ANNUAL REPORT 年報

2003/04

Kinetana International Biotech Pharma Limited

健諾國際生化科技藥業有限公司

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

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.

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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.

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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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681 GT
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Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN CANADA

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong Institute of Biotechnology
2 Biotechnology Avenue
Shatin, New Territories
Hong Kong

COMPANY WEBSITE

http://www.kinetana.com
Note: Information contained in this website does not form part of this annual report

COMPANY SECRETARY

Mr. YEUNG Kin Kwan, Alvan

AUTHORISED REPRESENTATIVES

Dr. TAM Yun Kau
Mr. YEUNG Kin Kwan, Alvan

COMPLIANCE OFFICER

Dr. TAM Yun Kau

QUALIFIED ACCOUNTANT

Mr. YEUNG Kin Kwan, Alvan

AUDIT COMMITTEE MEMBERS

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

SENIOR BUSINESS ADVISER

Prof. LO Yuk Lam

SPONSOR

Hantec Capital Limited

AUDITORS

Ernst & Young

LEGAL ADVISERS TO THE COMPANY

Richards Butler
Parlee Mclaws LLP

PRINCIPAL BANKERS

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

The Bank of Nova Scotia
Edmonton Commercial Building Centre & Main Branch
Scotia Place Building
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRESIDENT'S MESSAGE

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.

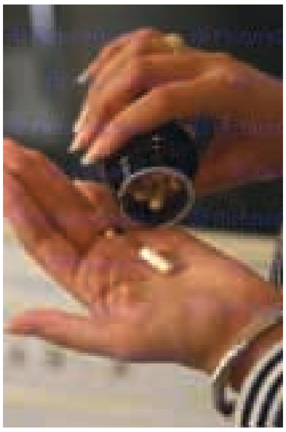
Building on our experience with the development of single herbal products, we have filed provisional patents for two new multi-herb combination products. The first such product is Arthroxin™, which is a topical cream used for alleviating joint and muscle pain and is based on a Traditional Chinese Medicine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

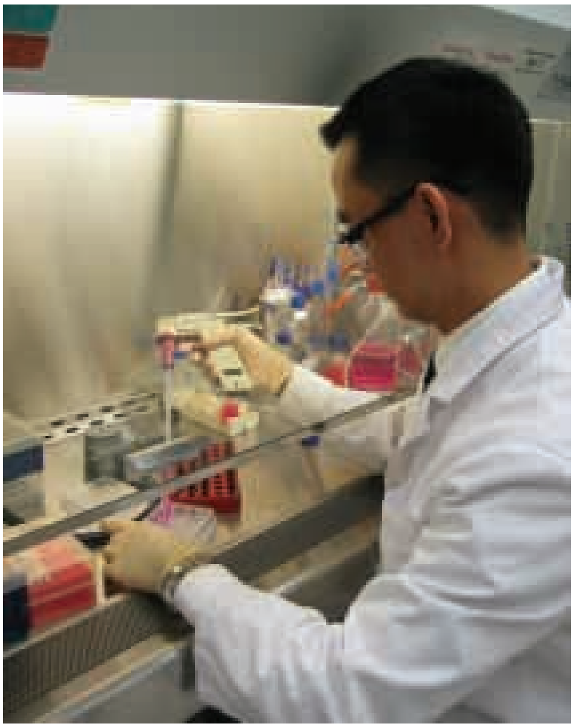
Sincerely,
Dr. Tam Yun Kau
President & Chief Executive Officer

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 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 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

MANAGEMENT DISCUSSION AND ANALYSIS

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 the third party licensor as referred to in note 25 (e) to the financial statements, the Group was assured by the third party licensor 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.
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.

	Planned *HK$ million*	Actual *HK$ million*	Variance *HK$ million*	Remarks
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)**	

MANAGEMENT DISCUSSION AND ANALYSIS

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.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

COMPARISON OF THE BUSINESS OBJECTIVES AS SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

For the period from 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.	

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 *(continued)*		
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 finalized the analytical procedures for Ginseng and Cordyceps militaris in Hong Kong and the manufacturing procedures were finalized in Canada.	

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
Herbal and TCM *(continued)*		
Product development (continued)		
▪ 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.	

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
Herbal and TCM *(continued)*		
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.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

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.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

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 *(continued)* *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 organized 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.	

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

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 *(continued)*		
Sales and marketing (continued)		
	▪ 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.	

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Herbal and TCM *(continued)*		
Product development (continued)		
▪ 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 ingradients and their metabolites and to finalize the extraction of the TCM-based cardiovascular formulation.	▪ In progress	
▪ To assist HKUST to fractionate and characterize 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	

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Herbal and TCM *(continued)*		
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.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

For the period from 1 September 2003 to 29 February 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Herbal and TCM *(continued)*		
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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Dr. TAM Yun Kau, aged 51, is the founder and Chairman of the Board of Directors. He is also the President and Chief Executive Officer of the Group. Dr. Tam obtained his Bachelor of Science degree from the University of Minnesota in 1975, his Master of Science (Pharmaceutical Sciences) in 1978 and his Ph.D. (Pharmaceutical Sciences) in 1981 from the University of British Columbia. Dr. Tam had held various teaching positions at the University of Alberta from 1981 to 2000. He is the co-inventor of the patented invention entitled "Simulated Biological Dissolution And Absorption System". Dr. Tam is also a co-inventor of an invention entitled "Composition For Prevention Of Hepatic Steatosis" in respect of which the Group has five patent applications pending in various countries and territories. Dr. Tam presently serves on the Editorial Advisory Board of the Journal of Pharmaceutical Sciences and Drug Metabolism and Disposition.

Mr. YOUNG Chiu Kit, Patrick, aged 57, is the Vice President and Corporate Secretary, Canadian Operations of the Group. In 1972, Mr. Young obtained his Bachelor of Commerce degree from the University of Alberta. In 1975, he was admitted to the Institute of Chartered Accountants of Alberta as a Chartered Accountant. Mr. Young operates his own accounting firm, Patrick C. Young Professional Corporation, Chartered Accountant in Edmonton, Canada and is responsible for overseeing the Group's accounting and financial management in Canada.

NON-EXECUTIVE DIRECTORS

Dr. Antoine A. NOUJAIM, aged 67, is a non-executive Director appointed on 5 November 2001. Dr. Noujaim obtained his Ph.D (Bionucleonics) in 1965 from Purdue University. Dr. Noujaim is the founder of AltaRex Corp., a Company involved in cancer immunity research, and whose shares are traded on The Toronto Stock Exchange. Dr. Noujaim is also the Chairman of the Board of Directors, President and Chief Executive Officer of ViRexx Medical Corp., a biotechnology company listed on the Canadian TSX Venture Exchange.

Mr. LEE Chiu Kang, aged 54, is a non-executive Director appointed on 5 November 2001. Mr. Lee presently acts as the Managing Director of Phoenix Capital Asia Limited. Mr. Lee was educated at the Golden Gate University and obtained a Bachelor of Arts (Economics) degree in 1975. He has been a director of Phoenix Capital Investment Holdings Limited since December 1996.

Mr. TAM Shong-Tak, David, aged 41, is a non-executive Director appointed on 5 November 2001. Mr. David Tam is a partner with the law firm of Parlee McLaws LLP, Barristers and Solicitors in Edmonton, Alberta, Canada. Mr. Tam obtained his Bachelor of Science (Pharmacy) degree from the University of Alberta in 1985 and obtained a Bachelor of Laws degree from the University of Alberta in 1989. Mr. Tam is the corporate secretary of several public companies listed on the Canadian TSX Venture Exchange and is a director of Poly-Pacific International Inc. and several private companies.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. YEUNG Sui Leung, age 43, is a non-executive Director and was appointed to the Board on 13 December 2002. Mr. Yeung has over 20 years of experience in the aquacultural industry and is considered a leader in the field. Mr. Yeung is also the managing director of Yeungs Marine Products Limited, Grand Interest Development Limited and Teamset Investment Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Mo Po, Paul, aged 49, is an independent non-executive Director appointed on 5 November 2001. Mr. Chan is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor and master degrees in Business Administration. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants, the Institute of Chartered Secretaries and Administrators, the Taxation Institute of Hong Kong and the Macau Society of Certified Practising Accountants. Mr. Chan is the managing partner of Paul Chan & Partners, Certified Public Accountants. He is currently the Vice President of the Hong Kong Society of Accountants. He serves on the Transport Advisory Committee and is a panel member of the Board of Review (Inland Revenue).

