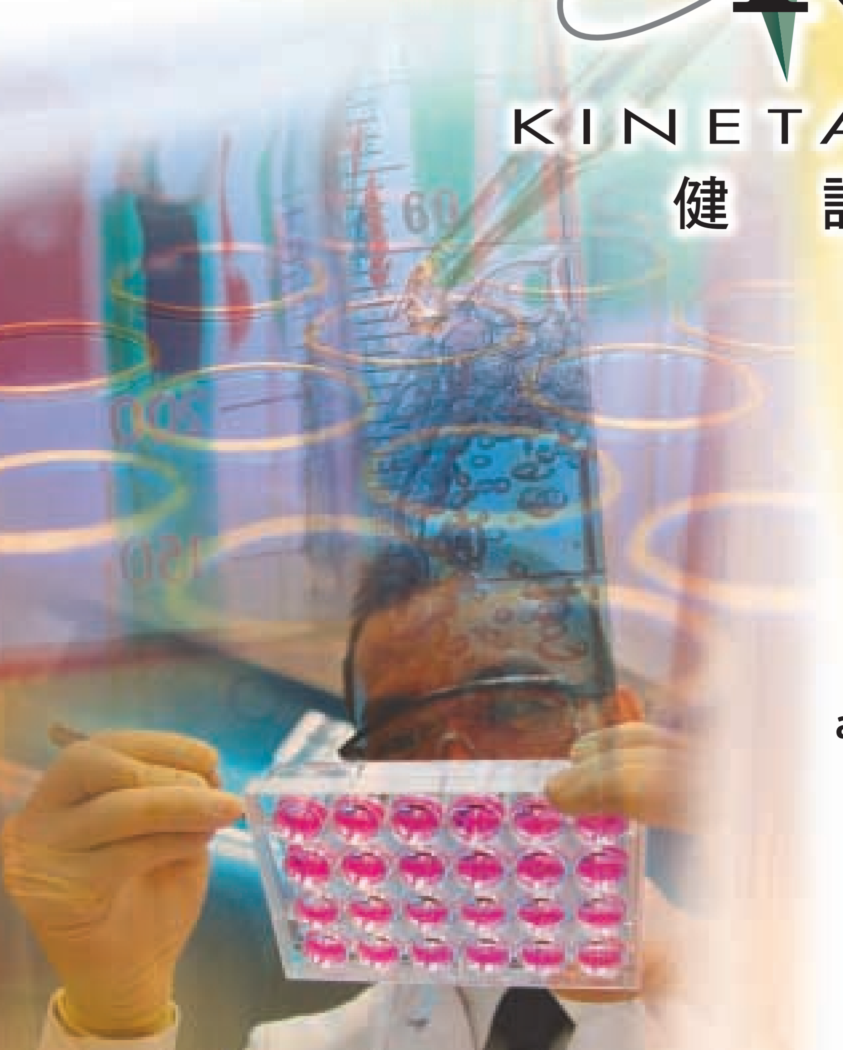
Kinetana International Biotech Pharma Limited
健諾國際生化科技藥業有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

KINETANA
健 諾



annual report
2002/03
年報

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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors
Dr. TAM Yun Kau
Mr. YOUNG Chiu Kit, Patrick

Non-executive directors
Dr. Antoine A. NOUJAIM
Mr. LEE Chiu Kang
Mr. TAM Shong-Tak, David
Mr. YEUNG Sui Leung

Independent non-executive directors
Mr. CHAN Mo Po, Paul
Dr. CHAN Wai Kit, Albert

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN CANADA

108 Advanced Technology Centre
9650-20th Avenue N.W.
Edmonton, Alberta
Canada T6N 1G1

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 101-103
Hong Kong Institute of Biotechnology
2 Biotechnology Avenue
Shatin, New Territories
Hong Kong

COMPANY WEBSITE

http://www.kinetana.com

Note: Information contained in this website does not form part of this annual report.

COMPANY SECRETARY

Mr. MAY Tai Keung, Nicholas

AUTHORISED REPRESENTATIVES

Dr. TAM Yun Kau
Mr. MAY Tai Keung, Nicholas

COMPLIANCE OFFICER

Dr. TAM Yun Kau

QUALIFIED ACCOUNTANT

Mr. MAY Tai Keung, Nicholas

AUDIT COMMITTEE MEMBERS

Mr. CHAN Mo Po, Paul
Mr. TAM Shong-Tak, David
Dr. CHAN Wai-Kit, Albert

SENIOR BUSINESS ADVISER

Prof. LO Yuk Lam

SPONSOR

Hantec Capital Limited

AUDITORS

Ernst & Young

LEGAL ADVISERS TO THE COMPANY

Preston Gates Ellis
Parlee McLaws LLP

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Bank of Nova Scotia

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

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.

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.

Kinetana's four herbal products, namely (from left): Ginseng, St. John's Wort, Echinacea and Ginkgo.

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

PRESIDENT'S MESSAGE

Winner of the "Best Biochemistry Technology Company" of the 2nd Omega Outstanding Information Technology & Financial Enterprises Awards.

Winner of the "Technology Advantage Award" of Business Awards 2002 presented by The Canadian Chamber of Commerce in Hong Kong.

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

MANAGEMENT
DISCUSSION AND ANALYSIS

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 million 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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, approximately 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.
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.

MANAGEMENT DISCUSSION AND ANALYSIS

	Planned HK$million	Actual HK$million	Variance HK$million	Remarks
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 Chromatography/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 at 28 February 2003, the Group has not yet finalised any joint venture agreement with these parties.
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.

BUSINESS OBJECTIVES

AND ACTUAL BUSINESS PROGRESS COMPARISON

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 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.
• 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.	

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

Business Objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development	Remarks
Drug-screening services (continued)		
Sales and marketing *(continued)*		
• 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 robotic 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.

Business Objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development	Remarks
Herbal and TCM		
Product development		
• 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		
• 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.	

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

Business Objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development	Remarks
Herbal and TCM (continued)		
Sales and marketing *(continued)*		
• 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 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.	• 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		
• 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
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	
• 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.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

Business Objective as stipulated in the prospectus dated 22 May 2002	Actual progress and development
Herbal and TCM (continued)	
Product development *(continued)*	
• 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	
• 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	
• 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.

DIRECTORS
AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive directors

Dr. TAM Yun Kau, aged 50, is the founder and Chairman of the Board of Directors. He is also the President and Chief Executive Officer of the Group. Dr. Tam obtained his Bachelor of Science degree from the University of Minnesota in 1975, his Master of Science (Pharmaceutical Sciences) in 1978 and his Ph.D. (Pharmaceutical Sciences) in 1981 from the University of British Columbia. Dr. Tam had held various teaching positions at the University of Alberta from 1981 to 2000. He is the co-inventor of the patented invention entitled "simulated biological dissolution and absorption system". Dr. Tam is also a co-inventor of an invention entitled "composition for prevention of hepatic steatosis" in respect of which the Group has five patent applications pending in various countries and territories. Dr. Tam presently serves on the Editorial Advisory Board of the Journal of Pharmaceutical Sciences and Drug Metabolism and Disposition.

Mr. YOUNG Chiu Kit, Patrick, aged 56, is the Vice President and Corporate Secretary, Canadian Operations of the Group. In 1972, Mr. Young obtained his Bachelor of Commerce from the University of Alberta. In 1975, he was admitted to the Institute of Chartered Accountants of Alberta as a Chartered Accountant. Mr. Young operates his own accounting firm, Patrick C. Young Professional Corporation, Chartered Accountant in Edmonton, Canada and is responsible for overseeing the Group's accounting and financial management in Canada.

Non-executive directors

Dr. Antoine A. NOUJAIM, aged 66, is a non-executive Director appointed on 5 November 2001. Dr. Noujaim obtained his Ph.D (Bionucleonics) in 1965 from Purdue University. Dr. Noujaim is the founder of AltaRex Corp., a company involved in cancer immunity research, and whose shares are traded on The Toronto Stock Exchange. Dr. Noujaim is also a co-founder of Biomira Inc., a corporation whose shares are also traded on The Toronto Stock Exchange and which is involved in cancer vaccines and therapy.

Mr. LEE Chiu Kang, aged 53, is a non-executive Director appointed on 5 November 2001. Mr. Lee presently acts as the Managing Director of Phoenix Capital Asia Limited. Mr. Lee was educated at the Golden Gate University and obtained a Bachelor of Arts (Economics) in 1975. He is an independent director of Proview International Holdings Limited and has been a director of Phoenix Capital Investment Holdings Limited since December 1996.

Mr. TAM Shong-Tak, David, aged 40, is a non-executive Director appointed on 5 November 2001. Mr. David Tam is a partner with the law firm of Parlee McLaws LLP, Barristers and Solicitors in Edmonton, Alberta, Canada. Mr. Tam obtained his Bachelor of Science (Pharmacy) from the University of Alberta in 1985 and obtained a Bachelor of Laws from the University of Alberta in 1989. Mr. Tam is the corporate secretary of several public companies listed on the Canadian Venture Exchange and is a director of Poly-Pacific International Inc. and several private companies.

Mr. YEUNG Sui Leung, age 42, is a non-executive Director and was appointed to the Board on 13 December 2002. Mr. Yeung has over 20 years of experience in the aquacultural industry and is considered a leader in the field. Mr. Yeung is also the managing director of Yeungs Marine Products Limited, Grand Interest Development Limited and Teamset Investment Limited.

