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)

(Stock code: 8031)

Annual Results Announcement for the year ended 29 February 2004

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.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors of Kinetana International Biotech Pharma Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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 announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Group for the year ended 29 February 2004 was approximately HK$1,125,000 as compared to HK$717,000 for the previous fiscal year.
- Net loss of the Group for the year ended 29 February 2004 was approximately HK$28.04 million as compared to approximately HK$27.15 million for the previous fiscal year.
- Loss per share of the Group was approximately HK$0.054 for the year ended 29 February 2004 as compared to approximately HK$0.056 for the previous fiscal year.
- The Board does not recommend the payment of any dividend for the year ended 29 February 2004.

PRESIDENT'S MESSAGE

Over the last two years since Kinetana was listed on the GEM Board, the Company continues to emphasize the importance of maintaining and expanding its portfolio of intellectual properties. As a biotechnology, pharmaceutical and natural products company, Kinetana has uniquely positioned itself by building up its platform technologies to support pharmaceutical and nutraceutical advancement to create pharmaceutical grade nutraceutical products with huge market potential.

During the past year, I am very pleased to advise that our team of scientists has diligently created technologies which have resulted in three provisional patent applications to the United States Patent Office.

Of note is the platform technology of BioPhytoCeutics™. The impetus for the creation of BioPhytoCeutics™ is the negative historic reputation of the natural products industry which has been plagued by inferior product quality. This technology is derived from our previously patented SimBioDAS® in which a profile of active and absorbable ingredients of an efficacious product can be identified. This profile can then be used to standardize the entire process of herbal product development, from culturing condition to product manufacturing.

Building on our experience with the development of single herbal products, we have filed provisional patents for two new multi-herb combination products. The first such product is Arthroxin™, which is a topical cream used for alleviating joint and muscle pain and is based on a Traditional Chinese Medicine formula which incorporates our proprietary pharmaceutical delivery system.

Our second multi-herb combination product, Somamax™, is a sleep aid which consists of a blend of Western and Chinese herbs. Somamax™ is currently in the final stage of commercial production and we expect to commence marketing Somamax™ in our second fiscal quarter.

In addition to patent protection, our Company has accumulated a list of eleven trademarks in connection with the patents and patent applications mentioned above.

Kinetana has actively selected the areas of arthritis and insomnia in keeping with our strategy for developing products with niche markets that have huge market potentials. In the US alone, there are approximately 70 million people afflicted with arthritis and coincidentally 70 million people afflicted with insomnia. As a direct result of these huge market sizes, our marketing efforts for Arthroxin™ even though it is in a nascent stage, have proven to be very encouraging. I am also similarly optimistic with respect to the marketing success of Somamax™.

In terms of the cell line development, Kinetana is currently researching three human intestinal cell lines to replace the original cell line that was supplied to us which may not have been of human origin. We do not expect this to have a material impact on the business of Kinetana.

With our experienced team of scientists, I am confident that Kinetana will have a competitive advantage in terms of speed to market with the multi-herb combination products in our pipeline for the upcoming year.

Following our achievements to-date, we have set goals for the upcoming year whereby we anticipate accessing additional financing to insure that we will have sufficient financial resources to fully implement these business and corporate strategies to a successful completion.

Kinetana has achieved a list of accomplishments this year in terms of technology development, product manufacturing and product marketing. Our immediate goal for the upcoming year is to enhance revenue generation and continue to develop our intellectual property portfolio.

Please allow me to express my appreciation and thanks for the continuous support by our many current shareholders and I look forward to an exciting year to come.

