



# **Kinetana International Biotech Pharma Limited**

**健諾國際生化科技藥業有限公司**

*(incorporated in the Cayman Islands with limited liability)*

## **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 AUGUST 2003**

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## **HIGHLIGHTS**

- Turnover of the Group for the six months ended 31 August 2003 was approximately HK\$271,000 as compared to approximately HK\$525,000 for the corresponding period in the previous fiscal year.
- Net loss of the Group for the six months ended 31 August 2003 was approximately HK\$14.66 million as compared to approximately HK\$11.49 million for the corresponding period in the previous fiscal year.
- Loss per share of the Group was approximately HK\$0.0282 for the six months ended 31 August 2003.
- The Board does not recommend the payment of any dividend for the six months ended 31 August 2003.

## UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of Kinetana International Biotech Pharma Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and six months ended 31 August 2003, together with the unaudited consolidated results for the corresponding periods in 2002, are as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 31 August 2003

		Three months ended		Six months ended	
		31 August		31 August	
		2003	2002	2003	2002
		Unaudited	Unaudited	Unaudited	Unaudited
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>	4	<b>57</b>	225	<b>271</b>	525
Cost of sales		<b>(13)</b>	(119)	<b>(84)</b>	(353)
Gross profit		<b>44</b>	106	<b>187</b>	172
Other revenue, net		<b>183</b>	337	<b>381</b>	474
Selling and distribution costs		<b>(13)</b>	(554)	<b>(574)</b>	(554)
Administrative expenses		<b>(4,978)</b>	(5,340)	<b>(9,350)</b>	(9,406)
Research and development expenses		<b>(1,648)</b>	(1,113)	<b>(3,585)</b>	(1,664)
Other operating expenses, net		<b>(865)</b>	(394)	<b>(1,629)</b>	(394)
<b>LOSS FROM OPERATING ACTIVITIES</b>		<b>(7,277)</b>	(6,958)	<b>(14,570)</b>	(11,372)
Finance costs		<b>(62)</b>	(53)	<b>(78)</b>	(120)
Share of loss of a jointly-controlled entity		<b>(1)</b>	–	<b>(9)</b>	(1)
<b>LOSS BEFORE TAX</b>	5	<b>(7,340)</b>	(7,011)	<b>(14,657)</b>	(11,493)
Tax	6	–	–	–	–
<b>NET LOSS FROM ORDINARY ACTIVITIES</b>					
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(7,340)</b>	(7,011)	<b>(14,657)</b>	(11,493)
<b>LOSS PER SHARE – Basic (HK\$)</b>	7	<b>(0.0141)</b>	(0.0135)	<b>(0.0282)</b>	(0.0253)

# CONDENSED CONSOLIDATED BALANCE SHEET

31 August 2003

		<b>31 August 2003</b>	28 February 2003
		<b>Unaudited</b>	Audited
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>6,125</b>	4,356
Intangible assets		<b>9,714</b>	8,369
Goodwill:			
Goodwill		<b>12,478</b>	13,266
Negative goodwill		<b>(3,369)</b>	(3,581)
Interests in a jointly-controlled entity		<b>11</b>	15
		<hr/> <b>24,959</b>	<hr/> 22,425
<b>CURRENT ASSETS</b>			
Inventories		<b>1,433</b>	612
Tax recoverable		<b>182</b>	394
Trade receivables	9	<b>39</b>	65
Prepayments, deposits and other receivables		<b>613</b>	553
Cash and cash equivalents		<b>24,232</b>	40,618
		<hr/> <b>26,499</b>	<hr/> 42,242
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>621</b>	677
Other payables and accruals		<b>466</b>	1,550
Finance lease payables		<b>1,367</b>	373
		<hr/> <b>2,454</b>	<hr/> 2,600
<b>NET CURRENT ASSETS</b>		<hr/> <b>24,045</b>	<hr/> 39,642
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/> <b>49,004</b>	<hr/> 62,067
<b>NON-CURRENT LIABILITIES</b>			
Finance lease payables		<b>1,000</b>	169
		<hr/> <b>48,004</b>	<hr/> 61,898
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	<b>5,205</b>	5,205
Reserves		<b>42,799</b>	56,693
		<hr/> <b>48,004</b>	<hr/> 61,898

