



Kinetana International Biotech Pharma Limited
健諾國際生化科技藥業有限公司
(incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of Kinetana International Biotech Pharma Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Kinetana International Biotech Pharma Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Group for the nine months ended 30 November 2003 was approximately HK\$1,074,000 as compared to HK\$525,000 for the corresponding period in the previous fiscal year.
- Net loss of the Group for the nine months ended 30 November 2003 was approximately HK\$20.54 million as compared to approximately HK\$20.10 million for the corresponding period in the previous fiscal year.
- Loss per share of the Group was approximately HK\$0.0394 for the nine months ended 30 November 2003 and HK\$0.0422 for the corresponding period in the previous fiscal year.
- The Board does not recommend the payment of any dividend for the nine months ended 30 November 2003.

UNAUDITED THIRD QUARTERLY RESULTS

The Board of Directors (the “Board”) of Kinetana International Biotech Pharma Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and nine months ended 30 November 2003, together with the unaudited consolidated results for the corresponding periods in 2002, are as follows:–

| | | Three months ended 30 November | | Nine months ended 30 November | |
|---|-------|-----------------------------------|-----------|----------------------------------|-----------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | Unaudited | Unaudited | Unaudited | Unaudited |
| | Notes | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| TURNOVER | 3 | 803 | – | 1,074 | 525 |
| Cost of sales | | (27) | – | (111) | (353) |
| Gross profit | | 776 | – | 963 | 172 |
| Other revenue, net | | 154 | 232 | 535 | 706 |
| Selling and distribution costs | | (27) | (863) | (601) | (1,417) |
| Administrative expenses | | (4,395) | (6,514) | (13,745) | (15,920) |
| Research and development expenses | | (1,602) | (1,028) | (5,187) | (2,692) |
| Other operating expenses, net | | (763) | (414) | (2,392) | (808) |
| LOSS FROM OPERATING ACTIVITIES | | (5,857) | (8,587) | (20,427) | (19,959) |
| Finance costs | | (40) | (21) | (118) | (141) |
| Share of profits/(loss) of a jointly-controlled entity | | 17 | – | 8 | (1) |
| LOSS BEFORE TAX | | (5,880) | (8,608) | (20,537) | (20,101) |
| Tax | 4 | – | – | – | – |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | (5,880) | (8,608) | (20,537) | (20,101) |
| LOSS PER SHARE - Basic (HK\$) | 5 | (0.0113) | (0.0166) | (0.0394) | (0.0422) |

NOTES TO THE UNAUDITED THIRD QUARTERLY RESULTS

1. Basis of presentation and consolidation

The unaudited consolidated results of the Group for the three months and nine months ended 30 November 2003 include the results of the Company and its subsidiaries for the three months and nine months ended 30 November 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 GEM of the Stock Exchange. Accordingly, the unaudited consolidated results of the Group for the three months and nine months ended 30 November 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 consolidated results 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. 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 | | Nine months ended | |
|--|---------------------------|-----------|--------------------------|-----------|
| | 30 November | | 30 November | |
| | 2003 | 2002 | 2003 | 2002 |
| | Unaudited | Unaudited | Unaudited | Unaudited |
| | HK\$’000 | HK\$’000 | HK\$’000 | HK\$’000 |
| Absorption screening services rendered | 725 | – | 849 | 450 |
| Sale of herbal products | 78 | – | 225 | 75 |
| | 803 | – | 1,074 | 525 |

4. 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 nine months ended 30 November 2003 and the corresponding periods in 2002 as the Group had no assessable profits arising in Hong Kong and overseas.

5. Loss per share

The calculation of basic loss per share for the three months and nine months ended 30 November 2003 is based on the net loss from ordinary activities attributable to shareholders for the three months and nine months ended 30 November 2003 of approximately HK\$5,880,000 and HK\$20,537,000, respectively (three months and nine months ended 30 November 2002: HK\$8,608,000 and HK\$20,101,000, respectively), and the weighted average for the three months and nine months ended 30 November 2003 of 520,760,211 and 520,602,221 (three months and nine months ended 30 November 2002: 520,000,000 and 475,786,869 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 respectively in issue during the periods.