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

RESULTS

The board of directors (the "Board") of Kinetana International Biotech Pharma Limited (the "Company") announces that the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 29 February 2004, together with the comparative figures for the previous fiscal year are as follows:

	Notes	**2004** ***HK$'000***	2003 *HK$'000*
TURNOVER	*4*	**1,125**	717
Cost of sales		**(143)**	(573)
Gross profit		**982**	144
Other revenue and gains		**666**	2,030
Selling and distribution costs		**(1,257)**	(1,642)
Administrative expenses		**(17,784)**	(17,439)
Research and development expenses		**(6,706)**	(7,806)
Other operating expenses		**(3,792)**	(2,250)
LOSS FROM OPERATING ACTIVITIES	*5*	**(27,891)**	(26,963)
Finance costs		**(161)**	(160)
Share of profit/(loss) of a jointly-controlled entity		**8**	(22)
LOSS BEFORE TAX		**(28,044)**	(27,145)
Tax	*6*	**–**	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**(28,044)**	(27,145)
LOSS PER SHARE – Basic (HK$)	*7*	**(0.054)**	(0.056)

NOTES:

1. Impact of new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

(i) SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 24 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

(ii) SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in notes 4 and 15(b) to the financial statements.

2. Basis of preparation

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

3. Basis of presentation and fundamental uncertainties

The Group sustained a net loss from ordinary activities attributable to shareholders of HK$28,044,000 (2003: HK$27,145,000) during the year and reported a net cash outflow from operating activities of HK$25,536,000 (2003: HK$19,802,000) and an overall decrease in cash and cash equivalents of HK$29,759,000 (2003: net increase of HK$40,546,000) for the year.

Despite the consolidated net current assets of HK$12,108,000 (2003: HK$39,642,000) and the consolidated net assets of HK$35,081,000 (2003: HK$61,898,000) as at 29 February 2004, in preparing these financial statements, the directors of the Company have given consideration to the impact of the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and positive cash flow operations in the immediate and longer terms.

Active cost-saving and value-adding measures to streamline the Group's existing operations and improvements that focus on the overall efficiency and utilisation of the financial resources of the Group have either been implemented, or are being contemplated to be implemented to substantially reduce the operating expenses and cash outflows in the coming year in order to enable the Group to take advantage of any growth opportunities in the near future. The cost-saving and value-adding measures which have been implemented by the Group include the following:

(i) owing to the current market conditions in Hong Kong, the Group has decided not to further develop the Hong Kong market and the Group's operations in Hong Kong were substantially scaled down from November 2003 and certain resources originally planned to be deployed in Hong Kong have been reallocated to the Group's operations in North America; and

(ii) for the purpose of the establishing a sales and marketing network in the United States of America (the "USA") to facilitate the sales of the Group's products in the North American market, the Group entered into a sales and marketing agreement with a third party on 10 January 2004.

Notwithstanding its liquidity concerns as at 29 February 2004, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into consideration several arrangements made during the year as set out above as well as other measures and arrangements subsequent to the balance sheet date as further detailed below:

(i) the Group is currently in the process of identifying and discussing with potential investors to raise new equity financing for the Group;

(ii) the Group is now exploring various business cooperation and other corporate finance opportunities to increase the working capital of the Group; and

(iii) the directors will continue to monitor closely the cash flows and tighten cost controls over operating expenses in the North American and Hong Kong operations.

In the opinion of the directors, in light of the measures and arrangements implemented to date, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve the above and continue in business as a going concern, adjustments will have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

4. Turnover

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 is as follows:

	2004	2003
	HK$'000	*HK$'000*
Absorption screening services rendered	**864**	683
Sale of herbal products	**261**	34
	1,125	717

5. Loss from operating activities

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

	2004	2003
	HK$'000	*HK$'000*
Cost of services provided	**22**	518
Cost of inventories sold	**74**	14
Depreciation	**2,106**	1,764
Impairment of patents and trademarks*	**33**	11
Amortisation of deferred development costs**	**470**	412
Amortisation of goodwill*	**1,576**	1,589

* The impairment of patents and trademarks and the amortisation of goodwill for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

** Amortisation of deferred development costs of HK$47,000 (2003: HK$41,000) and HK$423,000 (2003: HK$371,000) are included in "Cost of sales" and "Research and development expenses", respectively, on the face of the consolidated profit and loss account.