Independent non-executive directors

Mr. CHAN Mo Po, Paul, aged 48, is an independent non-executive Director appointed on 5 November 2001. Mr. Chan is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor and master degrees in Business Administration. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants, the Institute of Chartered Secretaries and Administrators, the Taxation Institute of Hong Kong and the Macau Society of Certified Practising Accountants. Mr. Chan is the managing partner of Paul Chan & Partners, Certified Public Accountants. He is currently the Vice President of the Hong Kong Society of Accountants. He serves on the Transport Advisory Committee and is a panel member of the Board of Review (Inland Revenue).

Dr. CHAN Wai Kit, Albert, aged 44, is the Principal of the Law Offices of Albert Wai-Kit Chan, LLC. Prior to this, Dr. Chan was the President and CEO of International Herbal Pharmaceuticals, Corp. (IHP) and Trinity Biomedical Technology Corp. (TBTC), both based in New York City. He is well-versed in all aspects of prosecution and litigation and is experienced in licensing, technology transfer and the evaluation of intellectual property portfolios in preparation for initial public offerings. Dr. Chan is a member of the New York and New Jersey Bars, an adjunct professor of law at The City University of New York School of Law and is the President of United States-China Lawyer's Society, 2001-2003.

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, interim 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 Dr. Chan Wai Kit, Albert and Mr. Chan Mo Po, Paul, and a non-executive Director, Mr. Tam Shong-Tak, David. Mr. Chan Mo Po, Paul is the Chairman of the audit committee.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Dr. Nuzhat TAM-ZAMAN, aged 41, is the director of international affairs and quality assurance of the Group. Dr. Tam-Zaman obtained her Ph.D in 1996 from the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta. She has 17 publications and is a co-inventor of an invention entitled "composition for prevention of hepatic steatosis" in respect of which the Group has five patent applications pending in various countries and territories. Dr. Tam-Zaman joined the Group in May 1997. Her responsibilities include supervising the PK/PD department and act as a liaison between the Canadian and Hong Kong office.

Dr. Hugh Alexander SEMPLE, aged 51, is the director of scientific and regulatory affairs of the Group. He holds a Doctor of Veterinary Medicine from University of Saskatchewan, and a Ph.D. in Pharmacokinetics from the University of Alberta. From 1989 to 1999, he served as a professor of pharmacokinetics with the College of Pharmacy and Nutrition (formerly known as the College of Pharmacy), University of Saskatchewan. He joined the group in July 1998 and is responsible for overseeing the scientific activities of the Group's operation in Canada, including planning, co-ordination, budgeting, experimental design, reporting and implementation.

Dr. Douglas Thacher RIDGWAY, aged 33, is a director of the Group's department of computational modeling. Dr. Ridgway received his Ph.D. at the University of California, San Diego in 1997. He was a recipient of a post-doctoral fellowship from the Alberta Heritage Foundation for Medical Research from 1997-1999. His training was in the areas of applied physics and pharmacokinetics. Dr. Ridgway has 8 peer-reviewed publications. Besides his modeling responsibilities, Dr. Ridgway is involved in experimental design and data analysis. He is also responsible for developing the Group's database and for overseeing the Group's network operations in Canada. Dr. Ridgway joined the Group in October 1999.

Dr. Brian Duff SLOLEY, aged 45, is a senior scientist/analytical chemist of the Group. Dr. Sloley holds a Bachelor of Science (Biology) from Queen's University, Kingston, Ontario, a Master of Science (Zoology) from the University of Western Ontario, and a Ph.D. (Biology) from the University of Waterloo, Ontario. After serving as a post-doctoral fellow, Dr. Sloley was a Sessional Lecturer at the associate professor level at the University of Alberta from January to April 1993. Dr. Sloley joined the Group in June 2001 and is responsible for the chemical analysis of all samples produced by other departments of the Group in Canada.

Dr. LIN Yi Chan, James, aged 38, is senior scientist/cell biologist of the Group in Canada. Dr. Lin received his Ph.D. from the University of Alberta, Canada. Dr. Lin served as a sessional lecturer in the Department of Biological Sciences, University of Alberta, from 1 September 1999 to 31 December 1999. Dr. Lin joined the Group in June 2001 and is the head of the cell biology department in Canada. He is responsible for the development of cell models for the SimBioDAS® technology in the Canadian laboratory.

Dr. CHOO Chee Keong, aged 37, is the director of cell biology of the Group in Hong Kong. In 1994, he obtained his Ph.D (Physiology and Biophysics) from Case Western Reserve University. From 1994 to 1996, Dr. Choo was a Research Fellow at the Institute of Molecular and Cell Biology in Singapore where he studied human papillomavirus in relation to human cancer. He has published over 20 peer-reviewed journal articles and proceedings on the study of normal and cancerous molecular and cell biology. Dr. Choo joined the Group as a senior scientist in November 2000 and is involved in the generation of animal and human cell lines for further refinement of the SimBioDAS® technology and *in vitro* screening of TCM.

Dr. LING Lei, aged 39, is a senior scientist (analytical chemist) of the Group. Dr. Ling received his Ph.D. from the Ehime University, Japan. Dr. Ling has published over 16 papers and a book chapter. After working as a post-doctoral fellow at the Department of Chemistry, University of Alberta, Canada, for two years and research scientist in CV Technologies Inc. for four years, Dr. Ling joined the Group in October 2001 as a senior scientist. He is leading the analytical department of the Group in Hong Kong for development of methods for product quality control and also provides research support to the Group.

Mr. MAY Tai Keung, Nicholas, aged 41, is the financial controller and company secretary of the Group. Mr. May holds a Bachelor's Degree in Economics from Macquarie University and a Master's Degree in Commerce from the University of New South Wales. Prior to joining the Group, he was the chief financial officer of a large private group with a listed company. Mr. May is an associate member of Hong Kong Society of Accountants. He joined the Group in October 2002 and is in charge of the Group's accounting, finance, general administration and business development in Hong Kong.

Mr. NG Chii Siang, Sam, aged 40, is the business development manager of the Hong Kong operation of the Group. Mr. Ng holds a Business Administration degree from the University of New Brunswick in Fredericton, Canada. Prior to joining the Group, Mr. Ng was the sales director and marketing manager in major listed FMCG and direct selling companies. Mr. Ng joined the Group in January 2003, and is responsible for managing the sales and marketing functions of the Group in Hong Kong and Asia Pacific with particular emphasis on development of new markets.

REPORT
OF THE DIRECTORS

The directors present their first report and the audited financial statements of the Company and the Group for the year ended 28 February 2003.

GROUP REORGANISATION

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 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.

Further details of the Reorganisation, together with the details of the subsidiaries and a jointly-controlled entity acquired pursuant thereto, are set out in notes 2, 16 and 17 to the financial statements and in the Company's prospectus (the "Prospectus") dated 22 May 2002.

The shares of the Company have been listed on the GEM since 3 June 2002 (the "Listing Date").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group consist of the research and development of biopharmaceutical technologies, Western herbal products and traditional Chinese medicine ("TCM") based products; the provision of related services; and the sale of herbal products. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements.

There have been no changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 28 February 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 66.

The directors do not recommend the payment of any dividend in respect of the year ended 28 February 2003.

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, approximately HK$21.5 million has been utilised up to 28 February 2003, the details of which are set out on pages 9 to 10 of the annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the last four financial years as if it had been a continuing entity, and of the assets and liabilities of the Group as at 28 February 2002 and 2003, as extracted from the Prospectus and the audited financial statements, is set out on pages 67 to 68. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options for the period from 18 October 2001 (date of incorporation) to 28 February 2003, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in note 27 to the financial statements, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from the Listing Date to 28 February 2003.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the Company's share premium and contributed surplus accounts are distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

At 28 February 2003, the Company's reserves available for distribution to shareholders amounted to HK$51,490,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 28 February 2003, the Group's sales were made to five customers and sales to the largest customer included therein amounted to HK$450,000. Purchases from the Group's five largest suppliers accounted for 72% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the period from 18 October 2001 (date of incorporation) to 28 February 2003 were:

Executive directors:

Dr. TAM Yun Kau	(Appointed on 29 October 2001)
Mr. YOUNG Shui Chung	(Appointed on 5 November 2001 and deceased on 16 August 2002)
Mr. YOUNG Chiu Kit, Patrick	(Appointed on 5 November 2001)

Non-executive directors:

Dr. Antoine A. NOUJAIM	(Appointed on 5 November 2001)
Mr. LEE Chiu Kang	(Appointed on 5 November 2001)
Mr. TAM Shong-Tak, David	(Appointed on 5 November 2001)
Mr. YEUNG Sui Leung	(Appointed on 13 December 2002)

Independent non-executive directors:

Dr. PANG Wai Bing, Cecilia	(Appointed on 5 November 2001 and resigned on 1 July 2002)
Mr. CHAN Mo Po, Paul	(Appointed on 5 November 2001)
Dr. CHAN Wai Kit, Albert	(Appointed on 2 August 2002)

Other than Dr. Tam Yun Kau, all the existing directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 and 18 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the remaining executive directors has entered into a service contract with the Company with an unexpired period of 19 months as at 28 February 2003. Except for Mr. Yeung Sui Leung and Dr. Chan Wai Kit, Albert, each of the non-executive directors and independent non-executive directors has entered into a service contract with the Company for an initial term of one year commencing on 3 June 2002, which will continue thereafter unless terminated in accordance with the terms of the service contracts. Each of Dr. Chan Wai Kit, Albert and Mr. Yeung Sui Leung has entered into a service contract with the Company for a period of one year commencing on 2 August 2002 and 13 December 2002, respectively, which will continue thereafter unless terminated in accordance with the terms of the service contract.

