to develop high quality natural products. We have successfully isolated active ingredients in herbal extracts that are absorbable. Using these profiles, we have formulated four herbal products (Ginkgo, Echinacea, Ginseng and St. John's Wort) whose active ingredients are readily absorbed.

Management realises that building up high value intellectual property as assets for the Group is the promise of the future, and yet Kinetana is also very conscientious about its financial sustainability. Therefore, our business model has been focused towards generating sustainable revenues, while creating corporate value by developing potential blockbuster natural medicines for the treatment of cancers, cardiovascular problems and arthritis. Our approach is to license our SimBioDAS® technology to multinational pharmaceutical and biotech companies and to market high quality nutraceuticals for revenue generation. There is significant opportunity in the development of a pipeline of potential blockbuster herbal medicines for the world market.

Since June 2002, our technology has attracted the attention of multi-national pharmaceutical companies. One such company is working closely with us in evaluating our SimBioDAS® technology for their drug discovery program. We have completed the first phase of evaluation and the results have been very encouraging. We have also finished a service contract for an European pharmaceutical firm and a US based biotech firm. We are also in the process of negotiating with other multinational pharmaceutical firms for potential collaborations. Although the amount of revenue generated to date is modest, the management anticipates reasonable growth in the coming year.

One of the major assets in a biotech company is the talent of its scientists and Kinetana is blessed with this valuable asset. The management is extremely pleased to report that our capable scientists have developed four high quality herbal products which are now on the market in Hong Kong, Canada and the United States of America, namely: Ginkgo, Echinacea, Ginseng and St. John's Wort. These products are superior to their competitors because the active known ingredients have been standardized and formulated for optimal absorption. Feedback from consumers have been extremely favorable. We will also introduce four new products in the third quarter of 2003, that being cordyceps, lingzhi, and a formula for arthritis and hair growth.

Kinetana has retained a small marketing department and engaged several marketing consultants to develop the Asian and the North American markets. We have launched Ginkgo in Hong Kong in August 2002 and the rest of the three products in March 2003. These four products entered the Canadian Market in February 2003. We anticipate that our products will enter the significantly larger US market in the beginning of July 2003. Management recognises that branding is a key to Kinetana's marketing success. Therefore, we are working with distributors for health professionals and are also selling our products through direct sales channels where the superiority of Kinetana products can be introduced properly.

Kinetana is making advances on the technological and medicinal front. Intensive research is being conducted to improve the SimBioDAS® technology. Patents are being prepared to be filed to protect our intellectual discoveries. We are making significant strides towards building a pipeline of potential blockbuster products. The Innovative Technology Commission projects with The Hong Kong University of Science and Technology ("HKUST") and The Chinese University of Hong Kong ("CUHK") are progressing at a healthy pace. Using SimBioDAS® along with *in vitro* and *in vivo* models, HKUST scientists have obtained encouraging results from studying an ancient formula for treating liver cancer. As well, the experts in CUHK have identified active ingredients of a Chinese herb which is used for the treatment of heart problems. Kinetana is planning to produce this product for a clinical trial to be conducted in the United States.

As the president of this company, I am excited by the progress to date. Kinetana is on track to generating revenue while adding valuable intellectual property in the form of a product pipeline. The management remains conscientious about the growth and development of our company and will be flexible in reacting to the ever changing world economy in order to enhance shareholders' value.

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

**RESULTS**

The board of directors (the "Board") of Kinetana International Biotech Pharma Limited (the "Company") announces that the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 28 February 2003, together with the comparative figures for the period from 11 July 2001 to 28 February 2002 as follows:

| | Notes | **Year ended 28 February 2003** ***HK$'000*** | Period from 11 July 2001 to 28 February 2002 *HK$'000* |
|---|---|---|---|
| TURNOVER | 4 | **717** | 750 |
| Cost of sales | | **(573)** | (205) |
| Gross profit | | **144** | 545 |
| Other revenue, net | | **2,030** | 838 |
| Selling and distribution costs | | **(1,642)** | – |
| Administrative expenses | | **(17,439)** | (7,953) |
| Research and development expenses | | **(7,806)** | (2,329) |
| Other operating expenses, net | | **(2,250)** | (2,263) |
| LOSS FROM OPERATING ACTIVITIES | | **(26,963)** | (11,162) |
| Finance costs | | **(160)** | (112) |
| Share of profit/(loss) of a jointly-controlled entity | | **(22)** | 14 |
| LOSS BEFORE TAX | | **(27,145)** | (11,260) |
| Tax | 5 | **–** | – |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | **(27,145)** | (11,260) |
| LOSS PER SHARE – Basic (HK$) | 6 | **(0.056)** | (0.032) |

**1. Group reorganisation**

Pursuant to a group reorganisation (the "Reorganisation") completed on 13 May 2002 to rationalise the Group's structure in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"), the Company became the ultimate holding company of the companies now comprising the Group. The Reorganisation was accomplished by:

(i) the acquisitions by Kinetana Holdings (BVI) Limited ("KBVI") in 2001 of the entire issued share capital of Kinetana International Pharmaceuticals Limited, Kinetana Group Inc. ("KGI") and Kinetana Pharmaceutical Commercial Holdings (BVI) Limited, the then holding companies of other subsidiaries and a jointly-controlled entity of the Group (the "KBVI Reorganisation"); and

(ii) the acquisition by the Company of the entire issued share capital of KBVI from its then shareholders on 13 May 2002 (the "KIBPL Reorganisation").

Further details of the Reorganisation, together with the details of the subsidiaries and the jointly-controlled entity acquired pursuant thereto, are set out in the prospectus of the Company dated 22 May 2002.

**2. Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAPs"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

**3. Basis of presentation and consolidation**

The KBVI Reorganisation as referred to in note 1 resulted in changes in the rights of each of the then ultimate shareholders relative to each other. Accordingly, the acquisition basis of accounting was applied, in accordance with SSAP 27 "Accounting for group reconstructions", for the consolidation of the results and cash flows of the subsidiaries acquired pursuant thereto.

The KIBPL Reorganisation as referred to in note 1 involved companies under common control and therefore, the merger basis of accounting has been applied in the preparation of the consolidated financial statements in accordance with SSAP 27. On this basis, the Company has been treated as the holding company of its subsidiaries since 11 July 2001 (date of incorporation of KBVI, the then ultimate holding company) rather than from the date of its acquisition of KBVI pursuant to the Reorganisation. Accordingly, the consolidated results and cash flows of the Group for the period from 11 July 2001 to 28 February 2002 and for the year ended 28 February 2003 include the results and cash flows of the Company and its subsidiaries with effect from 11 July 2001 or since their respective dates of incorporation or acquisition, whether under KBVI Reorganisation or otherwise, where this is a shorter period.

Since the principal activities of the Group were carried out by those subsidiaries acquired pursuant to the Reorganisation, in the opinion of the directors, for information purposes, it is appropriate to present a pro forma combined profit and loss account for the year ended 28 February 2002, which include the results of the Company and its subsidiaries with effect from 1 March 2001 or since their respective dates of incorporation, where this is a shorter period, on a combined basis as if the current Group structure had been in existence since 1 March 2001.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

For information purposes only, the following is the pro forma combined profit and loss account of the Group for the year ended 28 February 2002:

| | **Pro forma combined Year ended 28 February 2002** |
|---|---|
| | *HK$'000* |
| TURNOVER | 750 |
| Cost of sales | (205) |
| Gross profit | 545 |
| Other revenue, net | 612 |
| Administrative expenses | (11,249) |
| Research and development expenses | (3,301) |
| Other operating expenses, net | (1,303) |
| LOSS FROM OPERATING ACTIVITIES | (14,696) |
| Finance costs | (216) |
| Share of profit of jointly-controlled entity | 14 |
| LOSS BEFORE TAX | (14,898) |
| Tax | – |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | (14,898) |

**4. Turnover**

Turnover represents the net invoiced value of goods sold, after allowances for return and trade discounts; and an appropriate proportion of contract revenue from absorption screening services rendered.