No diluted loss per share amount for the three months and nine months ended 30 November 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 nine months ended 30 November 2003 and the corresponding periods in 2002 had anti-dilutive effects on the respective basic loss per share.

6. Dividend

The Board does not recommend payment of any dividend for the three months and nine months ended 30 November 2003 (three months and nine months ended 30 November 2002: Nil).

7. Movement of reserves

| | Share premium account Unaudited HK\$'000 | Contributed surplus account Unaudited HK\$'000 | Exchange fluctuation reserve Unaudited HK\$'000 | Accumulated losses Unaudited HK\$'000 | Total Unaudited HK\$'000 |
|--|--|--|---|--|--------------------------------|
| At 1 March 2003 | 60,147 | 35,590 | (639) | (38,405) | 56,693 |
| Net gains not recognised in the profit and loss account – Exchange realignment | – | – | 1,477 | – | 1,477 |
| Issue of shares | 70 | – | – | – | 70 |
| Loss for the period | – | – | – | (20,537) | (20,537) |
| At 30 November 2003 | <u>60,217</u> | <u>35,590</u> | <u>838</u> | <u>(58,942)</u> | <u>37,703</u> |
| At 1 March 2002 | – | 35,945 | – | (11,260) | 24,685 |
| Net gains not recognised in the profit and loss account – Exchange realignment | – | – | 9 | – | 9 |
| Issue of shares | 75,815 | – | – | – | 75,815 |
| Share issue expenses | (15,738) | – | – | – | (15,738) |
| Share issue expenses of a subsidiary | – | (797) | – | – | (797) |
| Loss for the period | – | – | – | (20,101) | (20,101) |
| At 30 November 2002 | <u>60,077</u> | <u>35,148</u> | <u>9</u> | <u>(31,361)</u> | <u>63,873</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

The Board announces the Group's unaudited consolidated third quarterly results for the nine months ended 30 November 2003. The Group recorded a turnover of approximately HK\$1,074,000 for the nine months ended 30 November 2003 which includes service income of approximately HK\$849,000 and sales of the Group's own products of approximately HK\$225,000. The turnover for the nine months ended 30 November 2002 was HK\$525,000.

For the nine months ended 30 November 2003, the Group incurred a net loss attributable to shareholders of approximately HK\$20.54 million as compared to approximately HK\$20.10 million for the corresponding period in 2002.

Prospects

Business Development

The Group is in the process of completing a second evaluation study of the SimBioDAS® technology with a multinational pharmaceutical firm. In addition, a second multinational pharmaceutical firm, pursuant to an evaluation agreement signed in August 2003, is conducting an evaluation study of the Group's SimBioDAS® Technology.

Management has been monitoring the Group's performance and financial situation. In light of the current market conditions in Hong Kong, measures have been implemented to rationalize and improve the Group's overall operating efficiency commencing November 2003. These measures involved the reallocation of the Group's resources by activity and location whereby some of the resources which were planned to be deployed in Hong Kong have been reallocated to North America.

Product Launch

The Group began shipping its products to its US distributor in October 2003. In November 2003, the Group commenced distributing its products in Canada through specialty health food and drug stores chain.

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 including Garlic, Lingzhi, Cordyceps, arthritis and hair growth cream are currently at the stage of commercial formulation. In order to improve the Group's overall operating efficiency, the Group's research and development facilities in Hong Kong have been scaled down and these facilities have been consolidated with the Canadian facilities. The collaborative arrangement with the Hong Kong University of Science and Technology and the Chinese University of Hong Kong is progressing as scheduled.