Dr. CHAN Wai Kit, Albert, aged 45, is the Principal of the Law Offices of Albert Wai-Kit Chan, LLC. Prior to this, Dr. Chan was the President and Chief Executive Officer of International Herbal Pharmaceuticals, Corp. (IHP) and Trinity Biomedical Technology Corp. (TBTC), both based in New York City. He is well-versed in all aspects of prosecution and litigation and is experienced in licensing, technology transfer and the evaluation of intellectual property portfolios in preparation for initial public offerings. Dr. Chan is a member of the New York and New Jersey Bars, an adjunct professor of law at The City University of New York School of Law and is the President of United States-China Lawyer's Society, 2001-2003.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, interim reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consists of the two independent non-executive Directors, namely Dr. Chan Wai Kit, Albert and Mr. Chan Mo Po, Paul, and a non-executive Director, Mr. Tam Shong-Tak, David. Mr. Chan Mo Po, Paul is the Chairman of the audit committee.

SENIOR MANAGEMENT

Dr. Nuzhat TAM-ZAMAN, aged 42, is the director of international affairs and quality assurance of the Group. Dr. Tam-Zaman obtained her Ph.D in 1996 from the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta. She has 17 publications and is a co-inventor of an invention entitled "Composition For Prevention Of Hepatic Steatosis" in respect of which the Group has five patent applications pending in various countries and territories. Dr. Tam-Zaman joined the Group in May 1997. Her responsibilities include supervising the PK/PD department and act as a liaison between the Canadian and Hong Kong office.

Dr. Hugh Alexander SEMPLE, aged 52, is the director of scientific and regulatory affairs of the Group. He holds a Doctor of Veterinary Medicine from University of Saskatchewan, and a Ph.D. in Pharmacokinetics from the University of Alberta. From 1989 to 1999, he served as a professor of pharmacokinetics with the College of Pharmacy and Nutrition (formerly known as the College of Pharmacy), University of Saskatchewan. He joined the group in July 1998 and is responsible for overseeing the scientific activities of the Group's operation in Canada, including planning, coordination, budgeting, experimental design, reporting and implementation.

Dr. Douglas Thacher RIDGWAY, aged 34, is a director of the Group's department of computational modeling. Dr. Ridgway received his Ph.D. at the University of California, San Diego in 1997. He was a recipient of a post-doctoral fellowship from the Alberta Heritage Foundation for Medical Research from 1997-1999. His training was in the areas of applied physics and pharmacokinetics. Dr. Ridgway has 8 peer reviewed publications. Besides his modeling responsibilities, Dr. Ridgway is involved in experimental design and data analysis. He is also responsible for developing the Group's database and for overseeing the Group's network operations in Canada. Dr. Ridgway joined the Group in October 1999.

Dr. Brian Duff SLOLEY, aged 46, is a senior scientist/analytical chemist of the Group. Dr. Sloley holds a Bachelor of Science (Biology) from Queen's University, Kingston, Ontario, a Master of Science (Zoology) from the University of Western Ontario, and a Ph.D. (Biology) from the University of Waterloo, Ontario. After serving as a post-doctoral fellow, Dr. Sloley was a Sessional Lecturer at the associate professor level at the University of Alberta from January to April 1993. Dr. Sloley joined the Group in June 2001 and is the head of the analystical chemistry department.

Dr. LIN Yi Chan, James, aged 39, is senior scientist/cell biologist of the Group in Canada. Dr. Lin received his Ph.D. from the University of Alberta, Canada. Dr. Lin served as a Sessional Lecturer in the Department of Biological Sciences, University of Alberta, from 1 September 1999 to 31 December 1999. Dr. Lin joined the Group in June 2001 and is the head of the cell biology department in Canada.

Mr. Yeung Kin Kwan, Alvan, aged 36, is the financial controller and company secretary of the Company. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants, the IT Accountants Association and the Hong Kong Institute of Directors and the associated member of the Taxation Institute of Hong Kong and has over 14 years of experience in auditing, accounting, taxation and financial management.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 29 February 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group consist of the research and development of biopharmaceutical technologies, Western herbal products and traditional Chinese medicine ("TCM") based products; the provision of related services; and the sale of herbal products. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements.

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

RESULTS AND DIVIDENDS

The Group's loss for the year ended 29 February 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 86.

The directors do not recommend the payment of any dividend in respect of the year ended 29 February 2004.

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 Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in June 2002, after deduction of related issue expenses, amounted to approximately HK$62 million. Of this amount, approximately HK$51.17 million has been utilised up to 29 February 2004, details of which are set out on pages 9 to 12 of the annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the last five financial years as if it had been a continuing entity, and of the assets and liabilities of the Group as at 28 February 2002, 28 February 2003 and 29 February 2004, as extracted from the Company's annual report and the audited financial statements, is set out on pages 87 to 88. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 25 and 26 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

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

At 29 February 2004, the Company's reserves available for distribution to shareholders amounted to HK$23,047,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 87% of the total sales for the year and sales to the largest customer included therein amounted to 73%. Purchases from the Group's five largest suppliers accounted for 73% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30%.

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

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

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

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

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 23 to 25 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company with an unexpired period of seven months as at 29 February 2004. Except for Dr. Chan Wai Kit, Albert and Mr. Yeung Sui Leung, each of the non-executive directors and independent non-executive directors has entered into a service contract with the Company for an initial term of one year commencing on 3 June 2002, which will continue thereafter unless terminated in accordance with the terms of the service contracts. Each of Dr. Chan Wai Kit, Albert and Mr. Yeung Sui Leung has entered into a service contract with the Company for a period of one year commencing on 2 August 2002 and 13 December 2002, respectively, which will continue thereafter unless terminated in accordance with the terms of the service contract.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 29 February 2004, the interests of the directors and chief executive in the issued share capital and underlying shares of the Company or 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 by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of The Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

		Number of shares held, capacity and nature of interest				
Name of director	*Notes*	**Directly beneficially owned**	**Through spouse**	**Through a controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Dr. Tam Yun Kau	*(a)*	22,011,161	500,000	118,737,854	141,249,015	27.11
Mr. Young Chiu Kit, Patrick		2,114,150	–	–	2,114,150	0.41
Dr. Antoine A. Noujaim		855,989	–	–	855,989	0.16
Mr. Yeung Sui Leung	*(b)*	4,379,387	–	–	4,379,387	0.84
Mr. Chan Mo Po, Paul		–	2,800,000	–	2,800,000	0.54
		29,360,687	3,300,000	118,737,854	151,398,541	29.06

Notes:

(a) The interest of Dr. Tam Yun Kau in the 118,737,854 shares of the Company held through a controlled corporation 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 approximately 16.67% equity interest in Grand Interest Development Limited, which holds 30,815,591 shares of the Company as at 29 February 2004.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Long positions in underlying shares of the Company and an associated corporation:

At 29 February 2004, the interests of the directors in the underlying shares of the Company in respect of share options granted under the Company's share option scheme (the "Share Option Scheme") and Pre-IPO share option scheme (the "Pre-IPO Option Scheme"), and the Pre-IPO share option plan ("KGI Share Option Plan") of Kinetana Group Inc. ("KGI"), a wholly-owned subsidiary of the Company, are as follows:

		Number of underlying shares of the Company in respect of share options granted under			
Name of director	*Note*	**Share Option Scheme** *(note (a))*	**Pre-IPO Option Scheme** *(note (a))*	**KGI Share Option Plan** *(note (a))*	**Total**
Dr. Tam Yun Kau:					
Directly beneficially owned		520,000	24,456,818	195,655	25,172,473
Through spouse		–	733,705	3,423,954	4,157,659
		520,000	25,190,523	3,619,609	29,330,132
Mr. Young Chiu Kit, Patrick	*(b)*	5,200,000	1,222,841	440,223	6,863,064
Dr. Antonie A. Noujaim	*(b)*	520,000	1,222,841	269,025	2,011,866
Mr. Lee Chiu Kang	*(b)*	5,200,000	1,222,841	–	6,422,841
Mr. Tam Shong-Tak, David	*(b)*	5,200,000	1,222,841	–	6,422,841
Mr. Yeung Sui Leung	*(b)*	520,000	–	–	520,000
Mr. Chan Mo Po, Paul	*(b)*	520,000	1,222,841	–	1,742,841
Dr. Chan Wai Kit, Albert	*(b)*	520,000	–	–	520,000
		18,200,000	31,304,728	4,328,857	53,833,585

Notes:

(a) Respective details of the Share Option Scheme, the Pre-IPO Option Scheme and KGI Share Option Plan are separately disclosed in note 26 to the financial statements.