**5. Tax**

In accordance with the relevant tax legislation, rules and regulations, interpretations and practices in Hong Kong and Alberta, Canada, no provision for Hong Kong profits tax or overseas income tax has been made during the year and the prior period as the Group had no assessable profits arising in Hong Kong and overseas.

**6. Loss per share**

The calculation of basic loss per share for the year ended 28 February 2003 is based on the net loss from ordinary activities attributable to shareholders for the year ended 28 February 2003 of HK$27,145,000 (period ended 28 February 2002: HK$11,260,000) and the weighted average of 486,750,478 (period ended 28 February 2002: 349,333,954) ordinary shares deemed to be in issue during the year as if the capitalisation issue of 383,644,643 ordinary shares made to the then shareholders of the Company upon the completion of the public offer and placing of 120,000,000 ordinary shares in the Company had been in issue from the respective dates the related existing shares were issued.

No diluted loss per share amount for the year ended 28 February 2003 and the period ended 28 February 2002 has been presented as the share options of the Company and share options and warrants of KGI, which can be exchanged for ordinary shares of the Company when exercised, which were outstanding during the year and the prior period had anti-dilutive effects on the respective basic loss per share.

**7. Dividend**

The Board does not recommend payment of any dividend for the year ended 28 February 2003 (period ended 28 February 2002: Nil).

## 8. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

*(i) Business segments*

The following tables present revenue and profit/(loss) information for the Group's business segments:

**Group**

| | **Absorption screening technology** | | **Herbal products** | | **Eliminations** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|
| | **Year/period ended 28 February** | | | | | | | |
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK'000* | ***HK'000*** | *HK$'000* |
| Segment revenue: | | | | | | | | |
| Sales to external customers | **683** | 750 | **34** | – | **–** | – | **717** | 750 |
| Other revenue | **–** | 560 | **–** | – | **–** | – | **–** | 560 |
| Total | **683** | 1,310 | **34** | – | **–** | – | **717** | 1,310 |
| Segment results | **(8,312)** | (1,274) | **(1,642)** | – | **–** | – | **(9,954)** | (1,274) |
| Unallocated revenue | | | | | | | **2,030** | 278 |
| Unallocated expenses | | | | | | | **(19,039)** | (10,166) |
| Loss from operating activities | | | | | | | **(26,963)** | (11,162) |
| Finance costs | | | | | | | **(160)** | (112) |
| Share of profit/(loss) of a jointly-controlled entity | | | | | | | **(22)** | 14 |
| Loss before tax | | | | | | | **(27,145)** | (11,260) |
| Tax | | | | | | | **–** | – |
| Net loss from ordinary activities attributable to shareholders | | | | | | | **(27,145)** | (11,260) |

| | **Absorption screening technology** | | **Herbal products** | | **Unallocated** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|
| | **Year/period ended 28 February** | | | | | | | |
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Other segment information: | | | | | | | | |
| Depreciation | **966** | 380 | **94** | – | **704** | 405 | **1,764** | 785 |
| Amortisation: | | | | | | | | |
| Intangible assets | **391** | 62 | **21** | – | **–** | – | **412** | 62 |
| Goodwill/(negative goodwill), net | **–** | – | **–** | – | **1,174** | 670 | **1,174** | 670 |

*(ii) Geographical segments*

The following tables present revenue information for the Group's geographical segments:

| | Hong Kong | | Canada | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | Year/period ended 28 February | | | | | | | |
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment revenue: | | | | | | | | |
| Sales to external customers | **499** | 750 | **751** | – | **(533)** | – | **717** | 750 |
| Other revenue | **733** | – | **–** | 560 | **–** | – | **733** | 560 |
| | **1,232** | 750 | **751** | 560 | **(533)** | – | **1,450** | 1,310 |