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 during the year and the prior year as the Group had no assessable profits arising in Hong Kong or overseas during these years.

7. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$28,044,000 (2003: HK$27,145,000), and the weighted average of 520,713,099 (2003: 486,750,478 ordinary shares deemed to be in issue during the year ended 28 February 2003 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 year.

Diluted loss per share amounts for the year ended 29 February 2004 and 28 February 2003 have not been shown as the share options of the Company and share options and warrants of Kinetana Group Inc., which can be exchanged for ordinary shares of the Company when exercised, which were outstanding during these years, had anti-dilutive effects on the respective basic loss per share.

8. Dividend

The Board does not recommend payment of any dividend for the year ended 29 February 2004 (2003: Nil).

9. Segment information

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

(i) Business segments

The following tables present revenue, loss and certain expenditure information for the Group's business segments:

Group

	Absorption screening technology		**Herbal products**		**Eliminations**		**Consolidated**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue – sales to external customers	**864**	683	**261**	34	**–**	–	**1,125**	717
Segment results	**(5,944)**	(8,312)	**(1,219)**	(1,642)	**–**	–	**(7,163)**	(9,954)
Unallocated revenue							**666**	2,030
Unallocated expenses							**(21,394)**	(19,039)
Loss from operating activities							**(27,891)**	(26,963)
Finance costs							**(161)**	(160)
Share of profit/(loss) of a jointly-controlled entity							**8**	(22)
Loss before tax							**(28,044)**	(27,145)
Tax							**–**	–
Net loss from ordinary activities attributable to shareholders							**(28,044)**	(27,145)

	Absorption screening technology		Herbal products		Unallocated		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Depreciation	**1,203**	966	**–**	94	**903**	704	**2,106**	1,764
Amortisation:								
Intangible assets	**446**	391	**24**	21	**–**	–	**470**	412
Goodwill/(negative goodwill), net	**–**	–	**–**	–	**1,153**	1,174	**1,153**	1,174
Impairment losses on intangible assets	**33**	11	**–**	–	**–**	–	**33**	11

(ii) Geographical segments

The following table presents revenue information for the Group's geographical segments:

Group

	Hong Kong		Canada		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**229**	499	**1,160**	751	**(264)**	(533)	**1,125**	717
Other revenue	**–**	733	**–**	–	**–**	–	**–**	733
Total	**229**	1,232	**1,160**	751	**(264)**	(533)	**1,125**	1,450

10. Movement of reserves

	Share premium account *HK$'000*	Contributed surplus account *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 March 2002	–	35,945	–	(11,260)	24,685
Issue of shares	75,885	–	–	–	75,885
Share issue expenses	(15,738)	–	–	–	(15,738)
Share issue expenses of a subsidiary	–	(355)	–	–	(355)
Net 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 and 1 March 2003	60,147	35,590	(639)	(38,405)	56,693
Issue of shares	70	–	–	–	70
Net gains not recognised in the profit and loss account – exchange realignment	–	–	1,152	–	1,152
Loss for the year	–	–	–	(28,044)	(28,044)
At 29 February 2004	60,217	35,590	513	(66,449)	29,871

MODIFIED AUDITORS' REPORT

The auditors' report on the financial statements of the Group for the year ended 29 February 2004 has been modified and details of which are reproduced as follows:

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the financial statements of the Group have been prepared on a going concern basis, notwithstanding that the Group sustained a net loss from ordinary activities attributable to shareholders of HK$28,044,000 during the year and reported a net cash outflow from operating activities of HK$25,536,000 and an overall decrease in cash and cash equivalents of HK$29,759,000 for the year. Various measures have been initiated by the Group during the year and subsequent to the balance sheet date to improve the Group's financial and liquidity position in the immediate foreseeable future.