Apart from the foregoing, no director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 28 February 2003, the interests of the directors in the issued share capital and warrants of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

		Number of shares held and nature of interest			
Name of director	Notes	Personal	Family	Corporate	Total
Dr. Tam Yun Kau	(a)	22,011,161	500,000	118,737,854	141,249,015
Mr. Young Chiu Kit, Patrick		2,114,150	–	–	2,114,150
Dr. Antoine A. Noujaim		855,989	–	–	855,989
Mr. Chan Mo Po, Paul		–	1,300,000	–	1,300,000
Mr. Yeung Sui Leung	(b)	4,379,387	–	–	4,379,387
		29,360,687	1,800,000	118,737,854	149,898,541

Notes:

(a) The corporate interest of Dr. Tam Yun Kau in the shares of the Company is held by 943788 Alberta Ltd., a company incorporated in Canada and wholly-owned by Dr. Tam Yun Kau.

(b) Mr. Yeung Sui Leung also holds an approximate 16.67% equity interest in Grand Interest Development Limited, which holds 30,815,591 shares of the Company as at 28 February 2003.

In addition, Grand Interest Development Limited holds 315,000 warrants of Kinetana Group Inc. ("KGI"), a wholly-owned subsidiary of the Company, to subscribe for an aggregate of 315,000 common shares of KGI at an exercise price of CAN$3.10 per share. Pursuant to a conditional share exchange offer made on 5 November 2001 by the Company and two wholly-owned subsidiaries, namely Kinetana Holdings (BVI) Limited and Kinetana Holdings (Barbados) Limited, and agreed by KGI (as supplemented by two letters dated 27 February 2002 and 28 March 2002 by the same parties) and accepted by each holder of the KGI's warrants between 15 April 2002 and 16 May 2002, the exercise in full of the KGI's warrants held by Grand Interest Development Limited would result in the allotment and issue of 7,703,898 shares of the Company.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements.

The interest of the directors in the share options of the Company and KGI, a wholly-owned subsidiary of the Company, are separately disclosed in note 28 to the financial statements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares and warrants" above and in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Detailed disclosures relating to the Company's share option schemes are included in note 28 to the financial statements.

Concerning the share options of the Company and KGI granted to the directors, employees, consultants and others during the year, as detailed in note 28 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

SUBSTANTIAL SHAREHOLDERS

At 28 February 2003, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's issued share capital
943788 Alberta Ltd. *(Note a)*	118,737,854	22.81
Dr. Nuzhat Tam-Zaman *(Note b)*	141,249,015	27.14

Notes:

(a) 943788 Alberta Ltd. is an investment holding company incorporated in Canada and wholly-owned by Dr. Tam Yun Kau, a director of the Company.

(b) The 141,249,015 shares of the Company referred to above include 500,000 shares held by Dr. Nuzhat Tam-Zaman herself, 22,011,161 shares held by Dr. Tam Yun Kau and 118,737,854 shares held by 943788 Alberta Ltd. Dr. Nuzhat Tam-Zaman is the wife of Dr. Tam Yun Kau and is deemed to be interested in the shares held by Dr. Tam Yun Kau and 943788 Alberta Ltd.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and warrants" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of the connected transactions undertaken by the Group during the year are set out in note 33 to the financial statements.

CORPORATE GOVERNANCE

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 the Listing Date.

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 has, 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 financial statements, half-year 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.

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

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.

AUDITORS

During the year, Ernst & Young were appointed as the first auditors of the Company. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Dr. TAM Yun Kau
President & Chief Executive Officer

Hong Kong
16 May 2003

REPORT
OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members
Kinetana International Biotech Pharma Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 28 February 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
16 May 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 28 February 2003

	Notes	Year ended 28 February 2003 HK$'000	Period from 11 July 2001 to 28 February 2002 HK$'000
TURNOVER	5	**717**	750
Cost of sales		**(573)**	(205)
Gross profit		**144**	545
Other revenue, net	5	**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	6	**(26,963)**	(11,162)
Finance costs	7	**(160)**	(112)
Share of profit/(loss) of a jointly-controlled entity		**(22)**	14
LOSS BEFORE TAX		**(27,145)**	(11,260)
Tax	10	**–**	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(27,145)**	(11,260)
LOSS PER SHARE – Basic (HK$)	12	**(0.056)**	(0.032)

CONSOLIDATED BALANCE SHEET

28 February 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**4,356**	5,298
Intangible assets	14	**8,369**	6,550
Goodwill:	15		
Goodwill		**13,266**	14,855
Negative goodwill		**(3,581)**	(3,996)
Interests in a jointly-controlled entity	17	**15**	(35)
		22,425	22,672
CURRENT ASSETS			
Inventories	18	**612**	–
Tax recoverable	19	**394**	446
Trade receivables	20	**65**	650
Prepayments, deposits and other receivables		**553**	7,444
Cash and cash equivalents		**40,618**	70
		42,242	8,610
CURRENT LIABILITIES			
Trade payables	21	**677**	–
Amount due to a contract customer	22	**–**	100
Other payables and accruals		**1,550**	4,430
Loan from a director	23	**–**	826
Loan from a related party	24	**–**	250
Finance lease payable	25	**373**	317
		2,600	5,923
NET CURRENT ASSETS		**39,642**	2,687
TOTAL ASSETS LESS CURRENT LIABILITIES		**62,067**	25,359
NON-CURRENT LIABILITIES			
Finance lease payable	25	**169**	519
		61,898	24,840
CAPITAL AND RESERVES			
Issued capital	27	**5,205**	155
Reserves	29(a)	**56,693**	24,685
		61,898	24,840

TAM Yun Kau
Director

YOUNG Chiu Kit, Patrick
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 28 February 2003

	Note	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus account HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
				(note 29(a))			
At 11 July 2001		–	–	–	–	–	–
Share allotted and issued upon incorporation	27	–	–	–	–	–	–
Shares issued and credited as fully paid pursuant to the Reorganisation	27	155	–	35,945	–	–	36,100
Loss for the period		–	–	–	–	(11,260)	(11,260)
At 28 February 2002 and 1 March 2002		155	–*	35,945*	–*	(11,260)*	24,840
Issue of shares	27	5,050	75,885	–	–	–	80,935
Share issue expenses	27	–	(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		5,205	60,147*	35,590*	(639)*	(38,405)*	61,898
Reserves retained by:							
Company and subsidiaries		5,205	60,147	35,590	(639)	(38,397)	61,906
Jointly-controlled entity		–	–	–	–	(8)	(8)
28 February 2003		5,205	60,147	35,590	(639)	(38,405)	61,898
Company and subsidiaries		155	–	35,945	–	(11,274)	24,826
Jointly-controlled entity		–	–	–	–	14	14
28 February 2002		155	–	35,945	–	(11,260)	24,840

* These reserve accounts comprise the consolidated reserves of HK$56,693,000 (2002: HK$24,685,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 28 February 2003

	Notes	**Year ended 28 February 2003 HK$'000**	Period from 11 July 2001 to 28 February 2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(27,145)**	(11,260)
Adjustments for:			
Finance costs	7	**160**	112
Share of (profit)/loss of a jointly-controlled entity		**22**	(14)
Interest income	5	**(882)**	(41)
Depreciation	6	**1,764**	785
Amortisation of patents and trademarks	6	**–**	3
Impairment of patents and trademarks	6	**11**	44
Amortisation of deferred development costs	6	**412**	59
Impairment of deferred development costs	6	**–**	1,066
Amortisation of goodwill	6	**1,589**	907
Negative goodwill recognised as income	6	**(415)**	(237)
Loss on disposal of short term investments	6	**–**	32
Licensing fees paid through issuance of shares	30(b)	**75**	50
Operating loss before working capital changes		**(24,409)**	(8,494)
Increase/(decrease) in an amount due to a jointly-controlled entity		**(72)**	49
Proceeds from disposal of short term investments		**–**	20
Increase in inventories		**(612)**	–
Decrease/(increase) in tax recoverable		**52**	(307)
Decrease/(increase) in trade receivables		**585**	(650)
Decrease/(increase) in prepayments, deposits and other receivables		**6,891**	(19,922)
Increase in trade payables		**677**	–
Increase/(decrease) in an amount due to a contract customer		**(100)**	100
Increase/(decrease) in other payables and accruals		**(2,880)**	2,620
Exchange realignments		**(816)**	–
Cash used in operations		**(20,684)**	(26,584)
Interest received		**882**	41
Net cash outflow from operating activities		**(19,802)**	(26,543)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	13	**(797)**	(835)
Additions to patents and trademarks	14	**(61)**	(30)
Additions to deferred development costs	14	**(2,007)**	(696)
Acquisition of subsidiaries	30(a)	**–**	10,511
Decrease in time deposits with a maturity of more than three months when acquired		**–**	–
Net cash inflow/(outflow) from investing activities		**(2,865)**	8,950

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 28 February 2003

	Notes	Year ended 28 February 2003 HK$'000	Period from 11 July 2001 to 28 February 2002 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares	27	**80,860**	–
Proceeds from issue of new shares by subsidiaries		**–**	18,333
Share issue expenses	27	**(15,738)**	–
Share issue expenses of a subsidiary		**(355)**	–
Repayment of a bank loan		**–**	(388)
Repayment of a loan from a related party		**(250)**	–
Net increase/(decrease) in loan from a director		**(827)**	37
Capital element of finance lease rental payments		**(317)**	(207)
Interest paid		**(76)**	(45)
Interest element on finance lease rental payments		**(84)**	(67)
Net cash inflow from financing activities		**63,213**	17,663
NET INCREASE IN CASH AND CASH EQUIVALENTS		**40,546**	70
Cash and cash equivalents at beginning of year/period		**70**	–
Effect of foreign exchange changes, net		**2**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		**40,618**	70
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,547**	70
Time deposits with original maturity of less than three months when acquired		**39,071**	–
		40,618	70

BALANCE SHEET

28 February 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	**19,841**	(3,307)
CURRENT ASSETS			
Prepayments, deposits and other receivables		**201**	4,128
Cash and cash equivalents		**37,203**	–
		37,404	4,128
CURRENT LIABILITIES			
Other payables and accruals		**550**	828
NET CURRENT ASSETS		**36,854**	3,300
		56,695	(7)
CAPITAL AND RESERVES/(DEFICIENCY IN ASSETS)			
Issued capital	27	**5,205**	–
Reserves	29(b)	**51,490**	(7)
		56,695	(7)

TAM Yun Kau
Director

YOUNG Chiu Kit, Patrick
Director

NOTES TO FINANCIAL STATEMENTS

28 February 2003

1 CORPORATE INFORMATION

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. The shares of the Company have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") since 3 June 2002.