## 9. Movement of reserves

| | Share premium account | Contributed surplus account | Exchange fluctuation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 11 July 2001 | – | – | – | – | – |
| Share allotted and issued upon incorporation | – | – | – | – | – |
| Shares issued and credited as fully paid pursuant to the Reorganisation | – | 35,945 | – | – | 35,945 |
| Loss for the period | – | – | – | (11,260) | (11,260) |
| At 28 February 2002 and 1 March 2002 | – | 35,945 | – | (11,260) | 24,685 |
| Issue of shares | 75,885 | – | – | – | 75,885 |
| Share issue expenses | (15,738) | – | – | – | (15,738) |
| Share issue expenses of a subsidiary | – | (355) | – | – | (355) |
| Net gains and losses not recognised in the profit and loss account: | | | | | |
| – Exchange realignment | – | – | (639) | – | (639) |
| Loss for the year | – | – | – | (27,145) | (27,145) |
| At 28 February 2003 | 60,147 | 35,590 | (639) | (38,405) | 56,693 |

## Review of operations

The Board announces the Group's annual results, for the year ended 28 February 2003. The Group recorded a turnover of approximately HK$717,000 which includes service income for the evaluation of ingredient absorption of approximately HK$683,000 and sales of the Company's own products in Hong Kong of approximately HK$34,000. The turnover for the period ended 28 February 2002 was approximately HK$750,000.

For the year ended 28 February 2003, the Group incurred a loss attributable to shareholders of approximately HK$27.15 million as compared to HK$14.89 million (on combined basis) for the corresponding period in the previous year. The increase was attributable mainly to increases in human resources costs of approximately HK$6.45 million, the amortisation of goodwill of approximately HK$1.59 million, sales and marketing and business development expenses HK$2.74 million, research and development costs other than salaries HK$1.00 million, and professional fees in relation to continuing listing obligations of HK$0.75 million.

The increase in human resources costs was mainly due to gradual increase in staff number starting from the second half of 2001 and the transfer of key executives from Canadian office to Hong Kong office, in preparation for the listing exercise and general business development. Also approximately HK$2.68 of human resources costs were capitalised in the year ended 28 February 2002 and thus a lower human resources cost figure was left in the profit and loss account for the year ended 28 February 2002.

## Prospects

### *Business Development*

In Canada, the Group is working with multi-national pharmaceutical companies for the potential licensing of the Group's SimBioDAS® platform technology. The responses from these companies have been encouraging after their initial study of the Group's technology.

During the year, the Group in Hong Kong had appointed a distributor to market the Group's nutraceutical products. The Group also in the process of introducing direct sales of our products through various channels.

In Canada, the Group has signed a distribution agreement with a health product company to market the Group's products in Canada.

### *Product Launch*

During the year by using the Group's patented technology, the Group has developed four single herb nutraceutical products: namely, Ginkgo, Echinacea, Ginseng and St. John's Wort. These products have been specifically formulated for maximum absorption of the active ingredients and are packaged using the Group's unique labels which list the absorbable ingredients.

***Product Research and Development***

The Group in Hong Kong is currently working on the assays of Cordyceps and Lingzhi and it is expected that these new single-herb products will be introduced to the market in the third quarter of 2003.

The Group has signed a collaboration agreement with a third party for the improvement of clinically proven natural arthritis and hair growth products.

In 2001, the Group entered into agreements with the Hong Kong Government in relation to the collaboration with the Hong Kong University of Science and Technology ("HKUST") and the Chinese University of Hong Kong ("CUHK") to establish and validate the Group's technology and approach for the modernization of Traditional Chinese Medicine ("TCM"). The following is the latest developments of the two projects:

HKUST

This project is for the development of a drug using a Chinese formula for the treatment of liver cancer using the SimBioDAS® technology. Progress has been encouraging in that this formula shows anti-cancer and liver protection properties. If the development proceeds as planned, the Group will be in a good position to develop a therapy for liver cancer which affects over 300 million people worldwide.

CUHK

Using the SimBioDAS® Technology, the scientists at CUHK have successfully isolated active ingredients for the treatment of heart problems. It is expected that a product will be developed for the market in the near future.