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2003

	Issued share capital Unaudited <i>HK\$'000</i>	Share premium account Unaudited <i>HK\$'000</i>	Contributed surplus account Unaudited <i>HK\$'000</i>	Exchange fluctuation reserve Unaudited <i>HK\$'000</i>	Accumulated losses Unaudited <i>HK\$'000</i>	Total Unaudited <i>HK\$'000</i>
At 1 March 2003	5,205	60,147*	35,590*	(639)*	(38,405)*	61,898
Net gains not recognised in the profit and loss account – Exchange realignment	–	–	–	763	–	763
Loss for the period	–	–	–	–	(14,657)	(14,657)
At 31 August 2003	<u>5,205</u>	<u>60,147*</u>	<u>35,590*</u>	<u>124*</u>	<u>(53,062)*</u>	<u>48,004</u>
At 1 March 2002	155	–	35,945	–	(11,260)	24,840
Issue of shares	5,045	75,815	–	–	–	80,860
Share issue expenses	–	(15,826)	–	–	–	(15,826)
Loss for the period	–	–	–	–	(11,493)	(11,493)
At 31 August 2002	<u>5,200</u>	<u>59,989</u>	<u>35,945</u>	<u>–</u>	<u>(22,753)</u>	<u>78,381</u>

\* These reserve accounts comprise the consolidated reserves of HK\$42,799,000 (28 February 2003: HK\$56,693,000) in the consolidated balance sheet.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 August 2003

	Six months ended 31 August	
	2003	2002
	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>
Net cash outflow from operating activities	(14,242)	(7,734)
Net cash outflow from investing activities	(2,730)	(1,082)
Net cash (outflow)/inflow from financing activities	(428)	63,684
Net (decrease)/increase in cash and cash equivalents	(17,400)	54,868
Cash and cash equivalents at beginning of period	40,618	70
Effect of foreign exchange changes, net	83	–
Cash and cash equivalents at end of period	<u>23,301</u>	<u>54,938</u>

## NOTES TO THE UNAUDITED INTERIM ACCOUNTS

### 1. Basis of presentation and consolidation

The unaudited consolidated results of the Group for the three months and six months ended 31 August 2003 include the results of the Company and its subsidiaries for the three months and six months ended 31 August 2003.

The comparative unaudited consolidated financial statements of the Group have been prepared on the basis of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since 11 July 2001 (date of incorporation of Kinetana Holdings (BVI) Limited (“KBVI”), a wholly-owned subsidiary of the Company and the then ultimate holding company) rather than from the date of its acquisition of KBVI pursuant to the Group reorganisation completed on 13 May 2002 for the purpose of rationalising 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”). Accordingly, the unaudited consolidated results of the Group for the three months and six months ended 31 August 2002 include the results of the Company and its subsidiaries with effect from 1 March 2002.

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

### 2. Basis of preparation and principal accounting policies

The basis of preparation and principal accounting policies adopted for the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 28 February 2003, except that the Group has adopted SSAP 12 (Revised) “Income taxes” and SSAP 35 “Accounting for government grants and disclosure of government assistance” which prescribe new accounting measurements and disclosure practices. The adoption of these SSAPs during the financial period does not have any significant effect on the Group’s unaudited consolidated results for the period and the prior period.

### 3. Segment information

#### (i) Business segments

The unaudited business segment information for the six months ended 31 August 2003 and the corresponding period in 2002 is as follows:

Group	Absorption screening technology		Herbal products		Eliminations		Consolidated	
	Six months ended 31 August							
	2003	2002	2003	2002	2003	2002	2003	2002
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Segment revenue:								
Sales to external customers	<u>124</u>	450	<u>147</u>	75	–	–	<u>271</u>	525
Segment results	<u>(3,494)</u>	(201)	<u>(597)</u>	(481)	–	–	<u>(4,091)</u>	(682)
Unallocated revenue							381	474
Unallocated expenses							<u>(10,860)</u>	(11,164)
Loss from operating activities							<u>(14,570)</u>	(11,372)
Finance costs							(78)	(120)
Share of loss of a jointly-controlled entity							<u>(9)</u>	(1)
Loss before tax							<u>(14,657)</u>	(11,493)
Tax							–	–
Net loss from ordinary activities attributable to shareholders							<u>(14,657)</u>	<u>(11,493)</u>

(ii) **Geographical segments**

The unaudited geographical segment information for the six months ended 31 August 2003 and the corresponding period in 2002 is as follows:

Group	Hong Kong		Canada		Eliminations		Consolidated	
	Six months ended 31 August							
	2003	2002	2003	2002	2003	2002	2003	2002
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Segment revenue:								
Sales to external customers	<u>105</u>	<u>450</u>	<u>166</u>	<u>75</u>	<u>-</u>	<u>-</u>	<u>271</u>	<u>525</u>