During the year, the principal activities of the Group consisted of the research and development of biopharmaceutical technologies, Western herbal products and traditional Chinese medicine ("TCM") based products; the provision of related services; and the sale of herbal products.

2 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 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 notes 16 and 17 to the financial statements and in the prospectus of the Company dated 22 May 2002.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of presentation and consolidation

The KBVI Reorganisation as referred to in note 2 to the financial statements 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 2 to the financial statements 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 the KBVI Reorganisation or otherwise, where this is a shorter period.

NOTES TO FINANCIAL STATEMENTS

28 February 2003

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of presentation and consolidation *(continued)*

The consolidated balance sheet as at 28 February 2002 has been prepared on the basis that the Reorganisation had been completed and the existing Group had been in place at that date.

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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 a jointly-controlled entity	**14**
LOSS BEFORE TAX	**(14,898)**
Tax	**–**
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(14,898)**

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Laboratory equipment	20%
Furniture, fixtures and office equipment	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Patents and trademarks

Patents and trademarks represent the application and registration fees paid for patents and trademarks. Costs relating to patents and trademarks are capitalised and stated at cost less any impairment losses and are amortised using the straight-line basis over their estimated economic useful lives, subject to a maximum of 10 years, commencing from the date when the related products are put into commercial production.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the estimated commercial lives of the underlying products, subject to a maximum of 10 years, commencing from the date when the products are put into commercial production.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants and subsidies

Government grants and subsidies are recognised at their fair values when received, or when there is reasonable assurance that they will be received, and all attached conditions are complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy, on a systematic basis, with the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, including non-monetary grants at fair value, the fair value of the grant or subsidy is deducted in arriving at the carrying amount of the related asset, or, as appropriate, is initially recorded as deferred income in the balance sheet, and thereafter is recognised as income over the useful life of the relevant asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials and subcontracting costs. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date, plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) investment tax credits recovered, in accordance with the accounting policy for "Government grants and subsidies" above.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year and prior period by the employees and carried forward.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Certain employees of the Group are members of a compulsory retirement benefits scheme operated by the government of Canada, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The Group's employer contributions vest fully once made.

Share option schemes

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes, if any, is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year/period, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year/period are translated into Hong Kong dollars at the weighted average exchange rates for the year/period.

4 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, and assets are attributed to the segments based on the location of the assets.

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

4 SEGMENT INFORMATION *(continued)*

(i) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure 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)

4 SEGMENT INFORMATION *(continued)*

(i) Business segments *(continued)*

Group

	Absorption screening technology		Herbal products		Eliminations		Consolidated	
	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 assets	**10,241**	12,548	**1,164**	423	**–**	–	**11,405**	12,971
Unallocated assets							**53,262**	18,311
Total assets							**64,667**	31,282
Segment liabilities	**234**	166	**326**	30	**–**	–	**560**	196
Unallocated liabilities							**2,209**	6,246
Total liabilities							**2,769**	6,442

	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:								
Goodwill/(negative goodwill), net	**–**	–	**–**	–	**1,174**	670	**1,174**	670
Intangible assets	**391**	62	**21**	–	**–**	–	**412**	62
Impairment losses	**11**	1,110	**–**	–	**–**	–	**11**	1,110
Capital expenditure	**2,746**	1,715	**33**	429	**86**	460	**2,865**	2,604

4 SEGMENT INFORMATION *(continued)*

(ii) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments:

Group

	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
Total	**1,232**	750	**751**	560	**(533)**	–	**1,450**	1,310
Segment assets	**63,655**	24,163	**6,513**	8,877	**(15,201)**	(12,582)	**54,967**	20,458
Capital expenditure	**2,812**	3,110	**53**	(506)	**–**	–	**2,865**	2,604

5 TURNOVER, REVENUE AND GAINS

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

An analysis of the Group's turnover and other revenue, net is as follows:

	Note	**Year ended 28 February 2003 HK$'000**	Period from 11 July 2001 to 28 February 2002 HK$'000
Turnover			
Absorption screening services rendered		**683**	750
Sale of herbal products		**34**	–
		717	750
Other revenue, net			
Interest income		**882**	41
Investment tax credits recovered		**–**	560
Negative goodwill recognised	15	**415**	237
Exchange gains, net		**733**	–
		2,030	838
		2,747	1,588

6 LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	Notes	**Year ended 28 February 2003 HK$'000**	Period from 11 July 2001 to 28 February 2002 HK$'000
Cost of inventories sold		**14**	–
Cost of services provided		**518**	143
Depreciation	13	**1,764**	785
Patents and trademarks:			
Amortisation for the year/period*	14	**–**	3
Impairment arising during the year/period***	14	**11**	44
		11	47
Deferred development costs:			
Amortisation for the year/period**	14	**412**	59
Impairment arising during the year/period***	14	**–**	1,066
		412	1,125
Amortisation of goodwill***	15	**1,589**	907
Negative goodwill recognised as income****	15	**(415)**	(237)
Minimum lease payments under operating leases:			
Land and buildings		**1,348**	812
Laboratory equipment, furniture, fixtures and office equipment		**1,013**	629
		2,361	1,441
Auditors' remuneration:			
Current year/period		**575**	388
Underprovision in the prior year/period		**70**	–
		645	388
Staff costs (excluding directors' remuneration – *note 8*):			
Salaries, bonuses, allowances and benefits in kind		**8,195**	5,141
Retirement benefits scheme contributions		**278**	169
		8,473	5,310
Less: Capitalised in deferred development costs		**–**	(2,168)
		8,473	3,142
Loss on disposal of short term investments		**–**	32
Exchange (gains)/losses, net		**(733)**	167

* The amortisation of patents and trademarks for the year/period is included in "Cost of sales" on the face of the consolidated profit and loss account.

** Amortisation of deferred development costs of HK$41,000 (period ended 28 February 2002: HK$59,000) and HK$371,000 (period ended 28 February 2002: Nil) for the year ended 28 February 2003 are included in "Cost of sales" and "Research and development expenses", respectively, on the face of the consolidated profit and loss account.

*** The amortisation of goodwill, and impairments of patents and trademarks, and deferred development costs for the year/period are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

**** The movements in negative goodwill recognised in the consolidated profit and loss account for the year/period are included in "Other revenue, net" on the face of the consolidated profit and loss account.

7 FINANCE COSTS

	Year ended 28 February 2003 HK$'000	Period from 11 July 2001 to 28 February 2002 HK$'000
Interest on bank loan and overdrafts, and other loans wholly repayable within five years	**76**	45
Interest on a finance lease	**84**	67
Total finance costs	**160**	112

8 DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 28 February 2003 HK$'000	Period from 11 July 2001 to 28 February 2002 HK$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**296**	–
Independent non-executive directors	**170**	–
	466	–
Other emoluments for executive directors:		
Salaries, bonuses, allowances and benefits in kind	**3,441**	1,396
Retirement benefits scheme contributions	**29**	13
	3,470	1,409
	3,936	1,409

For the year ended 28 February 2003, the three executive directors received emoluments of HK$2,473,000, HK$576,000 and HK$421,000, respectively. The four non-executive directors received fees of HK$90,000, HK$90,000, HK$90,000 and HK$26,000, respectively, and the three independent non-executive directors received fees of HK$90,000, HK$70,000 and HK$10,000, respectively.

For the period ended 28 February 2002, the non-executive directors, independent non-executive directors and one executive director did not receive any fees or emoluments. The remaining two executive directors received emoluments of HK$842,000 and HK$567,000, respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year ended 28 February 2003, 37,908,069 share options of the Company were granted to certain directors under the Company's Pre-IPO share option scheme in respect of their services to the Group, further details of which are set out in note 28 to the financial statements. No value in respect of the share options granted under the Company's Pre-IPO share option scheme during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (period ended 28 February 2002: two), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (period ended 28 February 2002: three) non-director, highest paid employees are as follows:

	Year ended 28 February 2003 HK$'000	Period from 11 July 2001 to 28 February 2002 HK$'000
Salaries, bonuses, allowances and benefits in kind	**2,279**	1,236
Retirement benefits scheme contributions	**24**	19
	2,303	1,255

The remuneration of each of the three non-director, highest paid employees increased by Nil, 54% and 54%, respectively, when compared to the annualised amount of their respective remuneration in the prior period. The third non-director, highest paid employee mentioned in the previous sentence did not fall into the five highest paid employees category in the prior period.

The remuneration of the three non-director, highest paid employees for the year each fell within the range of nil to HK$1,000,000.

During the year ended 28 February 2003, 3,301,669 share options of the Company were granted under the Company's Pre-IPO share option scheme to the three non-director, highest paid employees in respect of their services to the Group for the year. During the period ended 28 February 2002, 70,000 share options of KGI were granted to one of the three non-director, highest paid employees in respect of her services to the Group for that period. Further details of the share options granted are included in the disclosures in note 28 to the financial statements. No value in respect of the share options granted during the year and the prior period has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

10 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 or overseas.