(b) These underlying shares are directly beneficially owned by the respective directors.

(c) All the underlying shares are unlisted and represent physically settled equity derivatives.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Long positions in underlying shares of the Company and an associated corporation: (continued)

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

Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares and underlying shares" above and in the share option schemes disclosures in note 26 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Detailed disclosures relating to the Company's share option schemes are included in note 26 to the financial statements.

Concerning the share options of the Company granted during the year to the directors and employees, as detailed in note 26 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 29 February 2004, the following interests of 5% or more of the issued share capital and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	*Notes*	Number of shares held, capacity and nature of interest: Directly beneficially owned	Through spouse	Total	Percentage of the Company's issued share capital	Number of underlying shares held *(note (d))*
943788 Alberta Ltd.	*(a)*	118,737,854	–	118,737,854	22.79	–
Dr. Nuzhat Tam-Zaman	*(b) & (c)*	500,000	140,749,015	141,249,015	27.11	29,330,132
Grand Interest Development Limited		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, a director of the Company.

(b) The interests of Dr. Nuzhat Tam-Zaman in the 140,749,015 shares of the Company held through spouse as referred to above include 22,011,161 shares held by Dr. Tam Yun Kau and 118,737,854 shares held by 943788 Alberta Ltd. Dr. Nuzhat Tam-Zaman is the wife of Dr. Tam Yun Kau and is deemed to be interested in the shares of the Company held by Dr. Tam Yun Kau and 943788 Alberta Ltd.

(c) Dr. Nuzhat Tam-Zaman is the wife of Dr. Tam Yun Kau and is deemed to be interested in the underlying shares of the Company held by Dr. Tam Yun Kau. The interests of Dr. Nuzhat Tam-Zaman in the 29,330,132 underlying shares of the Company as referred to above are the same as those interested by Dr. Tam Yun Kau, details of which are set out in the heading "Directors' and chief executive's interests and short positions in shares and underlying shares" above.

(d) All the underlying shares are unlisted and represent physically settled equity derivatives.

Save as disclosed above, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the connected transactions undertaken by the Group during the year are set out in note 31 to the financial statements.

The directors of the Company, including the independent non-executive directors of the Company, consider that the above connected transactions were entered into in the interests of the Company, in its ordinary and usual course of business, and that the terms of the transactions are fair and reasonable and in the interests of the Company so far as the independent shareholders are concerned.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 32 to the financial statements.

BOARD PRACTICES AND PROCEDURES

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.

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.

COMPETING INTERESTS

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

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.

SPONSOR'S INTEREST *(continued)*

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.

AUDITORS

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

ON BEHALF OF THE BOARD

Dr. Tam Yun Kau
President and Chief Executive Officer

Hong Kong
25 May 2004

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements on pages 38 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

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 UNCERTAINTY – 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.

FUNDAMENTAL UNCERTAINTY – IMPAIRMENT OF INTANGIBLE ASSETS, GOODWILL AND INVESTMENT IN A SUBSIDIARY *(continued)*

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.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 29 February 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
25 May 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 29 February 2004

	Notes	2004 HK$'000	2003 HK$'000
TURNOVER	6	**1,125**	717
Cost of sales		**(143)**	(573)
Gross profit		**982**	144
Other revenue and gains	6	**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	7	**(27,891)**	(26,963)
Finance costs	8	**(161)**	(160)
Share of profit/(loss) of a jointly-controlled entity		**8**	(22)
LOSS BEFORE TAX		**(28,044)**	(27,145)
Tax	11	**–**	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	**(28,044)**	(27,145)
LOSS PER SHARE – Basic (HK$)	13	**(0.054)**	(0.056)

CONSOLIDATED BALANCE SHEET

29 February 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	**4,495**	4,356
Intangible assets	15	**10,455**	8,369
Goodwill:	16		
Goodwill		**11,690**	13,266
Negative goodwill		**(3,158)**	(3,581)
Interests in a jointly-controlled entity	18	**–**	15
		23,482	22,425
CURRENT ASSETS			
Inventories	19	**1,793**	612
Trade receivables	20	**40**	65
Prepayments, deposits and other receivables		**1,112**	553
Tax recoverable	21	**388**	394
Cash and cash equivalents		**10,967**	40,618
		14,300	42,242
CURRENT LIABILITIES			
Trade payables	22	**185**	677
Other payables and accruals		**770**	1,550
Finance lease payables	23	**1,237**	373
		2,192	2,600
NET CURRENT ASSETS		**12,108**	39,642
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,590**	62,067
NON-CURRENT LIABILITIES			
Finance lease payables	23	**509**	169
		35,081	61,898
CAPITAL AND RESERVES			
Issued capital	25	**5,210**	5,205
Reserves	27(a)	**29,871**	56,693
		35,081	61,898

TAM Yun Kau
Director

YOUNG Chiu Kit, Patrick
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 29 February 2004

	Note	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus account HK$'000 (note 27(a))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 March 2002		155	–	35,945	–	(11,260)	24,840
Issue of shares	25	5,050	75,885	–	–	–	80,935
Share issue expenses	25	–	(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		5,205	60,147*	35,590*	(639)*	(38,405)*	61,898
Issue of shares	25	5	70	–	–	–	75
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		5,210	60,217*	35,590*	513*	(66,449)*	35,081
Reserves retained by:							
Company and subsidiaries		5,210	60,217	35,590	513	(66,449)	35,081
A jointly-controlled entity		–	–	–	–	–	–
29 February 2004		5,210	60,217	35,590	513	(66,449)	35,081
Company and subsidiaries		5,205	60,147	35,590	(639)	(38,397)	61,906
A jointly-controlled entity		–	–	–	–	(8)	(8)
28 February 2003		5,205	60,147	35,590	(639)	(38,405)	61,898

* These reserve accounts comprise the consolidated reserves of HK$29,871,000 (2003: HK$56,693,000) in the consolidated balance sheet.