**4. Turnover**

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

An analysis of the Group's turnover is as follows:

	Three months ended		Six months ended	
	31 August			
	2003	2002	2003	2002
	Unaudited	Unaudited	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Absorption screening services rendered	<u>28</u>	<u>150</u>	<u>124</u>	<u>450</u>
Sale of herbal products	<u>29</u>	<u>75</u>	<u>147</u>	<u>75</u>
	<u>57</u>	<u>225</u>	<u>271</u>	<u>525</u>

**5. Loss before tax**

The Group's loss before tax is arrived at after charging/(crediting):

	Three months ended		Six months ended	
	31 August			
	2003	2002	2003	2002
	Unaudited	Unaudited	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of goodwill	394	397	788	794
Negative goodwill recognised as income	(106)	(103)	(212)	(207)
Amortisation of deferred development costs	104	98	212	161
Depreciation	451	392	916	736
Interest on other loans wholly repayable within 5 years	-	31	-	74
Interest on finance leases	62	22	78	46
Interest income	<u>(77)</u>	<u>(337)</u>	<u>(169)</u>	<u>(464)</u>

## 6. 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 for the three months and six months ended 31 August 2003 and the corresponding periods in 2002 as the Group had no assessable profits arising in Hong Kong and overseas.

## 7. Loss per share

The calculation of basic loss per share for the three months and six months ended 31 August 2003 is based on the net loss from ordinary activities attributable to shareholders for the three months and six months ended 31 August 2003 of approximately HK\$7,340,000 and HK\$14,657,000, respectively (three months and six months ended 31 August 2002: HK\$7,011,000 and HK\$11,493,000, respectively), and the weighted average of 520,524,085 (three months and six months ended 31 August 2002: 520,000,000 ordinary shares and 453,920,000 ordinary shares, respectively, deemed to be in issue during the periods 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) ordinary shares in issue during the periods.

No diluted loss per share amount for the three months and six months ended 31 August 2003 and the corresponding periods in 2002 has been presented as the share options of the Company and share options and warrants of Kinetana Group Inc. ("KGI"), a wholly-owned subsidiary of the Company, which may be exchanged for ordinary shares of the Company when exercised, which were outstanding during the three months and six months ended 31 August 2003 and the corresponding periods in 2002 had anti-dilutive effects on the respective basic loss per share.

## 8. Dividend

The Board does not recommend the payment of any dividend for the three months and six months ended 31 August 2003 (three months and six months ended 31 August 2002: Nil).

## 9. 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:

	<b>31 August 2003</b> <b>Unaudited</b> <b>HK\$'000</b>	28 February 2003 Audited HK\$'000
0 – 90 days	35	42
Over 90 days	4	23
	<u>39</u>	<u>65</u>



## 10. Trade payables

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

	<b>31 August 2003</b> <b>Unaudited</b> <i>HK\$'000</i>	28 February 2003 Audited <i>HK\$'000</i>
0 – 90 days	424	638
Over 90 days	197	39
	<u>621</u>	<u>677</u>

## 11. Share capital

	<b>31 August 2003</b> <b>Unaudited</b> <i>HK\$'000</i>	28 February 2003 Audited <i>HK\$'000</i>
Authorised: 1,000,000,000 (28 February 2003: 1,000,000,000) ordinary shares of HK\$0.01 each	<u>10,000</u>	<u>10,000</u>
Issued and fully paid: 520,524,085 (28 February 2003: 520,524,085) ordinary shares of HK\$0.01 each	<u>5,205</u>	<u>5,205</u>

## 12. Capital commitments

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

	<b>31 August 2003</b> <b>Unaudited</b> <i>HK\$'000</i>	28 February 2003 Audited <i>HK\$'000</i>
Capital commitments in respect of contributions to research and development projects: Contracted, but not provided for	663	1,851
Capital commitment in respect of additional investment in a jointly-controlled entity: Contracted, but not provided for	<u>500</u>	<u>500</u>
	<u>1,163</u>	<u>2,351</u>

### 13. Related party transactions

	<i>Notes</i>	<b>Six months ended 31 August</b>	
		<b>2003</b>	<b>2002</b>
		<b>Unaudited</b>	<b>Unaudited</b>
		<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Continuing transactions:			
Salaries, bonuses, allowances, and benefits in kind paid to Dr. Nuzhat Tam-Zaman and retirement benefits scheme contributions thereof	(a)	<b>256</b>	250
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)	<b>36</b>	122
Discontinuing transaction:			
Interest expenses paid to Dr. Tam Yun Kau	(e)	<u>–</u>	<u>72</u>

#### *Notes:*

- (a) Dr. Nuzhat Tam-Zaman is the wife of Dr. Tam Yun Kau, the President and Chief Executive Officer 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 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, the President and Chief Executive Officer 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 period and the prior period.