The amount of deferred tax not recognised is set out in note 26 to the financial statements.

11 NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 28 February 2003 dealt with in the financial statements of the Company were HK$29,399,000 (period from 18 October 2001 (date of incorporation of the Company) to 28 February 2002: HK$7,000).

12 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.

13 FIXED ASSETS

Group

	Leasehold improvements HK$'000	**Laboratory equipment** HK$'000	**Furniture, fixtures and office equipment** HK$'000	**Total** HK$'000
Cost:				
At 11 July 2001	–	–	–	–
Acquisition of subsidiaries *(note 30(a))*	2,484	1,162	559	4,205
Additions	150	1,329	399	1,878
At 28 February 2002 and 1 March 2002	2,634	2,491	958	6,083
Additions	2	637	158	797
Exchange realignment	31	34	34	99
At 28 February 2003	**2,667**	**3,162**	**1,150**	**6,979**
Accumulated depreciation:				
At 11 July 2001	–	–	–	–
Provided during the period	404	251	130	785
At 28 February 2002 and 1 March 2002	404	251	130	785
Provided during the year	673	849	242	1,764
Exchange realignment	27	27	20	74
At 28 February 2003	**1,104**	**1,127**	**392**	**2,623**
Net book value:				
At 28 February 2003	**1,563**	**2,035**	**758**	**4,356**
At 28 February 2002	2,230	2,240	828	5,298
At 11 July 2001	–	–	–	–

The net book values of the Group's fixed assets held under a finance lease included in the total amount of laboratory equipment at 28 February 2003, amounted to HK$782,000 (2002: HK$1,216,000).

14 INTANGIBLE ASSETS

Group

	Patents and trademarks HK$'000	**Deferred development costs** HK$'000	**Total** HK$'000
Cost:			
At 11 July 2001	–	–	–
Acquisition of subsidiaries *(note 30(a))*	235	6,761	6,996
Additions	30	696	726
At 28 February 2002 and 1 March 2002	265	7,457	7,722
Additions	61	2,007	2,068
Exchange realignment	16	286	302
At 28 February 2003	**342**	**9,750**	**10,092**
Accumulated amortisation and impairment:			
At 11 July 2001	–	–	–
Amortisation provided during the period	3	59	62
Impairment during the period recognised in the profit and loss account	44	1,066	1,110
At 28 February 2002 and 1 March 2002	47	1,125	1,172
Amortisation provided during the year	–	412	412
Impairment during the year recognised in the profit and loss account	11	–	11
Exchange realignment	4	124	128
At 28 February 2003	**62**	**1,661**	**1,723**
Net book value:			
At 28 February 2003	**280**	**8,089**	**8,369**
At 28 February 2002	218	6,332	6,550
At 11 July 2001	–	–	–

Government grants and subsidies of HK$148,000 (period ended 28 February 2002: HK$675,000) were received from a government authority for the year ended 28 February 2003. The government grants and subsidies received were related to a technology development project undertaken by the Group and were accounted for as a deduction in arriving at the carrying value of deferred development costs.

15 GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries and minority interests, are as follows:

Group

	Goodwill HK$'000	**Negative goodwill** HK$'000
Cost:		
At 11 July 2001	–	–
Acquisition of subsidiaries *(note 30(a))*	13,499	(3,513)
Acquisition of minority interests	2,263	(720)
At 28 February 2002, 1 March 2002 and 28 February 2003	**15,762**	**(4,233)**
Accumulated amortisation/(recognition as income):		
At 11 July 2001	–	–
Amortisation provided/(recognised as income) during the period	907	(237)
At 28 February 2002 and 1 March 2002	907	(237)
Amortisation provided/(recognised as income) during the year	1,589	(415)
At 28 February 2003	**2,496**	**(652)**
Net amount:		
At 28 February 2003	**13,266**	**(3,581)**
At 28 February 2002	14,855	(3,996)

16 INTERESTS IN SUBSIDIARIES

	Company	
	2003 **HK$'000**	2002 HK$'000
Unlisted shares, at cost	**20,979**	–
Due from subsidiaries	**27,859**	–
Due to subsidiaries	**(1,367)**	(3,307)
	47,471	(3,307)
Less: Provision for impairment	**(27,630)**	–
	19,841	(3,307)

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

16 INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Kinetana Holdings (BVI) Limited *	British Virgin Islands	HK$1,555,979	100%	Investment holding
Kinetana Group Inc.	Canada	CAN$2,332,045	100%	Investment and patent holding
Kinetana International Pharmaceuticals Limited	Hong Kong	HK$13,409,906	100%	Investment holding
Kinetana Hong Kong Herbal Pharmaceuticals Limited	Hong Kong	HK$2	100%	Research and development of biopharma-ceutical technologies and TCM, provision of related services, and sale of herbal products
Kinetana Inc.	Canada	CAN$40	100%	Research and development of biopharma-ceutical technologies and Western herbal products, provision of related services, and sale of herbal products

* Except for this directly held subsidiary, all other subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year/period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17 INTERESTS IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net assets	**(8)**	14
Due from a jointly-controlled entity	**23**	–
Due to a jointly-controlled entity	**–**	(49)
	15	(35)

The amounts due from and to the jointly-controlled entity are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entity are as follows:

Company name	Business structure	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
KNCM Biotech Pharma Limited ("KNCM")	Corporate	Hong Kong	HK$2	50%	50%	50%	Dormant

The above investment in the jointly-controlled entity is indirectly held by the Company.

18 INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Packaging materials	**7**	–
Work in progress	**520**	–
Finished goods	**85**	–
	612	–

At the balance sheet date, none of the inventories was carried at net realisable value (2002: Nil).

19 TAX RECOVERABLE

Tax recoverable represented Goods and Services Tax ("GST") recoverable. The Group's operating subsidiaries in Canada are subject to GST, which is charged at the applicable tax rates on the selling price of finished products. An input credit is available whereby input GST previously paid on the purchase of goods and services can be used to offset the output GST on sales to determine the net GST payable or recoverable. In the case that a GST recoverable amount existed at the year/period end and is certified by the relevant Canadian tax authority, a tax refund will be made.

20 TRADE RECEIVABLES

The credit period given by the Group to its customers is normally within 30 to 60 days. An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, is as follows:

	2003	2002
	HK$'000	HK$'000
0 to 90 days	**42**	650
Over 90 days	**23**	–
	65	650

21 TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	2003	2002
	HK$'000	HK$'000
0 to 90 days	**638**	–
Over 90 days	**39**	–
	677	–

22 AMOUNT DUE TO A CONTRACT CUSTOMER

	Group	
	2003	2002
	HK$'000	HK$'000
Contract costs incurred plus recognised profits less recognised losses to date	**15**	150
Less: Progress billings	**(15)**	(250)
Gross amount due to a contract customer	**–**	(100)

23 LOAN FROM A DIRECTOR

The loan was unsecured, bore interest at 8% per annum and had no fixed terms of repayment. The balance as at 28 February 2002 was fully repaid to the director on 15 May 2002.

24 LOAN FROM A RELATED PARTY

The amount represented a loan from Ms. Lau Yau, who was the mother of Dr. Tam Yun Kau, a director of the Company, and was unsecured, interest-free and had no fixed terms of repayment. The loan was fully settled on 15 May 2002.

25 FINANCE LEASE PAYABLE

The Group leases certain of its laboratory equipment under a finance lease contract arrangement with an original lease term of 3 years.

At 28 February 2003, the total future minimum lease payments under the finance lease and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**418**	400	**373**	317
In the second year	**174**	400	**169**	356
In the third to fifth years, inclusive	**–**	167	**–**	163
Total minimum finance lease payments	**592**	967	**542**	836
Future finance charges	**(50)**	(131)		
Total net finance lease payable	**542**	836		
Portion classified as current liabilities	**(373)**	(317)		
Long term portion	**169**	519		

26 DEFERRED TAX

The principal components of the Group's net deferred tax asset positions as at 28 February 2003 not recognised were as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Tax losses	**11,440**	7,083
Scientific research and development tax pools and tax credits	**7,284**	3,302
Accelerated depreciation allowances	**(47)**	(43)
Accelerated development cost allowances	**(1,389)**	(1,565)
	17,288	8,777

The potential deferred tax assets/liabilities arising from tax losses, scientific research and development tax pools and tax credits, accelerated depreciation allowances or accelerated development cost allowances have not been recognised as they are subject to agreements with the relevant tax authorities.

The Company had no significant potential deferred tax liabilities for which provision has not been made.

27 SHARE CAPITAL

Shares

	2003 HK$'000	2002 HK$'000
Authorised:		
1,000,000,000 (2002: 50,000,000) ordinary shares of HK$0.01 each	**10,000**	500
Issued and fully paid:		
520,524,085 (2002: 1) ordinary shares of HK$0.01 each	**5,205**	–

During the period from 18 October 2001 (date of incorporation) to 28 February 2003, the movements in share capital were as follows:

(a) On 18 October 2001, the Company was incorporated with an authorised share capital of HK$500,000 divided into 50,000,000 ordinary shares of HK$0.01 each, 1 share of which was allotted and issued for cash at par on the same date.

(b) On 7 May 2002, pursuant to the resolutions in writing of the sole shareholder of the Company passed on the same date, the authorised share capital of the Company was increased from HK$500,000 to HK$10,000,000 by the creation of a further 950,000,000 ordinary shares of HK$0.01 each.

(c) On 13 May 2002, as part of the Reorganisation as set out in note 2 to the financial statements, the Company allotted and issued an aggregate of 15,538,356 ordinary shares of HK$0.01, each credited as fully paid, to the then shareholders of KBVI, the then holding company of the Group, as consideration for the acquisition of the entire issued share capital of KBVI by the Company.