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(28,044)**	(27,145)
Adjustments for:			
Finance costs	8	**161**	160
Share of (profit)/loss of a jointly-controlled entity		**(8)**	22
Interest income	6	**(243)**	(882)
Depreciation	7	**2,106**	1,764
Loss on disposal of fixed assets	7	**981**	–
Impairment of patents and trademarks	7	**33**	11
Amortisation of deferred development costs	7	**470**	412
Amortisation of goodwill	7	**1,576**	1,589
Negative goodwill recognised as income	6	**(423)**	(415)
Licensing fees paid through issuance of shares	28	**75**	75
Operating loss before working capital changes		**(23,316)**	(24,409)
Increase/(decrease) in balances with a jointly-controlled entity		**23**	(72)
Increase in inventories		**(1,181)**	(612)
Decrease in trade receivables		**25**	585
Decrease/(increase) in prepayments, deposits and other receivables		**(559)**	6,891
Decrease in tax recoverable		**6**	52
Increase/(decrease) in trade payables		**(492)**	677
Decrease in an amount due to a contract customer		**–**	(100)
Decrease in other payables and accruals		**(780)**	(2,880)
Exchange realignments		**495**	(816)
Cash used in operations		**(25,779)**	(20,684)
Interest received		**243**	882
Net cash outflow from operating activities		**(25,536)**	(19,802)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	14,28	**(731)**	(797)
Proceeds from disposal of fixed assets		**14**	–
Additions to patents and trademarks	15	**(449)**	(61)
Additions to deferred development costs	15	**(1,647)**	(2,007)
Net cash outflow from investing activities		**(2,813)**	(2,865)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Year ended 29 February 2004

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares	25	–	80,860
Share issue expenses	25	–	(15,738)
Share issue expenses of a subsidiary		–	(355)
Repayment of a loan from a related party		–	(250)
Net decrease in loan from a director		–	(827)
Capital element of finance lease rental payments		**(1,249)**	(317)
Interest paid		**(10)**	(76)
Interest element on finance lease rental payments		**(151)**	(84)
Net cash inflow/(outflow) from financing activities		**(1,410)**	63,213
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(29,759)**	40,546
Cash and cash equivalents at beginning of year		**40,618**	70
Effect of foreign exchange changes, net		**108**	2
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,967**	40,618
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**3,167**	1,547
Time deposits with original maturity of less than three months when acquired		**7,800**	39,071
		10,967	40,618

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**19,915**	19,841
CURRENT ASSETS			
Prepayments, deposits and other receivables		**177**	201
Cash and cash equivalents		**8,453**	37,203
		8,630	37,404
CURRENT LIABILITIES			
Other payables and accruals		**288**	550
NET CURRENT ASSETS		**8,342**	36,854
		28,257	56,695
CAPITAL AND RESERVES			
Issued capital	25	**5,210**	5,205
Reserves	27(b)	**23,047**	51,490
		28,257	56,695

TAM Yun Kau
Director

YOUNG Chiu Kit, Patrick
Director

1. CORPORATE INFORMATION

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

2. 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 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

2. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES *(continued)*

(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.

3. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 29 February 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

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

Joint venture companies

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

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

A joint venture company is treated as:

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture companies *(continued)*

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

Jointly-controlled entity

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

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

Goodwill

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

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

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

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

Negative goodwill

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill *(continued)*

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

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

Related parties

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

Impairment of assets

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

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

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

Fixed assets and depreciation

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

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

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

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

Intangible assets

Patents and trademarks

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

Research and development costs

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

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

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

Leased assets

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to the profit and loss account by way of a reduced depreciation charge.

Inventories

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

Contracts for services

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

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

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

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

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

Cash and cash equivalents

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and a jointly-controlled entity, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

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

Employee benefits

Paid leave carried forward

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

Retirement benefits schemes

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share option schemes

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

Foreign currencies

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

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

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

5. 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.

5. SEGMENT INFORMATION *(continued)*

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.

(i) Business segments

The following tables present revenue, loss and certain asset, liability and 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)

5. SEGMENT INFORMATION *(continued)*

(i) Business segments *(continued)*

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 assets	**14,390**	10,241	**1,795**	1,164	**–**	–	**16,185**	11,405
Unallocated assets							**21,597**	53,262
Total assets							**37,782**	64,667
Segment liabilities	**–**	234	**185**	326	**–**	–	**185**	560
Unallocated liabilities							**2,516**	2,209
Total liabilities							**2,701**	2,769

	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
Capital expenditure	**5,059**	2,746	**–**	33	**129**	86	**5,188**	2,865

5. SEGMENT INFORMATION *(continued)*

(ii) Geographical segments

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

Group

	Hong Kong		Canada		Eliminations		Consolidated	
	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
Segment assets	**16,998**	63,655	**12,578**	6,513	**(326)**	(15,201)	**29,250**	54,967
Capital expenditure	**2,045**	2,812	**3,143**	53	**–**	–	**5,188**	2,865

6. TURNOVER, REVENUE AND GAINS

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

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

	Note	**2004**	2003
		HK$'000	*HK$'000*
Turnover			
Absorption screening services rendered		**864**	683
Sale of herbal products		**261**	34
		1,125	717
Other revenue and gains			
Interest income		**243**	882
Negative goodwill recognised	*16*	**423**	415
Exchange gains, net		**–**	733
		666	2,030
Total revenue and gains		**1,791**	2,747

7. LOSS FROM OPERATING ACTIVITIES

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

	Notes	**2004** **HK$'000**	2003 HK$'000
Cost of services provided		**22**	518
Cost of inventories sold		**74**	14
Depreciation	*14*	**2,106**	1,764
Impairment of patents and trademarks*	*15*	**33**	11
Amortisation of deferred development costs**	*15*	**470**	412
Amortisation of goodwill*	*16*	**1,576**	1,589
Minimum lease payments under operating leases:			
Land and buildings		**1,265**	1,348
Laboratory equipment, furniture, fixtures and office equipment, and a motor vehicle		**478**	1,013
		1,743	2,361
Auditors' remuneration:			
Current year		**459**	575
Underprovision in the prior year		**–**	70
		459	645
Staff costs (excluding directors' remuneration – *note 9*):			
Salaries, bonuses, allowances and benefits in kind		**8,073**	8,195
Retirement benefits scheme contributions		**84**	278
		8,157	8,473
Loss on disposal of fixed assets		**981**	–
Provision for bad and doubtful debts		**152**	350
Exchange (gains)/losses, net		**518**	(733)

* 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.

8. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on bank overdrafts and other loans wholly repayable within five years	**10**	76
Interest on finance leases	**151**	84
Total finance costs	**161**	160

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2004	2003
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**570**	296
Independent non-executive directors	**230**	170
	800	466
Other emoluments for executive directors:		
Salaries, bonuses, allowances and benefits in kind	**2,147**	3,441
Retirement benefits scheme contributions	**12**	29
	2,159	3,470
	2,959	3,936

For the year ended 29 February 2004, the two executive directors received emoluments of HK$1,699,000 and HK$460,000, respectively. One of the four non-executive directors received fees of HK$225,000 and the remaining three non-executive directors and the two independent non-executive directors each received fees of HK$115,000.

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

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

9. DIRECTORS' REMUNERATION *(continued)*

During the year, 18,200,000 share options of the Company were granted to the directors of the Company under the Company's share option scheme in respect of their services to the Group, further details of which are set out in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2003: two) director, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2003: three) non-director, highest paid employees for the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries, bonuses, allowances and benefits in kind	**2,620**	2,279
Retirement benefits scheme contributions	**28**	24
	2,648	2,303

One of the four non-director, highest paid employees for the year joined and left the Group in October 2002 and October 2003, respectively. Other than the payments of a one-month payment in lieu of notice and leave in lieu when he left the Group in October 2003, his annualised remuneration for the year ended 29 February 2004 was the same as his annualised remuneration for the prior year. The remuneration of the remaining three non-director, highest paid employees increased by 2%, 19% and decreased by 29%, respectively, when compared to their respective remuneration in the prior year. The non-director, highest paid employee for the year who left the Group in October 2003 and the second non-director, highest paid employee mentioned in the previous sentence did not fall into the five highest paid employees category in the prior year.