The financial statements have been prepared on a going concern basis, the validity of which depends upon, in the meantime, the successful outcome of the measures currently undertaken by the Group as detailed in note 2 to the financial statements and the attainment of profitable and positive cash flow operations by the Group in the longer term. The financial statements do not include any adjustments that may be necessary should the implementation of such measures and the attainment of profitable and positive cash flow operations be unsuccessful. We consider that appropriate disclosures regarding the above fundamental uncertainty have been made in the financial statements and our opinion is not qualified in this respect.

Fundamental uncertainly – Impairment of intangible assets, goodwill and investment in a subsidiary

In forming our opinion, we have considered the adequacy of the disclosures made in notes 15(a), 16 and 17 to the financial statements concerning the carrying values of the intangible assets and goodwill of the Group, and the carrying value of the Company's investment in a subsidiary as at 29 February 2004.

The carrying value of the Group's intangible assets as at 29 February 2004 amounted to HK$10,455,000, comprising patents and trademarks, and deferred development costs of HK$740,000 and HK$9,715,000, respectively. The intangible assets relate to the Group's existing products, absorption screening technology and two development projects currently undertaken by the Group jointly with each of two universities in Hong Kong (collectively referred to as the "Underlying Products").

The carrying value of the Group's goodwill as at 29 February 2004 amounted to HK$11,690,000, which arose from the acquisition of certain of the Company's operating subsidiaries by Kinetana Holdings (BVI) Limited ("KBVI") in a prior period. These operating subsidiaries have not attained profitable and positive cash flow operations since acquisition because the Underlying Products are either still in the early stages of launching to the market, or have not yet been put into commercial production.

As further explained in notes 15(a) and 16 to the financial statements, the ability of the Group's operating subsidiaries to attain profitable and positive cash flow operations and to recover the Group's intangible assets and goodwill depends, inter alia, upon the successful launching of the Underlying Products, which are either in the early stages of launching, or have not yet commenced commercial production. This is also contingent upon the ability of the Group to continue in business as a going concern, which in turn depends upon the outcome of various measures currently undertaken by the Group as detailed in note 2 to the financial statements to improve the Group's financial and liquidity position in the immediate foreseeable future. Based on the foregoing, the directors of the Company are currently unable to determine with reasonable certainty the outcome of the launching of the Underlying Products. Accordingly, it is not possible to determine at this stage as to whether any impairment provision against the Group's intangible assets and goodwill is necessary. As set out in note 17 to the financial statements, the recoverability of the intangible assets and goodwill of the Group has a direct impact on the carrying value of the Company's investment in KBVI, the holding company of the Group's operating subsidiaries, which amounted to HK$21,054,000 as at

29 February 2004. Owing to the uncertainty as to the recoverability of the intangible assets and goodwill of the Group as set out above, the directors of the Company are unable to determine at this stage as to whether any impairment provision against the Company's investment in KBVI is necessary. The financial statements do not include any adjustments that may be necessary should the launching of the Underlying Products be unsuccessful. We consider that appropriate disclosures regarding the above fundamental uncertainty have been made in the financial statements and our opinion is not qualified in this respect.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

The Board announces the Group's annual results for the year ended 29 February 2004. The Group recorded a turnover of approximately HK$1.13 million which includes service income for the evaluation of ingredient absorption of approximately HK$864,000 and sales of the Group's own products of approximately HK$261,000. The turnover for the year ended 28 February 2003 was approximately HK$717,000.

For the year ended 29 February 2004, the Group incurred a net loss attributable to shareholders of approximately HK$28.04 million as compared to approximately HK$27.15 million for the previous year.

Prospects

Business Development

The Group has expended a significant portion of its resources in the development of its nutraceutical business. The Group has filed three US provisional patent applications: 1. BioPhytoCeutics™, a platform technology for setting standards of natural products from the cultivating stage to product manufacturing; 2. Arthritis Cream; and 3. Sleep Aid. The Group intends to use the new BioPhytoCeutics™ platform technology to collaborate with nutraceutical companies to create new products. The Group also intends to produce products in large niche markets with the first two being Arthroxin™ and Somamax™.