***Patents***

In August of 2002, the Group has filed a patent relating to the second generation cell line developed for SimBioDAS®.

***Sales and Marketing***

In Hong Kong, the first product being Gingko capsules went on the market in August 2002. This was followed by Echinacea, Ginseng and St. John's Wort in March 2003. These products were sold by drug stores and health professionals. Sales to date have not achieved the levels which were expected. The low sales may have been caused by the downturn of Hong Kong's economy which has caused a rapid deterioration in the retail market generally.

In Canada, four products were launched in February 2003. These products are being marketed by direct sales through health professionals.

***Future plans for material investments***

Other than those disclosed in the prospectus dated 22 May 2002, the Group does not have any future plans for material investments.

***Liquidity, Financial Resources and Capital Structure***

The Group continues to be in a strong financial position. The Group's net current assets as at 28 February 2003 was approximately HK$39.64 million (2002: HK$2.69 million).

Cash and cash equivalents as at 28 February 2003 were approximately HK$40.62 million (2002: HK$0.07 million). There was no bank borrowing as at 28 February 2003 (2002: Nil).

***Segment information***

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured separately according to the nature of their operations and the products and services they provide and are currently undertaken in Hong Kong and Canada. Each of the Group's business segments offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the absorption screening technology segment engages in the research and development of biopharmaceutical technologies, Western herbal products and TCM based products; the provision of screening services for drug compounds and natural products ingredients for the purposes of evaluating formulations on improving drug formulations or natural products, including TCM; and

(b) the herbal products segment produces and sells herbal products.

Businesses in different geographical areas are managed separately by management in the respective operating location. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

***Employee information***

As at 28 February 2003, the Group had 25 full time employees, the same as at 28 February 2002. For the year ended 28 February 2003, staff costs, excluding directors' remuneration, totaled HK$8.47 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 year ended 28 February 2003 (period ended 28 February 2002: Nil).

***Exposure to fluctuations in exchange rates***

The Group continued to adopt a conservative policy with all bank deposits being kept in either Hong Kong Dollars, U.S. Dollars, or in the local currencies of the operating subsidiaries in an attempt to minimize, exposure to foreign exchange risks. The Group does not currently engage in hedging any currencies risks, as it considers its costs associated with such hedging arrangements would exceed the benefits. However, management will continue to monitor the relevant circumstances and will implement such measures as it deems prudent.

***Gearing ratio***

As at 28 February 2003 the Group did not have any borrowings and, therefore, the gearing ratio was zero (2002: 0.04).

***Significant investments and acquisitions***

During the year ended 28 February 2003, the Group made no material or significant investments or acquisitions or disposals of subsidiaries.

***Contingent liability***

The Group did not have any contingent liabilities as at 28 February 2003 (2002: Nil).

**Use of proceeds from the Company's initial public offering**

The proceeds from the Company's issue of new shares at the time of its listing on the GEM in June 2002, after deduction of related issue expenses, amounted to approximately HK$62 million. Of this amount, HK$21.50 million has been utilised up to 28 February 2003 and has been applied in accordance with the proposed applications set out in the prospectus (as revised and detailed in the Company's interim report dated 8 October 2002 for the period ended 31 August 2002) as follows:

| | **Planned** *HK$million* | **Actual** *HK$million* | **Variance** *HK$million* | **Remarks** |
|---|---|---|---|---|
| Acquisition of chemical analysis equipment and machinery for pilot formulation and pilot production of herbal products. | 0.4 | 0.5 | 0.1 | No material variance. |
| Hiring of additional technical staff and consultant for pilot formulation and pilot production of natural herbal products. | 0.9 | 1.6 | 0.7 | The total actual costs were higher than expected due to higher consultant costs as a result of faster development of the pilot formation and production of herbal products. The herbal product development is three months ahead of schedule. |
| Additional research and development staff, including those in analytical chemistry and cell biology, for the refinement and upgrades of SimBioDAS® technology. | 1.1 | 3.5 | 2.4 | The total manpower cost involved in the project is more than expected especially before the Group has its products launched. The budgeted costs in the prospectus was not sufficient. |
| Sales and marketing of the Group's services and products. | 1.2 | 2.7 | 1.5 | The budget was for the sales and market of one product, i.e. Ginkgo. The other 3 products were ready for distribution by February 2003, which was earlier than anticipated in the prospectus. The higher costs were due to hiring of agents to market four products instead of one. |