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

During the year, 1,300,000 share options of the Company were granted to two of the four non-director, highest paid employees under the Company's share option scheme in respect of their services to the Group, further details of which are included in the disclosures in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

11. 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.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries and the jointly-controlled entity are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2004	**Hong Kong**		**Canada**		**Total**	
	HK$'000	**%**	***HK$'000***	**%**	***HK$'000***	**%**
Loss before tax	**(17,742)**		**(10,302)**		**(28,044)**	
Tax at the statutory tax rates	**(3,105)**	**17.5**	**(4,430)**	**43.0**	**(7,535)**	**26.9**
Income not subject to tax	**(117)**	**0.7**	**–**	**–**	**(117)**	**0.4**
Expenses not deductible for tax	**276**	**(1.6)**	**533**	**(5.2)**	**809**	**(2.9)**
Tax losses not recognised	**2,946**	**(16.6)**	**3,897**	**(37.8)**	**6,843**	**(24.4)**
Tax charge at the Group's effective rate	**–**	**–**	**–**	**–**	**–**	**–**

Group – 2003	Hong Kong		Canada		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Loss before tax	(18,083)		(9,062)		(27,145)	
Tax at the statutory tax rates	(2,893)	16.0	(3,897)	43.0	(6,790)	25.0
Income not subject to tax	(166)	0.9	–	–	(166)	0.6
Expenses not deductible for tax	254	(1.4)	749	(8.3)	1,003	(3.7)
Tax losses not recognised	2,805	(15.5)	3,148	(34.7)	5,953	(21.9)
Tax charge at the Group's effective rate	–	–	–	–	–	–

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 29 February 2004 dealt with in the financial statements of the Company, was HK$28,513,000 (2003: HK$29,399,000) *(note 27(b))*.

13. 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. ("KGI"), 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.

14. FIXED ASSETS

Group

	Leasehold improvements *HK$'000*	**Laboratory equipment** *HK$'000*	**Furniture, fixtures and office equipment** *HK$'000*	**Total** *HK$'000*
Cost:				
At 1 March 2003	2,667	3,162	1,150	6,979
Additions	–	2,964	128	3,092
Disposals	(2,319)	–	(113)	(2,432)
Exchange realignment	42	146	70	258
At 29 February 2004	390	6,272	1,235	7,897
Accumulated depreciation:				
At 1 March 2003	1,104	1,127	392	2,623
Provided during the year	625	1,203	278	2,106
Disposals	(1,386)	–	(51)	(1,437)
Exchange realignment	32	45	33	110
At 29 February 2004	375	2,375	652	3,402
Net book value:				
At 29 February 2004	15	3,897	583	4,495
At 28 February 2003	1,563	2,035	758	4,356

The net book values of the Group's fixed assets held under finance leases included in the total amount of laboratory equipment at 29 February 2004, amounted to HK$2,176,000 (2003: HK$782,000).

15. INTANGIBLE ASSETS

Group

	Patents and trademarks HK$'000	Deferred development costs* HK$'000 (note (b))	Total HK$'000
Cost:			
At 1 March 2003	342	9,750	10,092
Additions	449	1,647	2,096
Exchange realignment	57	816	873
At 29 February 2004	848	12,213	13,061
Accumulated amortisation and impairment:			
At 1 March 2003	62	1,661	1,723
Amortisation provided during the year	–	470	470
Impairment during the year recognised in the profit and loss account	33	–	33
Exchange realignment	13	367	380
At 29 February 2004	108	2,498	2,606
Net book value:			
At 29 February 2004	740	9,715	10,455
At 28 February 2003	280	8,089	8,369

* Internally generated

(a) The Group's intangible assets as at 29 February 2004 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").

As at the balance sheet date, the Underlying Products are either still in the early stages of launching to the market, or have not yet been put into commercial production. The recoverability of the Group's intangible assets depends, inter alia, upon the successful launching of the Underlying Products. 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 further 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 is necessary.

15. INTANGIBLE ASSETS *(continued)*

(b) In the prior year, government grants of HK$148,000 were received from a government authority, which were related to a technology development project undertaken by the Group and were accounted for as a deduction in arriving at the carrying value of deferred development costs. No such grants were received in the current year.

16. GOODWILL AND NEGATIVE GOODWILL

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

Group

	Goodwill *HK$'000*	**Negative goodwill** *HK$'000*
Cost:		
At 1 March 2003 and 29 February 2004	15,762	(4,233)
Accumulated amortisation/(recognition as income):		
At 1 March 2003	2,496	(652)
Amortisation provided/(recognised as income) during the year	1,576	(423)
At 29 February 2004	4,072	(1,075)
Net amount:		
At 29 February 2004	11,690	(3,158)
At 28 February 2003	13,266	(3,581)

The Group's goodwill as at 29 February 2004 arose from the acquisition of certain of the Company's operating subsidiaries by Kinetana Holdings (BVI) Limited ("KBVI"), a wholly-owned subsidiary of the Company and the then holding company of the Group, pursuant to a group reorganisation (the "Reorganisation") completed on 13 May 2002 to rationalise the Group's structure in preparation for the listing of the Company's shares on the GEM. The 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. The ability of these operating subsidiaries to attain profitable and positive cash flow operations depends, inter alia, upon the successful launching of the Underlying Products, which currently remains uncertain as further explained in note 15(a) to the financial statements. Based on the foregoing, the directors of the Company are currently unable to determine with reasonable certainty whether the operating subsidiaries can attain profitable and positive cash flow operations in the future. Accordingly, it is not possible to determine at this stage as to whether any impairment provision against the Group's goodwill is necessary.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**21,054**	20,979
Due from subsidiaries	**53,673**	27,859
Due to subsidiaries	**(1,369)**	(1,367)
	73,358	47,471
Less: Provisions against amounts due from subsidiaries	**(53,443)**	(27,630)
	19,915	19,841

The Company's investment in subsidiaries included its investment in KBVI, the holding company of the Group's operating subsidiaries, which had a carrying value of HK$21,054,000 as at 29 February 2004. The directors of the Company are aware of the fact that the recoverability of the intangible assets and goodwill of the Group may have a direct impact on the carrying value of the Company's investment in KBVI. However, owing to the uncertainty as to the recoverability of the intangible assets and goodwill of the Group as fully explained in notes 15(a) and 16 to the financial statements, respectively, the directors of the Company are unable to determine with reasonable certainty at this stage as to whether any impairment provision against the Company's investment in KBVI is necessary.

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

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Kinetana Holdings (BVI) Limited*	British Virgin Islands	HK$1,558,122	100%	Investment holding
Kinetana Group Inc.	Canada	CAN$2,347,045	100%	Investment and patent holding
Kinetana Hong Kong Herbal Pharmaceuticals Limited	Hong Kong	HK$2	100%	Research and development of biopharmaceutical technologies and TCM, provision of related services, and sale of herbal products

17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Kinetana Inc.	Canada	CAN$40	100%	Research and development of biopharmaceutical technologies and Western herbal products, provision of related services, and sale of herbal products

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

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

18. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**–**	(8)
Due from a jointly-controlled entity	**–**	23
	–	15

The amount due from the jointly-controlled entity was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the jointly-controlled entity, which is indirectly held by the Company, are as follows:

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

As at the balance sheet date, KNCM was in the process of deregistration. The deregistration was completed on 2 April 2004 and KNCM was dissolved as from that date. The pre-tax financial effect on the Group arising from the deregistration of KNCM is not significant.

19. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Raw materials and packaging materials	**421**	7
Work in progress	**57**	520
Finished goods	**1,315**	85
	1,793	612

At the balance sheet date, none of the inventories was carried at net realisable value (2003: Nil).

20. TRADE RECEIVABLES

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

	2004 HK$'000	2003 HK$'000
0 to 90 days	**40**	42
Over 90 days	**–**	23
	40	65

21. TAX RECOVERABLE

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

22. TRADE PAYABLES

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

	2004 HK$'000	2003 HK$'000
0 to 90 days	**142**	638
Over 90 days	**43**	39
	185	677

23. FINANCE LEASE PAYABLES

The Group leases certain of its laboratory equipment under finance lease contract arrangements with original lease terms of 2 to 3 years.