The Group has completed a second evaluation study of the cell portion of the SimBioDAS® technology with a multinational pharmaceutical firm. In addition, with another multinational pharmaceutical firm, pursuant to an evaluation agreement signed in August 2003, an evaluation study of the Group's SimBioDAS® Technology is being conducted.

Management has continued to monitor the Group's performance and financial situation. In light of the current market conditions in Hong Kong, measures have been implemented to rationalise 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 for development.

Product Launch

The Group has commenced the manufacturing of its two new products in the United States; namely, Arthroxin™ and Somamax™. Arthroxin™ is a cream for relieving muscle pain and Somamax™ is a sleep aid, Arthroxin™ will be on sale in May 2004 and Somamax™ will be on sale in the second quarter of 2004.

Product Research and Development

The Group has finished developing the prototype formula for improving the general vitality of people having different body conditions. A small human trial on the hair growth gel has been performed in China. Preliminary results have been encouraging. At present, the hair growth gel is being improved in the group's laboratory in Canada and it is anticipated to be finished in the third quarter of 2004. 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 ("HKUST") and the Chinese University of Hong Kong ("CUHK") is progressing as scheduled.

Sales and Marketing

In order to improve the overall efficiency and utilisation 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 to be deployed in Hong Kong have been reallocated toward the North America market. A marketing campaign has been launched in the United States beginning in the Fall of 2003. The Group has engaged a marketing agent to design and launch the Group's products in the United States. A number of channels in the professional market has been opened.

Future plans for material investments

Other than those disclosed in the 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 29 February 2004 was approximately HK$12.11 million (2003: HK$39.64 million).

Cash and cash equivalents as at 29 February 2004 were approximately HK$10.97 million (2003: HK$40.62 million). There was no bank borrowing as at 29 February 2004 (2003: 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, 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.

Employee information

As at 29 February 2004, the Group had 19 full time employees, a decrease by 6 from 25 as at 28 February 2003. For the year ended 29 February 2004, staff costs, excluding Directors' remuneration, totaled HK$8.16 million. The Group's employment and remuneration policies remained the same as detailed in the Prospectus.

Exposure to fluctuations in exchange rates

The Group continued to adopt a conservative treasury 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 currency 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 29 February 2004, the Group has finance lease payables of approximately HK$1.75 million and shareholders' equity of approximately HK$35.08 million. The gearing ratio was 4.98% (2003: 0.9%).

Significant investments and acquisitions

During the year ended 29 February 2004, the Group made no material or significant investments or acquisitions or disposals of subsidiaries.

Contingent liability

In January 2004, it has come to the attention of the directors of the Company that the cell line (the "Licensed Cell Line") used in the SimBioDAS® process to estimate absorption of new chemical entities and natural products may not have been of human origin. The Licensed Cell Line was developed and supplied by a third party, the Group was assured by the third party that it was a normal human intestinal cell line that could be used in research and development work in the pharmaceutical industry.

The Group is the owner of certain intellectual properties relating to or based upon SimBioDAS®. Should the Licensed Cell Line be in fact of non-human origin, the effects of such a finding on the intellectual property relating to or based upon SimBioDAS® are, in the opinion of the directors, expected to be negligible and have no material impact on the Group's operating results as a consequence, except that the credibility of the Group may suffer if it is determined that the Licensed Cell Line was not in fact human origin. The Group is considering steps available to it including but not limited to legal action to recover damages that the Group may suffer as a results and is in consultation with legal advisors.