| | Planned<br>*HK$million* | Actual<br>*HK$million* | Variance<br>*HK$million* | Remarks |
|---|---|---|---|---|
| ITF matching fund obligations under the collaborative projects with HKUST and CUHK. | 2.1 | 2.1 | – | No material variance. |
| Acquisition of analytical chemistry and cell biology equipment for refinement and upgrades of the SimBioDAS® technology. | 1.5 | 0.2 | (1.3) | Management has identified a robot system which can be adapted for the Group's purposes and is available in the market. The Group will buy the system in the future when the need arises. |
| Establishing a facility in Canada for development of an automated SimBioDAS® technology. | 0.9 | – | (0.9) | The Group has decided to adopt a robotic system which can be purchased for approximately USD250,000. By acquiring this instead of developing the Group's own, the Group can achieve substantial savings in costs and time. |
| Acquisition of equipment to perform contract services using SimBioDAS® technology. | 0.6 | – | (0.6) | The Group's Edmonton laboratory has leased two 1100 LC/MSD (Liquid Chrounatography/Mass Spectrometry) systems in March 2003. The Group has decided to lease instead of purchasing the equipment in order to preserve cash. |
| Marketing and promotion activities of the Group's herbal products. | 2.3 | 2.4 | 0.1 | No material variance. |
| Herbal product development | 1.0 | 1.9 | 0.9 | The Group has spent more than planned in opening China markets, especially in looking for joint venture partners in developing new products. As as 28 February 2003, the Group has not yet finalised any joint venture agreement with these parties. |

| | Planned<br>*HK$million* | Actual<br>*HK$million* | Variance<br>*HK$million* | Remarks |
|---|---|---|---|---|
| General working capital | 1.0 | 6.6 | 5.6 | Since the Group's turnover in the financial year was lower than expected, part of the working capital has to be financed by listing proceeds |
| Grand total | 13.0 | 21.5 | 8.5 | |

There were no material deviations from the intended use of net proceeds for the year ended 28 February 2003 as disclosed in the interim report of the Company 2002 and the prospectus dated 22 May 2002.

The directors of the Company presently do not anticipate any material deviation from the intended use of the net proceeds as disclosed in the interim report of the Company 2002 and 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 AS SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

### For the period from 16 May 2002 to 31 August 2002

| Business Objective as stipulated on in the prospectus dated 22 May 2002 | Actual progress and development | Remarks |
|---|---|---|
| **Drug-screening services** | | |
| *Product Development* | | |
| • 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. | • 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. | |
| • To explore the possibility of having a partner for developing a robotic system on the SimBioDAS® technology for rapid screening. | • The Group terminated plans for one prospective partner. | • 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. |

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| • 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. | • Some promising cell lines were located for future acquisition. | |
| • To file 3 patent applications of certain inventions or processes related to the SimBioDAS® technology. | • One comprehensive patent application was filed which may be expanded to several separate applications later. | |
| *Sales and marketing* | | |
| • To identify customers, such as pharmaceutical companies, biotechnology companies, laboratories and research institutes, for validation of SimBioDAS® technology. | • 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. | |
| • To begin to identify and sign agreements with potential customers for the SimBioDAS® technology. | • No progress has been made in identifying potential customers for the SimBioDAS® technology in Hong Kong. | • In Hong Kong, management has considered and decided that it is more beneficial to concentrate its existing resources on herbal product development. |
| *Resources Deployment* | | |
| • 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). | • The Hong Kong unit has already acquired the instruments as planned. | • The Canadian unit has however postponed the purchase because the management found that the existing equipment was still sufficient to support the current operations. The Canadian unit will process the purchase in the future when the need arises. |
| • To employ 2 more technicians in Canada for application and refinement of the SimBioDAS® technology. | • The Group has not yet employed the 2 additional technicians in Canada. | • 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. |
| • 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 robatic system on the SimBioDAS® technology. | • The renovation of the existing facilities in Canada has not yet started. | • The Group is still discussing with the landlord on the terms of the renovation. |