Sales and Marketing

In order to improve the overall efficiency and utilization of resources, management has decided not to further develop the Hong Kong market due to the current market conditions. Sales and marketing efforts in Hong Kong were reduced and resources which were deployed in Hong Kong have been reallocated towards the North America market.

COMPETING INTEREST

None of the directors or the management shareholders (as defined in The Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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 30 November 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 pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were as follows:

| Name of Director | | Interests in shares | | | | Interests in underlying shares pursuant to | | | | % of the Company's issued share capital |
|-----------------------------|-------|---------------------|-----------------|--------------------|--------------------------|--|---|----------------------|--------------------|---|
| | | Personal interest | Family interest | Corporate interest | Total interest in shares | KIBP pre-IPO Options | Exchange Agreement for KGI pre-IPO Option | Share Options Scheme | Aggregate interest | |
| | Notes | | | | | Note (c) | Note (d) | Note (e) | | |
| Dr. Tam Yun Kau | (a) | 22,011,161 | 500,000 | 118,737,854 | 141,249,015 | 25,190,523 | 3,619,609 | 520,000 | 170,579,147 | 32.74 |
| Mr. Young Chiu Kit, Patrick | | 2,114,150 | – | – | 2,114,150 | 1,222,841 | 440,223 | 5,200,000 | 8,977,214 | 1.72 |
| Mr. Lee Chiu Kang | | – | – | – | – | 1,222,841 | – | 5,200,000 | 6,422,841 | 1.23 |
| Mr. Tam Shong-Tak, David | | – | – | – | – | 1,222,841 | – | 5,200,000 | 6,422,841 | 1.23 |
| Mr. Yeung Sui Leung | (b) | 4,379,387 | – | – | 4,379,387 | – | – | 520,000 | 4,899,387 | 0.94 |
| Mr. Chan Mo Po, Paul | | – | 2,800,000 | – | 2,800,000 | 1,222,841 | – | 520,000 | 4,542,841 | 0.87 |
| Dr. Antoine A. Noujaim | | 855,989 | – | – | 855,989 | 1,222,841 | 269,025 | 520,000 | 2,867,855 | 0.55 |
| Dr. Chan Wai Kit, Albert | | – | – | – | – | – | – | 520,000 | 520,000 | 0.10 |

Notes:

- 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.
- 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 30 November 2003. Details of Grand Interest Development Limiter’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 30 November 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 | <i>Notes</i> | Number of share options interested as at 1 March and 30 November 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 30 November 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 | | Number of KGI share options interested as at 1 March and 30 November 2003 | Number of shares exchanged for pursuant to the Exchange Agreement | Date of grant | Exercise period pursuant to the Exchange Agreement | Exercise price CAN\$ |
|--------------------------------|--------------|---|---|------------------|---|----------------------------|
| | <i>Notes</i> | | | | | |
| 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.

(e) 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 30 November 2003, options to subscribe for an aggregate of 18,200,000 shares of the Company had been granted or agreed to be granted to the following directors under the Share Option Scheme. Details are as follows:–

| Name of Director | Notes | Number of Options | | Date of grant | Exercise period | Exercise price HK\$ | |
|-----------------------------|-------|--------------------|-----------------------------------|---------------|-----------------|----------------------|-------|
| | | As at 1 March 2003 | As at 30 November 2003 Granted | | | | |
| Dr. Tam Yun Kau | (i) | – | 260,000 | 260,000 | 10/10/03 | 10/01/04 to 09/10/13 | 0.071 |
| | | – | 260,000 | 260,000 | 10/10/03 | 10/04/04 to 09/10/13 | 0.071 |
| Mr. Yeung Sui Leung | (i) | – | 260,000 | 260,000 | 10/10/03 | 10/01/04 to 09/10/13 | 0.071 |
| | | – | 260,000 | 260,000 | 10/10/03 | 10/04/04 to 09/10/13 | 0.071 |
| Mr. Young Chiu Kit, Patrick | (i) | – | 2,600,000 | 2,600,000 | 10/10/03 | 10/01/04 to 09/10/13 | 0.071 |
| | | – | 2,600,000 | 2,600,000 | 10/10/03 | 10/04/04 to 09/10/13 | 0.071 |
| Mr. Chan Mo Po, Paul | (i) | – | 260,000 | 260,000 | 10/10/03 | 10/01/04 to 09/10/13 | 0.071 |
| | | – | 260,000 | 260,000 | 10/10/03 | 10/04/04 to 09/10/13 | 0.071 |