- (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 this period and the prior period.

- (d) Mr. Young Chiu Kit, Patrick, an executive 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, the President and Chief Executive Officer 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. These advances were all repaid by the Company.

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of operations**

The Board announces the Group’s unaudited consolidated interim results for the six months ended 31 August 2003. The Group recorded a turnover of approximately HK\$271,000 for the six months ended 31 August 2003 which includes service income of approximately HK\$124,000 and sales of the Group’s own products of approximately HK\$147,000. The turnover for the six months ended 31 August 2002 was HK\$525,000.

For the six months ended 31 August 2003, the Group incurred a net loss attributable to shareholders of approximately HK\$14.66 million as compared to approximately HK\$11.49 million for the corresponding period in 2002. The increase was mainly attributable to increases in human resources costs of approximately HK\$0.85million, the exchange loss of approximately HK\$0.22 million, sales and marketing and business development expenses of approximately HK\$0.81 million, research and development expenses, other than salaries, of approximately HK\$0.40 million, recognition payment to Mr. Young Shui Chung, a deceased executive director, as duly passed at the annual general meeting of the Company held on 11 July 2003, of HK\$0.50 million and professional fees in relation to continuing listing obligations of approximately HK\$0.31 million.

## **Prospects**

### ***Business Development***

The Group has signed a second evaluation agreement with a multinational pharmaceutical firm. A new evaluation agreement has also been signed with another multinational pharmaceutical firm.

Management has continued to monitor the Group's performance and financial situation. In view of the current economic environment, management has decided to reallocate the Group's resources to optimise growth and profitability. Measures are being taken to reduce and rationalise operating and administrative expenses including sales and marketing costs.

### ***Product Launch***

The Group has signed an agreement with a distributor to distribute products for the entire United States. Special product promotion in the United States will start in early October 2003.

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

The Group has finished developing the prototype formulas for improving the general vitality of people having different body conditions. New products that are currently at the stage of pilot formulation include Garlic, Lingzhi, Cordyceps, arthritis and hair growth cream.

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

Management has decided not to further develop the Hong Kong market due to the current market conditions. These resources have been deployed to develop the United States market.

### ***Segment information***

The Group is organised into two main business segments; absorption screening technology service and herbal products sales. The Group has officially launched Echinacea, St. John's Wort and Ginseng in Hong Kong and Canada in March 2003 and started generating revenue from the sale of these products during the six months ended 31 August 2003. The Group continues to generate revenue from the sale of pro-IQ™ Ginkgo and provision of absorption screening technology services to customers during the six months ended 31 August 2003 and 2002. There are no sales or other transactions between the business segments.

### ***Future plans for material investments***

Save as disclosed in the Company's prospectus dated 22 May 2002 (the "Prospectus"), the Group does not have any future plans for material investments.

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

The Group's net current assets as at 31 August 2003 was approximately HK\$24.05 million (28 February 2003: HK\$39.64 million). Cash and bank balances as at 31 August 2003 were approximately HK\$24.23 million (28 February 2003: HK\$40.62 million). There were no bank borrowings and capital instruments as at 31 August 2003 (28 February 2003: Nil).

### ***Employee information***

As at 31 August 2003, the Group had 22 full time employees, a decrease by 3 from 25 as at 28 February 2003. During the six months ended 31 August 2003, staff costs, excluding directors' remuneration, totaled HK\$4.76 million. The Group's employment and remuneration policies remained the same as detailed in the Company's annual report for the year ended 28 February 2003.

### ***Charge on group assets***

As at 31 August 2003, a letter of credit in the amount of CAN\$165,500 has been issued and is outstanding against the Group as part of an equipment lease agreement. Of the cash balance, CAN\$165,000 is restricted in relation to this outstanding letter of credit (28 February 2003: Nil).

Save as disclosed above, the Group presently does not have any other material charge on assets of the Group.

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

The Group continues 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 minimise exposure to foreign exchange risks. The Group does not currently engage in hedging any currencies risks, as it considers the 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 31 August 2003, the Group has finance lease payables of approximately HK\$2.37 million and shareholders' equity of approximately HK\$48 million. The gearing ratio was 4.93% (28 February 2003: Nil).