As at 29 February 2004 and at the approval date of these financial statements, no claims of damages or litigations in connection with this event has been made against the Company or the Group and, in the opinion of the directors, the possibility of any future claims or litigations against the Company or the Group in respect of the above cannot be ascertained at this stage. Accordingly, no provision has been recognised in the financial statements for any possible future claims or litigations against the Company or the Group. However, in the opinion of the directors, any resulting liability arising from such claims or litigations in the future, if any, would not materially affect the financial position of the Group. Subsequent to the balance sheet date, the Company made an announcement to the public on 18 May 2004 in respect of this matter.

Neither the Group, nor the Company had any significant contingent liabilities as at 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, HK$51.17 million has been utilised up to 29 February 2004 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 10 October 2003 for the period ended 31 August 2003) 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.	11.5	0.6	10.9	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.	1.1	1.1	–	No material variance.
Additional research and development staff, including those in analytical chemistry and cell biology, for the refinement and upgrades of SimBioDAS® technology.	0.4	0.8	(0.4)	The total manpower cost involved in the project is more than expected especially before the Group had its products launched. The budgeted costs in the Prospectus were not sufficient.
Sales and marketing of the Group's services and products.	1.4	2.2	(0.8)	The budget was for the sales and marketing of one product only, i.e. Ginkgo. The other three products were ready for distribution by February 2003, which was earlier than anticipated in the Prospectus. The higher costs were due to the hiring of agents to market four products instead of one.

	Planned *HK$ million*	Actual *HK$ million*	Variance *HK$ million*	Remarks
ITF matching fund obligations under the collaborative projects with HKUST and CUHK.	1.8	1.7	0.1	No material variance.
Acquisition of analytical chemistry and cell biology equipment for refinement and upgrades of the SimBioDAS® technology.	3.0	–	3.0	Management has identified a robotic 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.	0.7	–	0.7	The Group has identified a robotic system which can be purchased for approximately US$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.	0.4	–	0.4	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.	5.0	6.3	(1.3)	The higher costs were a result of more products being launched in the market.
Herbal product development	1.8	3.7	(1.9)	Higher costs were due to faster pace of herbal product development.
General working capital	1.0	13.3	(12.3)	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.
Grand total	**28.1**	**29.7**	**(1.6)**	

There were no material deviations from the intended use of net proceeds for the year ended 29 February 2004 as disclosed in the 2003 interim report of the Company 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 2003 interim report of the Company 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.

COMPARISON OF THE BUSINESS OBJECTIVES AS SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS
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		
• To continue the development of an automated system on the SimBioDAS® technology for rapid screening.	• The management has decided to cancel the development of its own automated system on the SimBioDAS® technology for rapid screening.	• The Group has identified a robotic system which is adaptable for high through put screening. Acquisition of this system is less expensive than developing the system.
• 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.	• The pilot studies for comparing major metabolism features of selected human liver cell lines and fresh human liver cells are in progress.	
• 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.	• The refinement of the cell culture system for the SimBioDAS® technology is in progress.	

For the period from 1 March 2003 to 31 August 2003

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Sales and marketing		
• To identify potential customers, such as large pharmaceuticals companies and biotechnology companies, for the licensing of SimBioDAS® technology.	• The Group is negotiating with several pharmaceutical companies for the licensing of the 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 pharmaceutical industry.	• The Group's scientists have been conducting seminars in North America and Europe 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 for Ginseng and Cordyceps militaris as food supplements.	• The Group has finalised the analytical procedures for Ginseng and Cordyceps militaris in Hong Kong and the manufacturing procedures were finalised in Canada.	

For the period from 1 March 2003 to 31 August 2003

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
• In Canada, to finalise the manufacturing procedure for Echinacea and St. John's Wort as food supplements.	• The Group has finalised the manufacturing procedure for Echinacea and St. John's Wort as food supplements in Canada in the early 2003.	
• 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 is continuing the development of Ginkgo as a drug. A patent application has been filed in the USPTO for the process of the essential ingredient profile of ginkgo.	
• 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.	• The Group is identifying active ingredients profile and is developing a bio-assay for TCM-based cardiovascular formulation.	
• To support HKUST to extract and fractionate the proposed liver cancer formula and to further identify active ingredients.	• The Group is in the process of extracting and fractionating the proposed liver cancer formula and identifying active ingredients.	