At 29 February 2004, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**1,307**	418	**1,237**	373
In the second year	**517**	174	**509**	169
Total minimum finance lease payments	**1,824**	592	**1,746**	542
Future finance charges	**(78)**	(50)		
Total net finance lease payables	**1,746**	542		
Portion classified as current liabilities	**(1,237)**	(373)		
Long term portion	**509**	169		

24. DEFERRED TAX

The components of the deferred tax (assets)/liabilities and the movement during the year are as follows:

	Accelerated tax depreciation	Accelerated development cost allowance	Scientific research and development tax pools and tax credits	Losses available for offset against future taxable profit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 March 2002:					
As previously reported	–	–	–	–	–
Prior year adjustment:					
SSAP 12 – restatement of deferred tax	43	1,565	(1,565)	(43)	–
As restated	43	1,565	(1,565)	(43)	–
Deferred tax debited/(credited) to the profit and loss account during the year	4	(77)	77	(4)	–
At 28 February 2003	47	1,488	(1,488)	(47)	–
At 1 March 2003:					
As previously reported	–	–	–	–	–
Prior year adjustment:					
SSAP 12 – restatement of deferred tax	47	1,488	(1,488)	(47)	–
As restated	47	1,488	(1,488)	(47)	–
Deferred tax debited/(credited) to the profit and loss account during the year	(12)	(5)	171	(154)	–
At 29 February 2004	35	1,483	(1,317)	(201)	–

24. DEFERRED TAX *(continued)*

The principal components of the Group's deferred tax assets not recognised in the financial statements as at the balance sheet date are as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Tax losses	**19,836**	12,993
Scientific research and development tax pools and tax credits	**–**	3,033
	19,836	16,026

The potential deferred tax assets arising from tax losses and scientific research and development tax pools and tax credits have not been recognised as they are subject to agreements with the relevant tax authorities and/or have arisen in companies that have been loss-making for some time and future profit stream of which cannot be assured.

SSAP 12 (Revised) was adopted during the year as further explained in note 3 to the financial statements.

25. SHARE CAPITAL

Shares

	2004	2003
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 (2003: 1,000,000,000) ordinary shares of HK$0.01 each	**10,000**	10,000
Issued and fully paid:		
521,048,170 (2003: 520,524,085) ordinary shares of HK$0.01 each	**5,210**	5,205

The movements in share capital of the Company during the two years ended 29 February 2004 were as follows:

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

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

The excess of the fair value of the issued share capital of KBVI determined on the basis of the consolidated net assets of KBVI at that date, over the aggregate of the nominal value of the Company's ordinary shares issued in exchange therefor, amounting to approximately HK$20,749,000, was credited to the Company's contributed surplus account as set out in note 27(b) to the financial statements.

25. SHARE CAPITAL *(continued)*

Shares *(continued)*

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

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

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

(f) During the year ended 28 February 2003, pursuant to a licence agreement dated 12 July 2001 and a supplementary agreement thereto (the "Licence Agreement") entered into between the Group and a third party licensor, a total of 21,429 common shares of KGI were allotted and issued to the third party as settlement of licensing fees of HK$75,000 in lieu of a cash consideration. Pursuant to an exchange agreement (the "Licensor Exchange Agreement") entered into between the Company, KBVI, Kinetana Holdings (Barbados) Limited ("KBarb", a wholly-owned subsidiary of the Company), KGI and the licensor, the licensor has agreed to exchange common shares of KGI, which might be issued and allotted pursuant to the Licence Agreement, for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company. On 17 January 2003, the Company allotted and issued a total of 524,085 ordinary shares of HK$0.01 each to the licensor in exchange for the aforesaid 21,429 common shares of KGI on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company.

(g) During the year ended 29 February 2004, pursuant to the Licence Agreement, a total of 21,429 common shares of KGI were allotted and issued to the third party as referred to in note (f) above, as settlement of licensing fees of HK$75,000 in lieu of a cash consideration. Pursuant to the Licensor Exchange Agreement, the Company allotted and issued a total of 524,085 ordinary shares of HK$0.01 each to the licensor on 21 October 2003 in exchange for the aforesaid 21,429 common shares of KGI on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company.

25. SHARE CAPITAL *(continued)*

Shares *(continued)*

A summary of the transactions with reference to the above movements in the Company's issued ordinary share capital, share premium account and contributed surplus account is as follows:

	Notes	Number of ordinary shares of HK$0.01 each	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus account HK$'000	Total HK$'000
Issued and fully paid:						
Issued capital as at 1 March 2002		1	–	–	–	–
Shares issued and credited as fully paid pursuant to the Reorganisation	*(b)*	15,538,356	155	–	20,749	20,904
Pro forma issued capital as at 1 March 2002		15,538,357	155	–	20,749	20,904
Shares allotted and issued pursuant to the exercise of two option agreements	*(c)*	817,000	8	2,852	–	2,860
New issue to the public by way of placement and initial public offering	*(d)*	120,000,000	1,200	76,800	–	78,000
Capitalisation of the share premium account for shares credited as fully paid	*(e)*	383,644,643	3,837	(3,837)	–	–
Shares allotted and issued pursuant to the Licence Agreement and the Licensor Exchange Agreement	*(f)*	524,085	5	70	–	75
Share issue expenses		–	–	(15,738)	–	(15,738)
At 28 February 2003 and at 1 March 2003		520,524,085	5,205	60,147	20,749	86,101
Shares allotted and issued pursuant to the Licence Agreement and the Licensor Exchange Agreement	*(g)*	524,085	5	70	–	75
At 29 February 2004		521,048,170	5,210	60,217	20,749	86,176

25. SHARE CAPITAL *(continued)*

Share options

Company

At 29 February 2004, the Company had 59,191,764 share options outstanding granted under the two share option schemes operated by the Company, details of which and of the two share option schemes operated by the Company and the share options issued under the schemes are included in note 26 to the financial statements.

KGI

At 29 February 2004, KGI, a wholly-owned subsidiary of the Company, had 639,000 share options outstanding which entitled the option holders to subscribe in cash for common shares of KGI at CAN$0.50 per share. Of the total 639,000 share options outstanding as at 29 February 2004, 619,000 share options were granted under a share option plan operated by KGI and the remaining 20,000 share options were granted to a third party under a research and development agreement, details of which are included in notes 26 and 30(c) to the financial statements, respectively.

Pursuant to a conditional share exchange offer made on 5 November 2001 by (i) the Company; (ii) KBVI; and (iii) KBarb; and agreed by KGI (as supplemented by two letters dated 27 February 2002 and 28 March 2002 by the same parties) and accepted by each holder of options and warrants in KGI between 15 April 2002 and 16 May 2002 (the "Exchange Agreement") and an exchange agreement entered into between the Company, KBVI, KBarb, KGI, Kinetana Inc. and the third party (the "R&D Exchange Agreement"), for the common shares of KGI which might be issued and allotted pursuant to the exercise of such options, the registered holders of the 639,000 share options of KGI outstanding as at 29 February 2004 have agreed to exchange common shares of KGI for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company. The exercise in full of the 639,000 share options of KGI outstanding as at 29 February 2004 would, under the present capital structure of the Company, result in the issue of 15,627,906 additional ordinary shares of the Company of HK$0.01 each.

Warrants of a subsidiary

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

Pursuant to the Exchange Agreement, the warrants became exercisable for a six month period commencing on 3 December 2002. In addition, for the common shares of KGI which might have been issued and allotted pursuant to the exercise of such warrants, the registered holders of the 527,000 warrants outstanding as at 28 February 2003 have agreed to exchange common shares of KGI for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company.

No such warrants were exercised by the registered holders during the exercise period and accordingly, all the warrants lapsed during the year upon the expiry of the exercise period.

26. SHARE OPTION SCHEMES

Company

Share option scheme

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

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

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

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

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

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

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

26. SHARE OPTION SCHEMES *(continued)*

Company *(continued)*

Share option scheme (continued)

At 29 February 2004, the Company had 21,300,000 share options outstanding under the Share Option Scheme, which represented approximately 4.09% of the Company's shares in issue as at 29 February 2004. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 21,300,000 additional ordinary shares of the Company and additional share capital of HK$213,000 and share premium of HK$1,299,300, before any issue expenses.