### ***Significant investments and acquisitions***

During the period ended 31 August 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 31 August 2003 (28 February 2003: Nil).

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the GEM in June 2002, after deduction of related issue expenses, amounted to approximately HK\$62 million. Of this amount, HK\$38 million has been utilised up to 31 August 2003 and has been applied in accordance with the proposed applications set out in the Prospectus (as revised and detailed in the Company's audited financial statements for the year ended 28 February 2003), details of which are set out as follows:

	Planned usage for the period from 1 March 2003 to 31 August 2003 <i>HK\$ million</i>	Actual usage for the period from 1 March 2003 to 31 August 2003 <i>HK\$ million</i>	Variance <i>HK\$ million</i>	Remarks
Acquisition of chemical analysis equipment and machinery for pilot formulation and pilot production of herbal products	3.4	0.4	(3.0)	Management has decided to lease the equipment in order to preserve cash.
Hiring of additional technical staff and consultant for pilot formulation and pilot production of natural herbal products	0.3	0.7	0.4	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 ahead of schedule.
Additional research and development staff, including those in analytical chemistry and cell biology, for the refinement and upgrades of SimBioDAS <sup>®</sup> technology	0.4	0.8	0.4	The total manpower cost involved in the project is more than expected especially before the Group launched its products. The budgeted costs as stated in the Prospectus were not sufficient.
Sales and marketing of the Group's services and products	0.7	1.1	0.4	The budget was for the sales and marketing of one product, i.e. Ginkgo. The other 3 products were ready for distribution in February 2003, which was earlier than anticipated in the Prospectus. The higher costs were due to hiring agents to market four products instead of one.

	Planned usage for the period from 1 March 2003 to 31 August 2003 <i>HK\$ million</i>	Actual usage for the period from 1 March 2003 to 31 August 2003 <i>HK\$ million</i>	Variance <i>HK\$ million</i>	Remarks
ITF matching fund obligations under the collaborative projects with HKUST and CUHK	1.1	1.2	0.1	No material variance.
Acquisition of analytical chemistry and cell biology equipment for refinement and upgrades of the SimBioDAS® technology	2.0	–	(2.0)	Management has identified a robot system which can be adapted for the Group's purposes and is available in the market. The Group will buy the system in the future when the need arises.
Establishing a facility in Canada for development of an automated SimBioDAS® technology	0.3	–	(0.3)	The Group has identified a robot system which can be purchased for approximately USD\$250,000. By acquiring instead of developing the Group's own system, the Group can achieve substantial savings in costs and time.
Acquisition of equipment to perform contract services using SimBioDAS® technology	0.2	–	(0.2)	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	2.5	3.8	1.3	The higher costs were a result of more products being launched in the market.
Herbal product development	0.6	2.1	1.5	Higher costs were due to faster pace of herbal product development.
General working capital	1.0	6.3	5.3	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.
<b>Grand total</b>	<u>12.5</u>	<u>16.4</u>	<u>3.9</u>	

There were no material deviations from the intended use of net proceeds for the period ended 31 August 2003 as disclosed in the Company's audited financial statements for the year ended 28 February 2003 and the Prospectus.

The directors of the Company presently do not anticipate any material deviation from the intended use of the net proceeds as disclosed in the Company's audited financial statements for the year ended 28 February 2003 and the Prospectus.

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**

For the period from 1 March 2003 to 31 August 2003

### **Business Objective as stipulated in the Prospectus**

### **Actual progress and development**

### **Remarks**

#### **Drug-screening services**

##### *Product development*

- |   |   |  |
|---|---|--|
| <ul style="list-style-type: none"> <li>• To continue the development of an automated system on the SimBioDAS® technology for rapid screening.</li> </ul>  | <ul style="list-style-type: none"> <li>• The management has decided to cancel the development of its own automated system on the SimBioDAS® technology for rapid screening.</li> </ul>        | <ul style="list-style-type: none"> <li>• The Group has identified a robotic system which is adaptable for high throughput screening. Acquisition of this system is less expensive than developing the system.</li> </ul> |
| <ul style="list-style-type: none"> <li>• To conduct pilot studies comparing major metabolism features of selected human liver cell lines and fresh human liver cells as part of the development of the second generation of the SimBioDAS® technology.</li> </ul>                   | <ul style="list-style-type: none"> <li>• The pilot studies for comparing major metabolism features of selected human liver cell lines and fresh human liver cells are in progress.</li> </ul> |  |
| <ul style="list-style-type: none"> <li>• To continue the refinement of the cell culture system for the SimBioDAS® technology through developing further growth conditions to support the expression of a key drug transporter, called P-glycoprotein, in the cell lines.</li> </ul> | <ul style="list-style-type: none"> <li>• The refinement of the cell culture system for the SimBioDAS® technology is in progress.</li> </ul>   |  |