For the period from 1 March 2003 to 31 August 2003

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Sales and marketing		
• To refine the marketing plans for Ginkgo.	• The Group has finished the refinement of the marketing plans for Ginkgo.	• Management has decided to focus marketing activities for Ginkgo and the Group's other herbal products in North America.
• To implement marketing plans for Ginseng, Cordyceps militaris, Echinacea and St. John's Wort for the North American, European and Asian markets.	• The Group has finished the implementation of marketing plans for Ginseng, Cordyceps militaris, Echinacea and St. John's Wort.	• Management has decided to focus marketing activities for the Group's herbal products in North America.
• To launch Ginseng, Cordyceps militaris, Echinacea and St. John's Wort as food supplements.	• 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.	
Resources deployment		
• To employ 4 technicians in 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 additional technicians in the analytical chemistry department.	• 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.

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Drug-screening services *Product development*		
• To continue the development of an automated system on the SimBioDAS® technology for rapid screening by implementing features to improve speed and efficiency of processing.	• The management has decided to cancel the development of its own automated system on the SimBioDAS® technology for rapid screening.	• The Group has identified a robotic system which is adaptable for high through put screening. Acquisition of this system is less expensive than developing the system.
• To continue the development of the second generation of the SimBioDAS® technology by selecting and testing human liver cell lines and fresh human liver cells for detailed study of metabolism features.	• This is postponed.	• Management has decided to reallocate more resources to contracts with large pharmaceutical companies.
• To continue the refinement of the cell culture system for the SimBioDAS® technology through developing further growth conditions to support the expression of an additional drug transporter, called the dipeptide transporter, in the cell lines.	• The progress in this process was slow and the origin of the cell line was called into question in January 2004.	• Due to problems encountered during an evolution study, management has decided to investigate the origin of the Buret Cell Line using genetic analysis on the cells. Management is also conducting research of other human cell lines.

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Sales and marketing		
• To license the SimBioDAS® technology to customers, such as large pharmaceutical companies, biotechnology companies and research institutes which can afford to run their own screening programmes, for their own absorption testing.	• This was pursued until the origin of the cell line was called into question.	• Management has decided to investigate the origin of the Buret Cell Line using genetic analysis on the cells before further pursuing licensing the 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.	• Dr. Tam Yun Kau, the President and Chief Executive Officer, gave a talk entitled, Prediction of Bioavailability using SimBioDAS® technology, a cell based technology at the Dissolution, Bioavailability and Bioequivalence Conference organised by IIR in Amsterdam. Speakers of the conference include representatives from the United States Pharmacopoeia, Medicines Evaluation Board, The Netherlands, National Agency for Medicines, Finland and National Institute of Health and Public Protection, The Netherlands.	

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
	• Six poster presentations were made at two widely attended pharmaceutical sciences conferences.	
	• Two agreements for cell line evaluation were signed.	
Resources deployment		
• To employ 1 technician for drug screening in the cell biology department.	• The Group has not employed any technician for drug screening in the cell biology department.	• The management considered that the existing manpower is sufficient to support the current operation. The Group will hire additional technicians immediately when there is such a need.
Herbal and TCM		
Product development		
• In Hong Kong, to complete the assay development of Lingzhi and Salvia miltiorrhiza (commonly known as Danshen) and commence formulation of the products.	• The assay for Lingzhi is complete; that of Danshen has been suspended due to the relocation of the research facility.	
• In Canada, to complete the assay development of Silymarin and Garlic and commence formulation of the products.	• This work is now complete.	