| Name of Director | | Number of Options | | | Date of grant | Exercise period | Exercise price HK\$ |
|--------------------------|--------------|--------------------------|-----------|------------------------------|---------------|----------------------|---------------------|
| | | As at 1 March 2003 | Granted | As at 30 November 2003 | | | |
| | <i>Notes</i> | | | | | | |
| Dr. Antoine A. Noujaim | (i) | – | 260,000 | 260,000 | 10/10/03 | 10/01/04 to 09/10/13 | 0.071 |
| | | – | 260,000 | 260,000 | 10/10/03 | 10/04/04 to 09/10/13 | 0.071 |
| Mr. Lee Chiu Kang | (i) | – | 2,600,000 | 2,600,000 | 10/10/03 | 10/01/04 to 09/10/13 | 0.071 |
| | | – | 2,600,000 | 2,600,000 | 10/10/03 | 10/04/04 to 09/10/13 | 0.071 |
| Dr. Chan Wai Kit, Albert | (i) | – | 260,000 | 260,000 | 10/10/03 | 10/01/04 to 09/10/13 | 0.071 |
| | | – | 260,000 | 260,000 | 10/10/03 | 10/04/04 to 09/10/13 | 0.071 |
| Mr. Tam Shong-Tak, David | (i) | – | 2,600,000 | 2,600,000 | 10/10/03 | 10/01/04 to 09/10/13 | 0.071 |
| | | – | 2,600,000 | 2,600,000 | 10/10/03 | 10/04/04 to 09/10/13 | 0.071 |

Notes:

- (i) Directors personally hold the above options.
- (ii) All the above-mentioned options are unlisted and represent physically settled equity derivatives.
- (iii) 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.

Save as disclosed above, as at 30 November 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 30 November 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 shares | Interests in underlying shares pursuant to | | | Aggregate interest | % of the Company's issued share capital |
|------------------------------------|-------|---------------------|--|--|---------------------|--------------------|---|
| | | | KIBP pre-IPO Options | The Exchange Agreement for KGI pre-IPO Options | Share Option Scheme | | |
| 943788 Alberta Ltd. | (a) | 118,737,854 | – | – | – | 118,737,854 | 22.79 |
| Dr. Tam-Zaman Nuzhat | (b) | 141,249,015 | 25,190,523 | 3,619,609 | 520,000 | 170,579,147 | 32.74 |
| Grand Interest Development Limited | (c) | 30,815,591 | – | – | – | 30,815,591 | 5.91 |

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. The 520,000 share options referred to the Share Option Scheme represents shares options 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), (d) and (e), 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 30 November 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 30 November 2003, options to subscribe for an aggregate of 3,700,000 shares of the Company had been granted or agreed to be granted to the Company’s employees under the Share Option Scheme. Details are as follows:–

| Number of employees | Number of options | | | Date of grant | Exercise period | Exercise price HK\$ |
|---------------------|--------------------|-----------|---------|---------------|----------------------|------------------------|
| | As at 1 March 2003 | Granted | Lapsed | | | |
| 13 | – | 4,400,000 | 700,000 | 3,700,000 | 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.

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 30 November 2003.

Save as disclosed above, HCL had no other interest in the Company as at 30 November 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 nine months period.

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

During the nine months ended 30 November 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 consolidated financial statements for the nine months ended 30 November 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 Stock 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, 9 January 2004