The excess of the fair value of the issued share capital of KBVI determined on the basis of the consolidated net assets of KBVI at that date, over the aggregate of the nominal value of the Company's ordinary shares issued in exchange therefor, amounting to approximately HK$20,749,000, was credited to the Company's contributed surplus account as set out in note 29(b) to the financial statements.

(d) On 14 May 2002, pursuant to two option agreements dated 7 June 2001 entered into between the Group and two third parties, 817,000 ordinary shares of HK$0.01 each were allotted and issued at a total cash consideration of HK$2,859,500.

(e) On 29 May 2002, in connection with the Company's initial public offering, a total of 120,000,000 ordinary shares of HK$0.01 each were issued to the public at price of HK$0.65 per share for a total cash consideration of HK$78,000,000 before any related issuance expenses.

(f) On 29 May 2002, as authorised and pursuant to resolutions in writing of the sole shareholder of the Company passed on 7 May 2002, a total of 383,644,643 ordinary shares of HK$0.01 each were allotted and issued as fully paid at par to the shareholders whose names appeared on the register of members of the Company at the close of business on the date of printing of the prospectus of the Company dated 22 May 2002, in proportion to their respective shareholdings by way of the capitalisation of the sum of HK$3,836,446 standing to the credit of the share premium account of the Company.

27 SHARE CAPITAL *(continued)*

Shares *(continued)*

(g) During the year, pursuant to a licence agreement dated 12 July 2001 and a supplementary agreement thereto (the "Licence Agreement"), further details of which are set out in note 32(d) to the financial statements, entered into between the Group and a third party licensor, a total of 21,429 common shares of KGI were allotted and issued to the third party as settlement of licensing fees of HK$75,000 in lieu of cash consideration. Pursuant to an exchange agreement (the "Licensor Exchange Agreement") entered into between the Company, KBVI, Kinetana Holdings (Barbados) Limited ("KBarb", a wholly-owned subsidiary of the Company), KGI and the licensor, the licensor has agreed to exchange common shares of KGI, which might be issued and allotted pursuant to the Licence Agreement, for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company. On 17 January 2003, the Company allotted and issued a total of 524,085 ordinary shares of HK$0.01 each to the licensor in exchange for the aforesaid 21,429 common shares of KGI on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company.

A summary of the transactions during the period from 18 October 2001 (date of incorporation) to 28 February 2003 with reference to the above movements in the Company's issued ordinary share capital, share premium account and contributed surplus account is as follows:

	Notes	Number of ordinary shares of HK$0.01 each	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus account HK$'000	Total HK$'000
Issued and fully paid:						
Share allotted and issued upon incorporation	(a)	1	–	–	–	–
Issued capital as at 28 February 2002 and at 1 March 2002		1	–	–	–	–
Shares issued and credited as fully paid pursuant to the Reorganisation	(c)	15,538,356	155	–	20,749	20,904
Pro forma issued share capital as at 28 February 2002 and at 1 March 2002		15,538,357	155	–	20,749	20,904
Shares allotted and issued pursuant to the exercise of two option agreements	(d)	817,000	8	2,852	–	2,860
New issue to the public by way of placement and initial public offering	(e)	120,000,000	1,200	76,800	–	78,000
Capitalisation of the share premium account for shares credited as fully paid	(f)	383,644,643	3,837	(3,837)	–	–
Shares allotted and issued pursuant to the Licence Agreement and the Licensor Exchange Agreement	(g)	524,085	5	70	–	75
		504,985,728	5,050	75,885	–	80,935
Share issue expenses		–	–	(15,738)	–	(15,738)
At 28 February 2003		520,524,085	5,205	60,147	20,749	86,101

27 SHARE CAPITAL *(continued)*

Share options

The Company

At 28 February 2003, the Company had 40,492,337 share options outstanding granted under a share option scheme operated by the Company, details of which and of the share option schemes operated by the Company and the share options issued under the schemes, if any, are included in note 28 to the financial statements.

KGI

At 28 February 2003, KGI, a wholly-owned subsidiary of the Company, had 689,000 share options outstanding which entitled the option holders to subscribe in cash for common shares of KGI at CAN$0.50 per share. Of the total 689,000 share options outstanding as at 28 February 2003, 669,000 share options were granted under a share option scheme operated by KGI and the remaining 20,000 share options were granted to a third party under a research and development agreement, details of which are included in notes 28 and 32(c) to the financial statements, respectively.

Pursuant to a conditional share exchange offer made on 5 November 2001 by (i) the Company; (ii) KBVI; and (iii) KBarb; and agreed by KGI (as supplemented by two letters dated 27 February 2002 and 28 March 2002 by the same parties) and accepted by each holder of options and warrants in KGI between 15 April 2002 and 16 May 2002 (the "Exchange Agreement") and an exchange agreement entered into between the Company, KBVI, KBarb, KGI, Kinetana Inc. and the third party (the "R&D Exchange Agreement"), for the common shares of KGI which might be issued and allotted pursuant to the exercise of such options, the registered holders of the 689,000 share options of KGI outstanding as at 28 February 2003 have agreed to exchange common shares of KGI for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company. The exercise in full of the 689,000 share options of KGI outstanding as at 28 February 2003 would, under the present capital structure of the Company, result in the issue of 16,850,748 additional ordinary shares of the Company of HK$0.01 each.

Warrants of a subsidiary

As at 28 February 2002 and 2003, KGI, a wholly-owned subsidiary of the Company, had 527,000 warrants outstanding which entitled the warrant holders to acquire at any time during the exercise period 1 common share of KGI at an exercise price of CAN$3.10 for each warrant.

Pursuant to the Exchange Agreement, the warrants became exercisable for a six month period commencing on 3 December 2002. In addition, for the common shares of KGI which might be issued and allotted pursuant to the exercise of such warrants, the registered holders of the 527,000 warrants outstanding as at 28 February 2003 have agreed to exchange common shares of KGI for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company. The exercise in full of the 527,000 warrants of KGI outstanding as at 28 February 2003 would, under the present capital structure of the Company, result in the issue of 12,888,744 additional ordinary shares of the Company of HK$0.01 each.

28 SHARE OPTION SCHEMES

The Company

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and/or of allowing the Group to recruit and retain high-calibre employees and to attain the long term business objectives of the Company. The directors of the Company may, at their discretion, invite any employee, including executive and non-executive directors, of the Group, advisers, consultants, contractors, customers and suppliers of the Group, to take up options to subscribe for ordinary shares of the Company.

The Scheme became effective on 3 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number (the "Scheme Mandate Limit") of unexercised share options currently permitted to be granted under the Scheme is 52,000,000 which is an amount equivalent, upon their exercise, to 10% of the ordinary shares of the Company in issue immediately after the completion of the initial public offering of the Company's ordinary shares and capitalisation issue as set out in notes 27(e) and (f), respectively. The Scheme Mandate Limit may be renewed by the approval of the shareholders in general meetings subject to a maximum amount which is equivalent to 10% of the ordinary shares of the Company in issue at the date of the approval of the renewal. The maximum number of ordinary shares of the Company issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares on the GEM at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 business days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and, subject to the provisions of early termination, ends on a date which is not later than 10 years from the date of the grant of the share options.

28 SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Share option scheme (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of an ordinary share; (ii) the average of the closing prices of the Company's ordinary shares on the GEM for the five trading days immediately preceding the date of offer of the grant of the option; and (iii) the closing price of the Company's ordinary shares on the GEM on the date of offer of the grant of the option.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At 28 February 2003, no options have been granted or agreed to be granted under the Scheme and the number of shares issuable under share options granted under the Scheme was 52,000,000, which represented approximately 9.99% of the Company's shares in issue as at that date.

Pre-IPO share option scheme

The Company also operates a Pre-IPO share option scheme (the "Pre-IPO Scheme") which was approved on 7 May 2002. The purpose of the Pre-IPO Scheme of the Company is to recognise and motivate the contribution of certain directors, employees, advisers and consultants of the Group to the Group and to help the Company in retaining such persons and to provide them with a direct economic interest in attaining the long term business objectives of the Company. The principal terms of the Pre-IPO Scheme are substantially the same as the terms of the Scheme as set out above except, among others, that:

(i) the exercise price of the share options is 50% of the offer price of HK$0.65 per ordinary share of the Company in respect of the Company's initial public offering of its shares unless otherwise agreed by the directors;

(ii) the aggregate number of share options subject to the Pre-IPO Scheme is 49,023,691; and

(iii) no further options are able to be granted under the Pre-IPO Scheme after the day immediately prior to the day on which the printing of the Company's listing prospectus dated 22 May 2002 took place.

At 28 February 2003, the Company had 40,492,337 share options outstanding under the Pre-IPO Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 40,492,337 additional ordinary shares of the Company, resulting in share capital of HK$404,923 and share premium of HK$12,492,787, before issue expenses, if any.