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
• To continue the development of Ginseng, Cordyceps militaris, Echinacea and St. John's Wort by identifying and quantifying their absorbable active ingredients.	• The Group has launched Ginseng, Echinacea and St. John's Wort in March 2003. For Cordyceps militaris, the Group has completed analytical development.	• Management decided to suspend manufacturing of Cordyceps militaris as it is a lower priority item in the Group's product pipeline. The Group has established that there is a better market for combination products and resources have been diverted toward this end.
• To conduct pre-clinical pharmacology studies on the new Ginkgo formulation.	• Postponed until sales warrant further development.	• Market research indicates a combination product may be more advantageous.
• To work with CUHK to conduct regulatory pharmacological studies, to identify active ingredients and their metabolites and to finalize the extraction of the TCM-based cardiovascular formulation.	• In progress	
• To assist HKUST to fractionate and characterise the active ingredients of the liver cancer formula, and to characterize its pharmacology and pharmacokinetics, and also to develop absorption profiles of active ingredients.	• In progress	

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Sales and marketing		
• To launch Ginseng, Cordyceps militaris, Echinacea and St. John's Wort as food supplements.	• The Group has launched Ginseng, Echinacea and St. John's Wort as food supplements in March 2003. For Cordyceps militaris, the Group has put the launch on hold for the time being as explained under product development.	• Management decided to suspend manufacture of Cordyceps militaris as it is a lower priority item in the Group's product pipeline. The Group has established that there is a better market for combination products and resources have been diverted toward this end.
• To determine and establish marketing plans for Lingzhi, Danshen, Silymarin and Garlic in the North American, European and Asian markets.	• These plans were put on hold in order for the group to be able to devote resources to combination products.	• Market research indicates a combination product may be more advantageous.
• To refine the marketing plans for Ginkgo, Ginseng, Cordyceps militaris, Echinacea and St. John's Wort.	• The Group has suspended refining marketing plans for Gingko, Ginseng, Cordyceps miltaris, Echinacea and St. John's Wort.	• Market research indicates a combination product may be advantageous.

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Resources deployment		
• To acquire 2 LC/MS instruments (Liquid Chromatography/Mass Spectrometry for providing chemical analysis on samples being produced by the Group), 1 for Hong Kong and 1 for Canada.	• The Group has not acquired any LC/MS instruments (Liquid Chromatography/Mass Spectrometry for providing chemical analysis on samples being produced by the Group).	• The Group has leased instead of purchasing the equipment in order to preserve cash.
• To establish a pilot production facility in Canada.	• The Group is in the process of establishing a small scale GMP cream manufacturing facility in Canada.	
• To employ 5 more scientists for the pilot production facility in Canada.	• The Group has hired one technician for the pilot production facility in Canada.	• Management considered that hiring of an additional technician is adequate.

SPONSOR'S INTEREST

As updated and notified by Hantec Capital Limited (the "Sponsor"), neither the Sponsor nor its directors, employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or of any member of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any member of the Group as at 29 February 2004.

Pursuant to a sponsor agreement dated 14 March 2003 entered into between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 20 March 2003 to 28 February 2005.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the directors, the Company complied with the requirements of board practices and procedures of Rules 5.28 to 5.39 of the GEM Listing Rules throughout the accounting period covered by the annual report.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.23 to 5.24 of the GEM Listing Rules. 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 comprises the two independent non-executive directors and a non-executive director, and met four times during the year ended 29 February 2004.

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

Hong Kong, 25 May 2004

As at the date of this announcement, the Board comprises of (i) Dr. Tam Yun Kau and, Mr. Young Chiu Kit, Patrick who are executive Directors;(ii) Dr. Antoine A. Noujaim, Mr. Lee Chiu Kang, Mr. Tam Shong-Tak, David and Mr. Yeung Sui Leung who are non-executive Directors; and (iii) Mr. Chan Mo Po, Paul and Dr. Chan Wai Kit, Albert who are independent non-executive Directors.

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.