**Herbal and TCM**

*Product development*

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| • To finalise the manufacturing procedure for Ginkgo as a food supplement. | • The Group launched the sales of its Gingko product in Hong Kong in the fourth week of August 2002. | |
| • In Hong Kong, to commence the assay development for Ginseng and Cordyceps militaris. | • The assay development for ginsenoside has been completed and the assay development for Cordyceps is progressing according to schedule. | |
| • In Canada, to commence the assay development for Echinacea and St. John's Wort. | • Assay development for both herbs was commenced, as well as that for Silymarin. | |
| • 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. | • Not yet completed | • Awaiting clarification on new regulations before proceeding with preparation of regulatory documents. |
| • In Hong Kong, to support CUHK and HKUST to establish the Innovation and Technology Fund (" ITF") projects on TCM-based cardiovascular and liver cancer formulations. | • The ITF projects on TCM-based cardiovascular and liver cancer formulations are progressing according to schedule. | |

*Sales and marketing*

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| • To determine, establish and implement a marketing plan for the Group's Ginkgo product in North American and European market. | • A marketing plan was determined and established. Product launch was set for the fourth quarter of 2002 to coincide with trade shows in North America. | |
| • To establish a marketing plan for the Group's product, including the Group's Joint Venture Partner, for the Asian market. | • 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. | |
| • To launch Ginkgo as a food supplement in North America and Asia. | • In Hong Kong, the Group launched its Gingko 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. | • The management has decided to delay the launch of its Ginkgo product in North America until November 2002 because it is expected that more product would be available by then, and the whole product portfolio is expected to have better marketing effect. |

*Resources deployment*

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| • To outsource the manufacturing of Ginkgo. | • The Group has outsourced the manufacturing of Ginkgo already. | |
| • To employ a consultant for formulation of the Group's products. | • The Group has contracted a consultant in Canada for formulation of the Group's product already. | |
| • In Hong Kong, to employ 1 more technician, 1 marketing consultant, 1 marketing assistant and 1 product manager. | • 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. | • In order to control operating costs, the workload is being shared by the existing staff of the Group. |
| • To employ 1 marketing manager for North America and European markets in Canada. | • The Group has not employed the marketing manager for North American and European markets in Canada. | • The Group is considering to contract marketing consultants in Canada instead of hiring a marketing manager. |

**For the period from 1 September 2002 to 28 February 2003**

| Business Objective as stipulated in the prospectus dated 22 May 2002 | Actual progress and development | Remarks |
|---|---|---|
| **Drug-screening services** | | |
| *Product development* | | |
| • To begin the development of an automated system for the SimBioDAS® technology for rapid screening. | • A robotic system has been identified, which can be adapted for the Group's purpose and its current available in the market. | |
| • To continue to locate and also to obtain, culture and store human liver cell lines and to locate a stable supply of fresh human liver cells for evaluation in the second generation of the SimBioDAS® technology (which includes the process of elimination of drugs by liver metabolism). These human and animal cells are freshly harvested from a biopsy or recently deceased person and are commercially available. | • The sourcing of human liver cells is continuing and the Group is also in the process of examining some human liver cell lines. | |
| • To continue the refinement of the cell culture system for the SimBioDAS® technology through developing growth conditions to support drug metabolism in the cell lines. | • The SimBioDAS® ("SBD Cells") cell line is being refined to the stage where the Group can prepare more patent applications. | |
| *Sales and marketing* | | |
| • To continue to identify and sign agreements with potential customers, such as pharmaceutical companies, biotechnology companies, laboratories and research institutes, for the SimBioDAS® technology. | • One contract has been completed by February 2003 with a multinational pharmaceutical company for the evaluation of the SimBioDAS® technology. There are ongoing discussions for further contracts to continue with evaluation study. There are discussions with other multi-national pharmaceutical companies for evaluation studies. | |
| *Resources deployment* | | |
| • To fully utilize the existing resources and, with the "learning curve" effects, increase efficiency to cope with the additional workload. | • The Group is constantly improving on its operating strategies and efficiencies by review the operating system. | |