28 SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Pre-IPO share option scheme (continued)

Details of the share options granted under the Pre-IPO Scheme since it became effective on 3 June 2002 and the share options outstanding as at 28 February 2003 are set out as follows:

	Number of share options					
Name or category of participant	**Granted**	**Lapsed**	**At 28 February 2003**	**Date of grant** *(note a)*	**Exercise period**	**Exercise price** HK$
Directors:						
Dr. Tam Yun Kau *(note b)*	12,228,409	–	12,228,409	07-05-02	03-12-02 to 03-12-07	0.325
	6,114,204	–	6,114,204	07-05-02	03-06-03 to 03-06-08	0.325
	6,114,205	–	6,114,205	07-05-02	03-06-04 to 03-06-09	0.325
Mr. Young Shui Chung *(note c)*	6,114,205	(6,114,205)	–	07-05-02	03-12-02 to 03-12-07	0.325
Mr. Young Chiu Kit, Patrick	1,222,841	–	1,222,841	15-05-02	03-12-02 to 03-12-07	0.325
Mr. Antoine A. Noujaim	1,222,841	–	1,222,841	07-05-02	03-12-02 to 03-12-07	0.325
Mr. Lee Chiu Kang	1,222,841	–	1,222,841	07-05-02	03-12-02 to 03-12-07	0.325
Mr. Tam Shong-Tak, David	1,222,841	–	1,222,841	07-05-02	03-12-02 to 03-12-07	0.325
Dr. Pang Wai Bing, Cecilia *(note d)*	1,222,841	(1,222,841)	–	07-05-02	03-12-02 to 03-12-07	0.325
Mr. Chan Mo Po, Paul	1,222,841	–	1,222,841	07-05-02	03-12-02 to 03-12-07	0.325
	37,908,069	(7,337,046)	30,571,023			
Associate of a director:						
Dr. Nuzhat Tam-Zaman *(note b)*	733,705	–	733,705	09-05-02	03-12-02 to 03-12-07	0.325
A consultant	1,222,841	–	1,222,841	14-05-02	03-12-02 to 03-12-07	0.325
Other employees:						
In aggregate *(note e)*	4,659,023	(550,278)	4,108,745	13-05-02	03-12-02 to 03-12-07	0.325
In aggregate	611,420	–	611,420	14-05-02	03-12-02 to 01-12-05	0.160
In aggregate	489,136	–	489,136	14-05-02	03-12-02 to 29-08-05	0.160
In aggregate	489,136	–	489,136	14-05-02	03-12-02 to 01-11-06	0.160
In aggregate *(note e)*	2,910,361	(644,030)	2,266,331	14-05-02	03-12-02 to 03-12-07	0.325
	9,159,076	(1,194,308)	7,964,768			
Total	49,023,691	(8,531,354)	40,492,337			

28 SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Pre-IPO share option scheme (continued)

Notes:

(a) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(b) Dr. Nuzhat Tam-Zaman is the wife of Dr. Tam Yun Kau, a director of the Company, and each of them is therefore deemed to be interested in the options held by the other.

(c) Owing to the death of Mr. Young Shui Chung on 16 August 2002, the 6,114,205 share options granted to him on 7 May 2002 lapsed on 16 August 2002.

(d) Owing to the resignation of Dr. Pang Wai Bing, Cecilia, on 1 July 2002, the 1,222,841 share options granted to her on 7 May 2002 lapsed on 1 July 2002.

(e) Owing to the resignation of certain employees, a total of 1,194,308 share options granted to them on 13 May 2002 (550,278 share options) and 14 May 2002 (644,030 share options) lapsed during the year as a result.

KGI

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 by KGI on 31 March 2000 and 5 November 2001). The purpose of the KGI Share Option Plan is to encourage eligible participants to acquire shares in KGI, thereby increasing their proprietary interests in the Group. Eligible participants include key employees (including directors and officers) and consultants of the Company or any of its subsidiaries.

The exercise period of the share options granted is determinable by the directors, but shall not be greater than 5 years from the date of the grant of the share options. If an option holder ceases to be an eligible participant for any reason other than death, any option granted to such option holder may be exercised within 90 days succeeding the date the person ceased to be an eligible participant. The exercise price of the share options is determinable by the directors.

As at 28 February 2003, KGI had 669,000 share options outstanding under the KGI Share Option Plan and no further options will be offered or granted under the KGI Share Option Plan.

28 SHARE OPTION SCHEMES *(continued)*

KGI *(continued)*

Details of the outstanding share options granted under the KGI Share Option Plan as at 28 February 2003 are as follows:

Name or category of participant	At 28 February 2002	Lapsed	At 28 February 2003	Date of grant	Exercise period pursuant to the Exchange Agreement	Exercise price
	Number of share options					CAN$
Directors:						
Dr. Tam Yun Kau *(note a)*	8,000	–	8,000	31-03-00	03-12-02 to 31-03-05	0.5
Mr. Young Shui Chung *(note b)*	50,000	–	50,000	31-03-00	03-12-02 to 31-03-05	0.5
Mr. Young Chiu Kit, Patrick	18,000	–	18,000	31-03-00	03-12-02 to 31-03-05	0.5
Mr. Antoine A. Noujaim	11,000	–	11,000	31-03-00	03-12-02 to 31-03-05	0.5
	87,000	–	87,000			
Associate of a director:						
Dr. Nuzhat Tam-Zaman *(note a)*	70,000	–	70,000	01-07-01	03-12-02 to 01-07-06	0.5
	70,000	–	70,000	19-12-01	03-12-02 to 19-12-06	0.5
	140,000	–	140,000			
Other employees:						
In aggregate	120,000	–	120,000	31-03-00	03-12-02 to 15-07-04	0.5
In aggregate	70,000	–	70,000	31-03-00	03-12-02 to 15-07-05	0.5
In aggregate	70,000	–	70,000	31-03-00	03-12-02 to 15-07-06	0.5
In aggregate	50,000	–	50,000	31-03-00	31-03-02 to 22-10-04	0.5
In aggregate	50,000	–	50,000	31-03-00	03-12-02 to 22-10-05	0.5
In aggregate	50,000	–	50,000	31-03-00	03-12-02 to 22-10-06	0.5
In aggregate *(note c)*	21,000	(21,000)	–	31-03-00	03-12-02 to 20-03-05	0.5
In aggregate	32,000	–	32,000	31-03-00	03-12-02 to 31-03-05	0.5
	463,000	(21,000)	442,000			
	690,000	(21,000)	669,000			

Notes:

(a) Dr. Nuzhat Tam-Zaman is the wife of Dr. Tam Yun Kau, a director of the Company, and each of them is therefore deemed to be interested in the options held by the other.

(b) Owing to the death of Mr. Young Shui Chung on 16 August 2002, the 50,000 share options of KGI granted to him on 31 March 2000 will lapse on 15 August 2003, if not otherwise exercised.

(c) Owing to the resignation of certain employees, a total of 21,000 share options granted to them on 31 March 2000 lapsed during the year as a result.

29 RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the year and the prior period are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

The Group's contributed surplus account represents the difference between the nominal value of the shares and the share premium account of KBVI, the former Group holding company, acquired prior to the listing of the Company's shares pursuant to the Reorganisation as set out in note 2 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Share premium account HK$'000	**Contributed surplus account** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 18 October 2001	–	–	–	–
Loss for the period	–	–	(7)	(7)
At 28 February 2002 and 1 March 2002	–	–	(7)	(7)
Issue of shares *(note 27)*	75,885	20,749	–	96,634
Share issue expenses *(note 27)*	(15,738)	–	–	(15,738)
Loss for the year	–	–	(29,399)	(29,399)
At 28 February 2003	60,147	20,749	(29,406)	51,490

The Company's contributed surplus account represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation as set out in note 2 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the Company may make distributions to its members out of contributed surplus account subject to the Company's articles of association and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	Notes	**Year ended 28 February 2003 HK$'000**	Period from 11 July 2001 to 28 February 2002 HK$'000
Net assets acquired:			
Fixed assets	13	–	4,205
Patents and trademarks	14	–	235
Deferred development costs	14	–	6,761
Short term investments		–	52
Tax recoverable		–	139
Prepayments, deposits and other receivables		–	466
Cash and bank balances		–	10,511
Other payables and accruals		–	(1,810)
Loan from a director		–	(789)
Loan from a related party		–	(250)
Bank loan		–	(388)
Minority interests		–	(990)
		–	18,142
Goodwill on acquisition	15	–	13,499
Negative goodwill on acquisition	15	–	(3,513)
		–	28,128
Satisfied by:			
Issue of shares of a subsidiary		–	15,184
Assignment of receivable due from a subsidiary acquired		–	12,944
		–	28,128

Since shares of the subsidiary did not have a published price at the date of exchange, the fair value of the shares of the subsidiary issued for the acquisition was calculated by reference to the combined net assets of the enlarged group.

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Acquisition of subsidiaries *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Year ended 28 February 2003 HK$'000	Period from 11 July 2001 to 28 February 2002 HK$'000
Cash and bank balances acquired	–	10,511
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	10,511

The subsidiaries acquired in the period ended 28 February 2002 contributed HK$750,000 to turnover, and incurred net loss after tax and before minority interests of HK$9,150,000 for the period ended 28 February 2002. Further details of the subsidiaries acquired in the period ended 28 February 2002 are set out in note 16 to the financial statements.

(b) Major non-cash transactions

(i) During the year ended 28 February 2003, the Group settled licensing fees of HK$75,000 by the issue of 21,429 new common shares of KGI in lieu of a cash consideration.

(ii) The following major non-cash transactions took place during the period ended 28 February 2002:

- the Group settled licensing fees of HK$50,000 by the issue of 14,286 new common shares of KGI in lieu of a cash consideration;
- the consideration for the acquisition of subsidiaries was settled by the issue of ordinary shares by a subsidiary, further details of which are set out in note (a) above;
- the consideration of HK$2,533,000 for the acquisition of additional equity interests in subsidiaries was settled by the issue of 1,947,000 ordinary shares of a subsidiary. Since shares of the subsidiary did not have a published price at the date of exchange, the fair value of the shares of the subsidiary issued for the acquisition was calculated by reference to the combined net assets of the enlarged group; and
- the Group purchased certain fixed assets with a total capital value of HK$1,303,000, of which, HK$260,000 was paid as a down payment and the remaining balance of HK$1,043,000 was financed by entering into a finance lease contract arrangement.