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Exercise price of share options
	At 1 March 2003	Granted during the year *(note (a))*	Lapsed during the year	At 29 February 2004	*(note (c))*		HK$
Directors:							
Dr. Tam Yun Kau	–	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	–	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. Antoine A. Noujaim	–	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	–	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. Tam Shong-Tak, David	–	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. Yeung Sui Leung	–	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. Chan Mo Po, Paul	–	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
Dr. Chan Wai Kit, Albert	–	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
	–	18,200,000	–	18,200,000			
Other employees:							
In aggregate *(note (b))*	–	4,400,000	(1,300,000)	3,100,000	27-05-03	27-05-03 to 27-05-13	0.071
Total	–	22,600,000	(1,300,000)	21,300,000			

26. SHARE OPTION SCHEMES *(continued)*

Company *(continued)*

Share option scheme (continued)

Notes:

(a) The Stock Exchange closing prices of the Company's shares on the trading day immediately prior to the date of the grant of the share options to the directors and employees are HK$0.064 and HK$0.071, respectively.

(b) Owing to the resignation of certain employees during the year, a total of 1,300,000 share options granted to them on 27 May 2003 lapsed during the year as a result.

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

Pre-IPO share option scheme

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

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

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

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

At 29 February 2004, the Company had 37,891,764 share options outstanding under the Pre-IPO Option Scheme, which represented approximately 7.27% of the Company's shares in issue at 29 February 2004. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 37,891,764 additional ordinary shares of the Company and additional share capital of HK$378,918 and share premium of HK$11,935,905, before any issue expenses.

26. SHARE OPTION SCHEMES *(continued)*

Company *(continued)*

Pre-IPO share option scheme (continued)

The following share options were outstanding under the Pre-IPO Option Scheme during the year:

Name or category of participant	Number of share options: At 1 March 2003	Lapsed during the year	At 29 February 2004	Date of grant of share options *(note (a))*	Exercise period of share options	Exercise price of share options *HK$*
Directors:						
Dr. Tam Yun Kau *(note (b))*	12,228,409	–	12,228,409	07-05-02	03-12-02 to 03-12-07	0.325
	6,114,204	–	6,114,204	07-05-02	03-06-03 to 03-06-08	0.325
	6,114,205	–	6,114,205	07-05-02	03-06-04 to 03-06-09	0.325
Mr. Young Chiu Kit, Patrick	1,222,841	–	1,222,841	15-05-02	03-12-02 to 03-12-07	0.325
Dr. Antoine A. Noujaim	1,222,841	–	1,222,841	07-05-02	03-12-02 to 03-12-07	0.325
Mr. Lee Chiu Kang	1,222,841	–	1,222,841	07-05-02	03-12-02 to 03-12-07	0.325
Mr. Tam Shong-Tak, David	1,222,841	–	1,222,841	07-05-02	03-12-02 to 03-12-07	0.325
Mr. Chan Mo Po, Paul	1,222,841	–	1,222,841	07-05-02	03-12-02 to 03-12-07	0.325
	30,571,023	–	30,571,023			
Associate of a director:						
Dr. Nuzhat Tam-Zaman *(note (b))*	733,705	–	733,705	09-05-02	03-12-02 to 03-12-07	0.325
A consultant	1,222,841	–	1,222,841	14-05-02	03-12-02 to 03-12-07	0.325
Other employees:						
In aggregate	4,108,745	–	4,108,745	13-05-02	03-12-02 to 03-12-07	0.325
In aggregate *(note (c))*	611,420	(611,420)	–	14-05-02	03-12-02 to 01-12-05	0.160
In aggregate *(note (c))*	489,136	(489,136)	–	14-05-02	03-12-02 to 29-08-05	0.160
In aggregate *(note (c))*	489,136	(489,136)	–	14-05-02	03-12-02 to 01-11-06	0.160
In aggregate *(note (c))*	2,266,331	(1,010,881)	1,255,450	14-05-02	03-12-02 to 03-12-07	0.325
	7,964,768	(2,600,573)	5,364,195			
Total	40,492,337	(2,600,573)	37,891,764			

26. SHARE OPTION SCHEMES *(continued)*

Company *(continued)*

Pre-IPO share option scheme (continued)

Notes:

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

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

(c) Owing to the resignation of certain employees, a total of 2,600,573 share options granted to them on 14 May 2002 lapsed during the year as a result.

KGI

KGI, a wholly-owned subsidiary of the Company, adopted a Pre-IPO share option plan (the "KGI Share Option Plan") on 20 March 2000 (as amended by KGI on 31 March 2000 and 5 November 2001). The purpose of the KGI Share Option Plan is to encourage eligible participants to acquire shares in KGI, thereby increasing their proprietary interests in the Group. Eligible participants include key employees (including directors and officers) and consultants of the Company or any of its subsidiaries.

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

As at 29 February 2004, KGI had 619,000 share options outstanding under the KGI Share Option Plan and no further options will be offered or granted under the KGI Share Option Plan. The exercise in full of these share options would, pursuant to the Exchange Agreement and under the present capital structure of the Company, result in the issue of 15,138,770 additional ordinary shares of the Company and additional share capital of HK$151,388 and share premium of HK$1,660,270, before any issue expenses.

26. SHARE OPTION SCHEMES *(continued)*

KGI *(continued)*

Details of the outstanding share options granted under the KGI Share Option Plan as at 29 February 2004 are as follows:

Name or category of participant	Number of share options At 1 March 2003	Lapsed during the year	At 29 February 2004	Number of shares of the Company exchanged for pursuant to the Exchange Agreement	Date of grant of share options	Exercise period of share options pursuant to the Exchange Agreement	Exercise price of share options CAN$
Directors:							
Dr. Tam Yun Kau *(note (a))*	8,000	–	8,000	195,655	31-03-00	03-12-02 to 31-03-05	0.5
Mr. Young Shui Chung *(note (b))*	50,000	(50,000)	–	–	31-03-00	03-12-02 to 31-03-05	0.5
Mr. Young Chiu Kit, Patrick	18,000	–	18,000	440,223	31-03-00	03-12-02 to 31-03-05	0.5
Mr. Antoine A. Noujaim	11,000	–	11,000	269,025	31-03-00	03-12-02 to 31-03-05	0.5
	87,000	(50,000)	37,000	904,903			
Associate of a director:							
Dr. Nuzhat Tam-Zaman *(note (a))*	70,000	–	70,000	1,711,977	01-07-01	03-12-02 to 01-07-06	0.5
	70,000	–	70,000	1,711,977	19-12-01	03-12-02 to 19-12-06	0.5
	140,000	–	140,000	3,423,954			
Other employees:							
In aggregate	120,000	–	120,000	2,934,818	31-03-00	03-12-02 to 15-07-04	0.5
In aggregate	70,000	–	70,000	1,711,977	31-03-00	03-12-02 to 15-07-05	0.5
In aggregate	70,000	–	70,000	1,711,977	31-03-00	03-12-02 to 15-07-06	0.5
In aggregate	50,000	–	50,000	1,222,841	31-03-00	31-03-02 to 22-10-04	0.5
In aggregate	50,000	–	50,000	1,222,841	31-03-00	03-12-02 to 22-10-05	0.5
In aggregate	50,000	–	50,000	1,222,841	31-03-00	03-12-02 to 22-10-06	0.5
In aggregate	32,000	–	32,000	782,618	31-03-00	03-12-02 to 31-03-05	0.5
	442,000	–	442,000	10,809,913			
	669,000	(50,000)	619,000	15,138,770			

Notes:

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

(b) Owing to the death of Mr. Young Shui Chung, a past director of the Company, on 16 August 2002, the 50,000 share options of KGI granted to him on 31 March 2000 lapsed on 15 August 2003.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 40 of the financial statements.

The Group's contributed surplus account represents the difference between the nominal value of the shares and the share premium account of KBVI, the former Group holding company, acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Share premium account	**Contributed surplus account**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 March 2002	–	–	(7)	(7)
Issue of shares – *note 25*	75,885	20,749	–	96,634
Share issue expenses – *note 25*	(15,738)	–	–	(15,738)
Loss for the year	–	–	(29,399)	(29,399)
At 28 February 2003 and 1 March 2003	60,147	20,749	(29,406)	51,490
Issue of shares – *note 25*	70	–	–	70
Loss for the year	–	–	(28,513)	(28,513)
At 29 February 2004	60,217	20,749	(57,919)	23,047

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

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The following major non-cash transactions took place during the year ended 29 February 2004:

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

(ii) the Group entered into finance lease arrangements in respect of fixed assets with a total capital value of HK$2,361,000 at the inception of the leases.