**Herbal and TCM**

*Product development*

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| • In Hong Kong, to complete the assay development of Ginseng and Cordyceps militaris and commence formulation of the products. | • Assay development for the two herbs has been completed. Ginseng is now on the market. A formulation of Cordycep is being prepared. |
| • In Canada, to complete the assay development of Echinacea and St. John's Wort and commence formulation of the products. | • Assay development for both herbs has been completed and these two herbs are now in the market in Hong Kong and Canada. |
| • To identify and quantify the absorbable active ingredients in Ginkgo. | • Completed. Ginkgo has been in the market in Hong Kong since August 2002 and in Canada since February 2003. |
| • To support the activities of CUHK to validate the active ingredient isolator and to develop herbal extraction methods and absorbable ingredient profiles for the TCM-based cardiovascular formulation. | • The validation method has been completed and the Group is in the process of examining the activities of the ingredient profile. |
| • To support HKUST to validate the SimBioDAS® technology on a model TCM formula and to establish and optimize pharmacological assays. | • The SimBioDAS® and pharmacological assays are being used to evaluate a TCM formula. |

*Sales and marketing*

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| • To determine and establish the marketing plans for Ginseng, Cordyceps militaris, Echinacea and St. John's Wort in the North American, European and Asian markets. | • The Hong Kong and Canadian Market have been established. A contract with an American distributor to enter the United States market has recently been signed in April 2003. |

*Resources deployment*

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| • To employ 1 store manager in Canada. | • There is no need at the present time for an additional store manager. The job is done by existing staffs in order to save costs. |
| • To employ 2 scientists and 1 technician in analytical chemistry. | • These personnel are not required at this time. The job is done by existing staffs in order to save costs. |

## SPONSOR'S INTEREST

Pursuant to a sponsor agreement dated 21 May 2002 between the Company and AMS Corporate Finance Limited ("AMS"), AMS was originally appointed as the sponsor of the Company for a fee from 3 June 2002 to 28 February 2005. The Company and AMS mutually agreed to terminate the sponsor agreement with effect from 20 March 2003. As notified by AMS, neither AMS nor any of its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 28 February 2003.

Hantec Capital Limited ("HCL") has been appointed as sponsor of the Company in replacement of AMS for the period from 20 March 2003 to 28 February 2005, for which HCL will receive a fee. As updated and notified by HCL, neither HCL nor any of its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 28 February 2003.

Save as disclosed above, both AMS and HCL had no other interest in the Company as at 28 February 2003.

## COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of The Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") since the listing of the Company's shares on the GEM on 3 June 2002.

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

Other than the issue of 524,085 ordinary shares of HK$0.01 each on 17 January 2003 for settling certain licensing fee of HK$75,000 in lieu of cash consideration, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 3 June 2002 to 28 February 2003.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants and, in the opinion of the directors, complied with Rules 5.23 to 5.27 as set out in Chapter 5 of the GEM Listing Rules since the listing of the Company's shares on the GEM on the Listing Date. The primary duties of the audit committee are to review the Company's annual report and accounts, interim reports and quarterly reports and to provide advice and comments thereon to the directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consists of the two remaining independent non-executive directors and a non-executive director. As at the date of this report, the audit committee met four times for reviewing and supervising the financial reporting process, the Company's annual report and financial statements, and providing advice and recommendations to the directors.

By order of the Board
**Dr. Tam Yun Kau**
*President & Chief Executive Officer*

Hong Kong, 16 May 2003

*This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least seven days from the day of its posting and on the website of the Company at www.kinetana.com.*