31 CONTINGENT LIABILITIES

Neither the Group, nor the Company had any significant contingent liabilities as at 28 February 2003 (2002: Nil).

32 COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the balance sheet date:

	Group	
	2003	2002
	HK$'000	HK$'000
Capital commitments in respect of contributions to research and development projects:		
Contracted, but not provided for	**1,851**	4,005
Capital commitment in respect of an additional investment in a jointly-controlled entity:		
Contracted, but not provided for	**500**	500
Total capital commitments	**2,351**	4,505

The Company had no material capital commitments as at 28 February 2003 (2002: Nil).

(b) Operating lease commitments

The Group leases certain of its office properties, laboratory equipment, furniture, fixtures and office equipment, and a motor vehicle under operating lease arrangements, with original lease terms ranging between 1 year to 4 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Land and buildings:		
Within one year	**1,037**	1,469
In the second to fifth years, inclusive	**90**	270
	1,127	1,739
Laboratory equipment, furniture, fixtures and office equipment, and motor vehicle:		
Within one year	**1,072**	117
In the second to fifth years, inclusive	**1,150**	123
	2,222	240
Total operating lease commitments	**3,349**	1,979

32 COMMITMENTS *(continued)*

(c) Research and development agreement

Pursuant to a research and development agreement (the "R&D Agreement") dated 1 February 1997 entered into between the Group and a third party, and an assignment agreement dated 8 August 2001 entered into between Kinetana Inc. and KGI together with an acknowledgment dated 14 January 2002 from the third party, the third party assigned to the Group his rights, title, estate, ownership and interest in an invention (the "Invention") in return for 20,000 share options of KGI, which allow the third party to purchase 20,000 common shares of KGI at CAN$0.50 per share and are exercisable for a period of 5 years from 11 February 2000, together with entitlements to royalties payable by KGI. Pursuant to the R&D Agreement, the royalty entitlement is equivalent to 1% of the net profit of KGI derived from the Invention.

Pursuant to the R&D Exchange Agreement as referred to in note 27 to the financial statements, the third party has agreed to exchange common shares of KGI, which might be issued and allotted pursuant to the R&D Agreement, for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company.

(d) Licence agreement

On 12 July 2001, the Group, for the purpose of obtaining an exclusive worldwide licence to use certain inventions invented by a third party, entered into the Licence Agreement as referred to in note 27(g) to the financial statements, which provides for the payment of a royalty of 2% on the net sales of the related products. The Licence Agreement also provides for the payment of CAN$40,000 in cash and 57,144 common shares of KGI over a period of 2 years from 7 November 2001, of which CAN$10,000 and CAN$15,000 were accrued and included in other payables and accruals as at 28 February 2002 and 2003, respectively, and 14,286 and 21,429 common shares of KGI were allotted and issued to the licensor during the period ended 28 February 2002 and during the year ended 28 February 2003, respectively. The remaining balance of CAN$15,000 and 21,429 common shares of KGI will be paid and allotted and issued to the licensor within 720 days from 7 November 2001. In addition, pursuant to the Licence Agreement, the Group has the option to extend the initial term of 2 years to a period which is perpetual by paying CAN$100,000 to the licensor. The licensor has the option to receive the extension payment in cash or in common shares of KGI at a price of CAN$0.70 per share, or by any combination thereof.

Pursuant to the Licensor Exchange Agreement as referred to in note 27(g) to the financial statements, the licensor has agreed to exchange common shares of KGI, which might be issued and allotted pursuant to the Licence Agreement, for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company.

33 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year/period:

	Notes	**Year ended 28 February 2003 HK$'000**	Period from 11 July 2001 to 28 February 2002 HK$'000
Continuing transactions:			
Salaries, bonuses, allowances, and benefits in kind paid to Dr. Nuzhat Tam-Zaman and retirement benefits scheme contributions thereof	(a)	**692**	262
Royalties to which Dr. Tam Yun Kau is entitled	(b)	**–**	–
Royalties to which Dr. Nuzhat Tam-Zaman is entitled	(c)	**–**	–
Consultancy fees paid to Patrick C. Young Professional Corporation, Chartered Accountant	(d)	**145**	89
Discontinuing transactions:			
Interest expenses paid to Dr. Tam Yun Kau	(e)	**72**	46
Commission expenses paid to KNCM	(f)	**–**	50

Notes:

(a) Dr. Nuzhat Tam-Zaman is the wife of Dr. Tam Yun Kau, a director of the Company. The amounts paid to Dr. Nuzhat Tam-Zaman as an employee of the Group were based on mutually-agreed terms. In addition, pursuant to the employment agreement (the "Employment Agreement") entered into between Dr. Nuzhat Tam-Zaman and KGI on 1 July 1999, 140,000 share options were granted to Dr. Nuzhat Tam-Zaman for the year ended 28 February 2002, which allow her to subscribe for common shares of KGI at a price of 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 share options on KGI's common shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

(b) Pursuant to an assignment agreement (as supplemented by a deed dated 9 May 2002) (the "Dr. Tam Assignment Agreement") entered into between KGI and Dr. Tam Yun Kau, a director of the Company, on 2 February 1999, Dr. Tam Yun Kau assigned to KGI his entire right, title and interest in the two inventions, namely Simulated Biological Dissolution and Absorption System and Composition for Prevention of Hepatic Steatosis (the "KI001 Drug") in return for 5,505,000 common shares of KGI and entitlements to royalties payable by KGI. Pursuant to the Dr. Tam Assignment Agreement, the royalty entitlement for each invention is equivalent to 1% of the net profit of the Group derived from the respective invention provided that the royalty entitlement in respect of the KI001 Drug payable to Dr. Tam Yun Kau and Dr. Nuzhat Tam-Zaman in aggregate shall be equal to 1% of the net profits derived from the KI001 Drug and the royalty payable in any financial year shall not exceed the higher of HK$1,000,000 or 0.03% of the net tangible assets of the Group. Prior to the deed dated 9 May 2002 becoming effective, the royalty entitlement was equivalent to 2% of the net profit of KGI derived from the inventions as calculated in accordance with generally accepted accounting practices in Canada.

No such royalties were paid or payable as the Group did not generate any net profit during the year and the prior period.

33 RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

(c) Pursuant to the Employment Agreement as referred in sub-paragraph (a) above and an assignment agreement (as supplemented by a deed dated 9 May 2002)(the "Dr. Zaman Assignment Agreement") entered into between Dr. Nuzhat Tam-Zaman and KGI on 1 July 1999, Dr. Nuzhat Tam-Zaman assigned to KGI her entire right, title and interest in the KI001 Drug in return for obtaining the employment by KGI, share options of KGI and entitlements to royalties payable by KGI. Pursuant to the Dr. Zaman Assignment Agreement, the royalty entitlement is equivalent to 1% of the net profit of the Group derived from the KI001 Drug provided that the royalty entitlement in respect of the KI001 Drug payable to Dr. Tam Yun Kau and Dr. Nuzhat Tam-Zaman in aggregate shall be equal to 1% of the net profits derived from the KI001 Drug and the royalty payable in any financial year shall not exceed the higher of HK$1,000,000 or 0.03% of the net tangible assets of the Group. Prior to the deed dated 9 May 2002 becoming effective, the royalty entitlement was equivalent to 2% of the net profit of KGI derived from the KI001 Drug as calculated in accordance with generally accepted accounting practices in Canada.

No such royalties were paid or payable as the Group did not generate any net profit during the year and the prior period.

(d) 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 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.

(e) The interest expenses paid to Dr. Tam Yun Kau, a director of the Company, arose from advances made to the Group. The advances bore interest at 8% per annum, which was considered by the directors of the Company to be in line with the then prevailing rate for such loan advanced.

(f) The commission expenses paid to KNCM, a jointly-controlled entity of the Company, were determined based on a mutually-agreed rate of 5% on the value of the service contract introduced by KNCM.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

34 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 May 2003.

FINANCIAL SUMMARY

28 February 2003

A summary of the results of the Group for the last four years and of the assets and liabilities of the Group as at 28 February 2002 and 2003, prepared on the basis set out in the note below, is as follows:

RESULTS

	Year ended 28 February or 29 February			
	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**717**	750	–	–
Cost of sales	**(573)**	(205)	–	–
Gross profit	**144**	545	–	–
Other revenue, net	**2,030**	612	138	88
Selling and distribution costs	**(1,642)**	–	–	–
Administrative expenses	**(17,439)**	(11,249)	(7,094)	(3,190)
Research and development expenses	**(7,806)**	(3,301)	(1,295)	(537)
Other operating expenses, net	**(2,250)**	(1,303)	(8)	(1,312)
LOSS FROM OPERATING ACTIVITIES	**(26,963)**	(14,696)	(8,259)	(4,951)
Finance costs	**(160)**	(216)	(100)	(86)
Share of profit/(loss) of a jointly-controlled entity	**(22)**	14	–	–
LOSS BEFORE TAX	**(27,145)**	(14,898)	(8,359)	(5,037)
Tax	**–**	–	–	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(27,145)**	(14,898)	(8,359)	(5,037)

28 February 2003

ASSETS AND LIABILITIES

	28 February 2003 HK$'000	28 February 2002 HK$'000
Total Assets	**64,667**	31,282
Total Liabilities	**(2,769)**	(6,442)
	61,898	24,840

Note: The summary of the results of the Group for the three years ended 28 February 2002, as extracted from the Company's prospectus dated 22 May 2002, includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the three financial years ended 28 February 2002. The results of the Group for the year ended 28 February 2003 and the consolidated assets and liabilities of the Group as at 28 February 2002 and 2003 are those set out in the financial statements on pages 25 and 26, respectively.