**Business Objective as stipulated  
in the Prospectus**

**Actual progress and development**

**Remarks**

*Sales and marketing*

- To identify potential customers, such as large pharmaceutical companies and biotechnology companies, for the licensing of SimBioDAS® technology.
  - To continue to increase the market share for the screening services by introducing and promoting the features of the SimBioDAS® technology, through marketing calls and seminars, to different market segments of the pharmaceuticals industry.
- The Group is negotiating with several pharmaceutical companies for the licensing of the SimBioDAS® technology.
  - The Group's scientists have been conducting seminars in North America to promote the SimBioDAS® technology.

*Resources deployment*

- To fully utilise 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 reviewing the operating system.

**Herbal and TCM**

*Product development*

- In Hong Kong, to finalise the manufacturing procedures of Ginseng and *Cordyceps militaris* as food supplements.
  - In Canada, to finalise the manufacturing procedure of Echinacea and St. John's Wort as food supplements.
  - To continue the development of Ginkgo as a drug by identifying more active ingredients, standardising and formulating them in a way that all of the active ingredients can be absorbed.
- The Group has finalised the manufacturing procedures of Ginseng and *Cordyceps militaris* as food supplements in Hong Kong.
  - The Group has finalised the manufacturing procedure of Echinacea and St. John's Wort as food supplements in Canada in the early 2003.
  - The Group is continuing the development of Ginkgo as a drug.

**Business Objective as stipulated  
in the Prospectus**

**Actual progress and development**

**Remarks**

- To support the activities of CUHK to develop a bio-assay for the TCM-based cardiovascular formulation; to identify active ingredients, optimise the extraction procedure and to test the active ingredients of a TCM-based cardiovascular formula for absorbability using the Group's technology.
- To support HKUST to extract and fractionate the proposed liver cancer formula and to further identify active ingredients.

- The Group is identifying active ingredients profile and is developing a bio-assay for TCM-based cardiovascular formulation.
- The Group is in the process of extracting and fractionating the proposed liver cancer formula and identifying active ingredients.

*Sales and marketing*

- To refine the marketing plans for Ginkgo.
- To implement marketing plans for Ginseng, *Cordyceps militaris*, Echinacea and St. John's Wort for the North American, European and Asian markets.
- To launch Ginseng, *Cordyceps militaris*, Echinacea and St. John's Wort as food supplements.

- The Group has finished the refinement of the marketing plans for Ginkgo.
- The Group has finished the implementation of marketing plans for Ginseng, *Cordyceps militaris*, Echinacea and St. John's Wort.
- Echinacea, St John's Wort and Ginseng have been launched in March 2003. For *Cordyceps militaris*, the Group proposes to launch this product in the third or forth quarter of the year.

- Management has decided to focus marketing activities for Ginkgo and the Group's other herbal products in North America.
- Management has decided to focus marketing activities for the Group's herbal products in North America.

*Resources deployment*

- To employ 4 technicians on analytical chemistry (2 in Hong Kong for performing analyses on TCM-related products, such as the Group's Ginseng and *Cordyceps militaris* products, and 2 in Canada for similar work activities on the Group's herbal products, such as Echinacea and St. John's Wort).

- The Group has not employed 4 technicians on analytical chemistry.

- The management considered that the existing manpower is sufficient to support the current operations. The Group will hire additional technicians immediately when there is such a need.

## COMPETING INTEREST

None of the directors or the management shareholders (as defined in The Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”)) of the Company or their respective associates had any interest in any business, which competes or may compete with the business of the Group.

## DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS OR SHORT POSITIONS IN SHARES AND OPTIONS

As at 31 August 2003, the interests or short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Exchange”) pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were as follows:

Name of Director	Notes	Interests in shares			Total interest in shares <i>Note (c)</i>	Interests in underlying shares pursuant to			% of the Company’s issued share capital
		Personal interest	Family interest	Corporate interest		KIBP pre-IPO Options <i>Note (d)</i>	Exchange Agreement for KGI pre-IPO Options	Aggregate interest	
Dr. Tam Yun Kau	(a)	22,011,161	500,000	118,737,854	141,249,015	25,190,523	3,619,609	170,059,147	32.67
Mr. Yeung Sui Leung	(b)	4,379,387	-	-	4,379,387	-	-	4,379,387	0.84
Mr. Young Chiu Kit, Patrick		2,114,150	-	-	2,114,150	1,222,841	440,223	3,777,214	0.73
Mr. Chan Mo Po, Paul		-	1,300,000	-	1,300,000	1,222,841	-	2,522,841	0.48
Dr. Antoine A. Noujaim		855,989	-	-	855,989	1,222,841	269,025	2,347,855	0.45
Mr. Lee Chiu Kang		-	-	-	-	1,222,841	-	1,222,841	0.23
Mr. Tam Shong-Tak, David		-	-	-	-	1,222,841	-	1,222,841	0.23

### Notes:

- (a) The family interest of Dr. Tam Yun Kau in the shares of the Company is held by Dr. Tam-Zaman Nuzhat, the wife of Dr. Tam Yun Kau. 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 approximately 16.67% equity interest in Grand Interest Development Limited, which holds 30,815,591 shares of the Company as at 31 August 2003. Details of Grand Interest Development Limited’s interest in the shares and underlying shares of the Company are set out in the Section “Substantial Shareholders” below.
- (c) KIBP pre-IPO Options

The Company conditionally adopted a pre-IPO share option scheme (the “KIBP Pre-IPO Share Option Scheme”) on 7 May 2002. A summary of the principal terms of the KIBP Pre-IPO Share Option Scheme is set out in the subsection headed “Pre-IPO Share Option Schemes-(a) KIBP Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus. As at 31 August 2003, the

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

Name of Director	Notes	Number of share options interested as at 1 March and 31 August 2003	Date of grant	Exercise period	Exercise price
					HK\$
Dr. Tam Yun Kau	(i)	12,228,409	07/05/02	03/12/02 to 03/12/07	0.325
	(i)	6,114,204	07/05/02	03/06/03 to 03/06/08	0.325
	(i)	6,114,205	07/05/02	03/06/04 to 03/06/09	0.325
	(ii)	733,705	09/05/02	03/12/02 to 03/12/07	0.325
Mr. Young Chiu Kit, Patrick	(i)	1,222,841	15/05/02	03/12/02 to 03/12/07	0.325
Dr. Antoine A. Noujaim	(i)	1,222,841	07/05/02	03/12/02 to 03/12/07	0.325
Mr. Lee Chiu Kang	(i)	1,222,841	07/05/02	03/12/02 to 03/12/07	0.325
Mr. Tam Shong-Tak, David	(i)	1,222,841	07/05/02	03/12/02 to 03/12/07	0.325
Mr. Chan Mo Po, Paul	(i)	1,222,841	07/05/02	03/12/02 to 03/12/07	0.325

*Notes:*

- (i) The above options are personally held by Directors.
  - (ii) The 733,705 options are held by Dr. Tam-Zaman Nuzhat, the wife of Dr. Tam Yun Kau.
  - (iii) All the above-mentioned options are unlisted and represent physically settled equity derivatives.
- (d) KGI pre-IPO Options

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

Pursuant to a conditional share exchange offer made on 5 November 2001 by, among other parties, the Company (as supplemented by two letters dated 27 February 2002 and 28 March 2002) and accepted by each holder of options under the KGI Share Option Plan and warrants of KGI (the “Exchange Agreement”), each such holder, among other things, agreed to exchange common shares of KGI which would be issued and allotted pursuant to the exercise of options in KGI on the basis of one common share of KGI for approximately 24.45 shares of the Company.

As at 31 August 2003, the following directors of the Company were conditionally granted or interested in the following options under the KGI Share Option Plan (as supplemented by the Exchange Agreement):

Name of Director	Notes	Number of KGI share options interested as at 1 March and 31 August 2003	Number of shares exchanged for pursuant to the Exchange Agreement	Date of grant	Exercise period pursuant to the Exchange Agreement	Exercise price CAN\$
Dr. Tam Yun Kau	(i)	8,000	195,655	31/03/00	03/12/02 to 31/03/05	0.5
	(ii)	70,000	1,711,977	01/07/01	03/12/02 to 01/07/06	0.5
	(ii)	70,000	1,711,977	19/12/01	03/12/02 to 19/12/06	0.5
Mr. Young Chiu Kit, Patrick	(i)	18,000	440,223	31/03/00	03/12/02 to 31/03/05	0.5
Dr. Antoine A. Noujaim	(i)	11,000	269,025	31/03/00	03/12/02 to 31/03/05	0.5

*Notes:*

- (i) Directors personally hold the above options.
- (ii) The 140,000 options referred to above are held by Dr. Tam-Zaman Nuzhat, the wife of Dr. Tam Yun Kau.
- (iii) All the above-mentioned options are unlisted and represent physically settled equity derivatives.

Save as disclosed above, as at 31 August 2003, none of the directors or their associates as well as the chief executive of the Group had any interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules. During the reporting period, there were no debt securities issued by the Group at any time.

## SUBSTANTIAL SHAREHOLDERS

As at 31 August 2003, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name of Shareholder	Notes	Interests in underlying shares pursuant to				% of the Company's issued share capital
		Interests in shares	KIBP pre-IPO Options	The Exchange Agreement for KGI pre-IPO Options	Aggregate interest	
943788 Alberta Ltd.	(a)	118,737,854	–	–	118,737,854	22.81
Dr. Tam-Zaman Nuzhat	(b)	141,249,015	25,190,523	3,619,609	170,059,147	32.67
Grand Interest Development Limited	(c)	30,815,591	–	–	30,815,591	5.92

### Notes:

- (a) 943788 Alberta Ltd. is an investment holding company incorporated in Canada and wholly owned by Dr. Tam Yun Kau.
- (b) The 141,249,015 shares of the Company referred to above include 500,000 shares held by Dr. Tam-Zaman Nuzhat herself, 22,011,161 shares held by Dr. Tam Yun Kau and 118,737,854 shares held by 943788 Alberta Ltd.. Dr. Tam-Zaman Nuzhat 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.. The 25,190,523 KIBP pre-IPO share options referred to above include 733,705 share options held by Dr. Tam-Zaman Nuzhat herself and 24,456,818 share options held by Dr. Tam Yun Kau. The 3,619,609 shares exchanged for pursuant to the Exchange Agreement for KGI pre-IPO Options above include 3,423,954 shares held by Dr. Tam-Zaman Nuzhat herself and 195,655 shares held by Dr. Tam Yun Kau. Details of Dr. Tam-Zaman Nuzhat's interests in KIBP pre-IPO Options and KGI pre-IPO Options are set out in notes (c) and (d), respectively, to the section headed "Directors' and Chief Executive's Interests or Short Positions in Shares and Options" above.
- (c) Mr. Yeung Sui Leung, a director of the Company, holds an approximately 16.67% equity interest in Grand Interest Development Limited.
- (d) All the above mentioned options are unlisted and represent physically settled equity derivatives.

Save as disclosed above, as at 31 August 2003, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) on 7 May 2002 the principal terms of which are set out in the note 28 to the financial statements as included in the annual report of the Company for the year ended 28 February 2003.

As at 31 August 2003, options to subscribe for an aggregate of 4,400,000 shares of the Company had been granted or agreed to be granted under the Share Option Scheme. Details are as follows:

Number of employees	Number of options			Date of grant	Exercise period	Exercise price <i>HK\$</i>
	As at 1 March 2003	Granted	As at 31 August 2003			
13	–	4,400,000	4,400,000	27/05/03	27/05/03 to 27/05/13	0.071

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.

## SPONSOR’S INTEREST

Hantec Capital Limited (“HCL”) has been appointed as sponsor of the Company 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 31 August 2003.

Save as disclosed above, HCL had no other interest in the Company as at 31 August 2003.

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

The Company had complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the half year period.

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

During the six months ended 31 August 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the “A Guide for the Formation of An Audit Committee” published by the Hong Kong Society of Accountants and, in the opinion of the directors, complied with Rules 5.23 to 5.27 as set out in Chapter 5 of the GEM Listing Rules since the listing of the Company’s shares on the GEM on 3 June 2002. The primary duties of the audit committee are to review the Company’s annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the 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 independent non-executive directors, namely Mr. Chan Mo Po, Paul and Dr. Chan Wai Kit, Albert, and a non-executive director, Mr. Tam Shong-Tak, David. Mr. Chan Mo Po, Paul is the chairman of the audit committee. The Group’s unaudited condensed consolidated financial statements for the six months ended 31 August 2003 have been reviewed by the audit committee, who was of the opinion that the preparation of such financial statements complied with applicable accounting standards, the Exchange and legal requirements and that adequate disclosures had been made.

By order of the Board

**Dr. Tam Yun Kau**

*President and Chief Executive Officer*

Hong Kong, 10 October 2003

*This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least seven days from the day of its posting and on the website of the Company at [www.kinetana.com](http://www.kinetana.com).*