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

29. CONTINGENT LIABILITIES

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, the Group's patented in vitro screening system for use in drug development, 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 the third party licensor as referred to in note 25 (f) to the financial statements, the Group was assured by the third party licensor 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 result 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.

30. COMMITMENTS

(a) Capital commitments

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

	2004	2003
	HK$'000	*HK$'000*
Capital commitments in respect of contributions to research and development projects:		
Contracted, but not provided for	**204**	1,851
Capital commitment in respect of an additional investment in a jointly-controlled entity:		
Contracted, but not provided for	**–**	500
Total capital commitments	**204**	2,351

The Company had no material capital commitments as at 29 February 2004 (2003: Nil).

(b) Operating lease commitments

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

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

	2004	2003
	HK$'000	*HK$'000*
Land and buildings:		
Within one year	**275**	1,037
In the second to fifth years, inclusive	**24**	90
	299	1,127
Laboratory equipment, furniture, fixtures and office equipment, and a motor vehicle:		
Within one year	**79**	1,072
In the second to fifth years, inclusive	**99**	1,150
	178	2,222
Total operating lease commitments	**477**	3,349

The Company had no material operating lease commitments as at 29 February 2004 (2003: Nil).

30. COMMITMENTS *(continued)*

(c) Research and development agreement

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

Pursuant to the R&D Exchange Agreement as referred to in note 25 to the financial statements, the third party has agreed to exchange common shares of KGI, which might be issued and allotted pursuant to the R&D Agreement, for ordinary shares of the Company on the basis of 1 common share of KGI for approximately 24.45 ordinary shares of the Company.

(d) Sales and marketing agreement

Pursuant to a sales and marketing agreement (the "Sales Agreement") entered into between Kinetana U.S.A. Corp. ("KUSA"), a wholly-owned subsidiary of the Company, and a third party on 10 January 2004, the third party will provide business development, sales and marketing services to KUSA in the USA with an initial term of period from 10 January 2004 to 31 August 2004 whereas in return, a monthly base compensation of CAN$27,000 and a monthly expenses fee of CAN$7,000 will be payable by KUSA to the third party during the aforesaid period.

In addition, pursuant to the Sales Agreement, the following incentives subject to the amount of the actual revenue (net of all discounts, rebates, returns or marketing cost) to be received by KUSA from the USA market (the "Total Revenue") were offered by KUSA to the third party:

(1) In the event that the Total Revenue generated between 10 January 2004 and 31 May 2004 exceeds US$1 million and such amount is received by KUSA by no later than 31 July 2004, the third party shall be granted share options of the Company to subscribe for 18 million shares of the Company at a subscription price to be determined in accordance with the terms of the Sales Agreement. The share options granted, if any, are exercisable at any time between 1 September 2004 and 20 February 2005 and shall expire on 21 February 2005.

30. COMMITMENTS *(continued)*

(d) Sales and marketing agreement *(continued)*

(2) In the event that the Total Revenue generated between 1 June 2004 and 31 August 2004 exceeds US$1 million and such amount is received by KUSA by no later than 31 October 2004, the third party shall be, at the sole discretion of KUSA, (i) granted share options of the Company to subscribe for an additional 18 million shares of the Company at a subscription price to be determined in accordance with the terms of the Sales Agreement; or (ii) granted share options of the Company to subscribe for an additional 9 million shares of the Company at a subscription price to be determined in accordance with the terms of the Sales Agreement and compensated with cash bonus up to an amount equivalent to 12.5% of the Total Revenue generated between 1 June 2004 and 31 August 2004. The share options granted, if any, are exercisable at any time between 1 November 2004 and 20 February 2005 and shall expire on 21 February 2005.

(3) In the event that (i) the Total Revenue generated between 2 January 2004 and 31 May 2004 equals to or exceeds US$500,000 but does not exceed US$1 million; (ii) the Total Revenue generated between 1 June 2004 and 31 August 2004 equals to or exceeds US$500,000 but does not exceed US$1 million; or (iii) the Total Revenue in any consecutive ninety-day period after 1 March 2004 equals to or exceeds US$500,000, the Sales Agreement shall be renewed until 30 November 2004.

(4) Upon renewal of the Sales Agreement for any reason as stipulated in (3) above, in the event that the Total Revenue generated between 1 September 2004 and 30 November 2004 exceeds US$1 million and such revenue is received by KUSA by no later than 31 January 2005, the third party shall be granted share options of the Company to subscribe for 16 million shares of the Company at a subscription price to be determined in accordance with the terms of the Sales Agreement. The share options granted, if any, are exercisable at any time between 1 February 2005 and 31 May 2005 and shall expire on 1 June 2005.

(5) Subject to the fulfillment of the sales targets as stipulated in (1) and (2) above and both the third party and KUSA agree to extend the Sales Agreement to 30 November 2004, in the event that the Total Revenue generated between 1 September 2004 and 30 November 2004 exceeds US$1 million and such revenue is received by KUSA by no later than 31 January 2005, the third party shall be, at the sole discretion of KUSA, (i) granted share options of the Company to subscribe for an additional 16 million shares of the Company at a subscription price to be determined in accordance with the terms of the Sales Agreement; or (ii) compensated with cash bonus up to an amount equivalent to 25% of the Total Revenue generated between 1 September 2004 and 30 November 2004. The share options granted, if any, are exercisable at any time between 1 February 2005 and 31 May 2005 and shall expire on 1 June 2005.

30. COMMITMENTS *(continued)*

(d) Sales and marketing agreement *(continued)*

Upon full exercise of the potential share options of the Company to be granted pursuant to the Sales Agreement, 51 million new shares of the Company, which account for approximately 9.98% of the issued share capital of the Company as at 29 February 2004, will be issued to the third party.

Subsequent to the balance sheet date, the Group and the third party mutually agreed to terminate the Sales Agreement on 31 March 2004.

31. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	Notes	**2004** **HK$'000**	2003 HK$'000
CONTINUING TRANSACTIONS:			
Salaries, bonuses, allowances, and benefits in kind paid to Dr. Nuzhat Tam-Zaman and retirement benefits scheme contributions thereof	*(a)*	**492**	692
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)*	**48**	145
DISCONTINUED TRANSACTIONS:			
Interest expenses paid to Dr. Tam Yun Kau	*(e)*	**–**	72
Recognition payment to Mr. Young Shui Chung	*(f)*	**500**	–

31. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

(a) Dr. Nuzhat Tam-Zaman is the wife of Dr. Tam Yun Kau, a director of the Company. The amounts paid to Dr. Nuzhat Tam-Zaman as an employee of the Group were based on mutually-agreed terms.

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

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

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

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

(d) Mr. Young Chiu Kit, Patrick, a director of the Company, has beneficial interests in Patrick C. Young Professional Corporation, Chartered Accountant. The consultancy fees paid were based on a mutually-agreed rate for each hour of accounting services provided, which was considered by the directors of the Company to be in line with the then prevailing rate for such services.

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

31. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

(f) As approved by the shareholders at the annual general meeting of the Company held on 11 July 2003, a one-time special payment of HK$500,000 was made to the estate of Mr. Young Shui Chung, an executive director of the Company during prior year who passed away on 16 August 2002, in recognition and appreciation of his outstanding service and contribution to the Group during the period from June 1999 to August 2002.

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

32. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the following significant events occurred:

On 31 March 2004, the Group and the third party as referred to in note 30(d) to the financial statements mutually-agreed to terminate the Sales Agreement.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 May 2004.

A summary of the results of the Group for the last five years and of the assets and liabilities of the Group as at 28 February 2002, 28 February 2003 and 29 February 2004, as extracted from the Company's annual report and the audited financial statements, is as follows:

RESULTS

	Year ended 28 February or 29 February				
	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note)	*(Note)*	*(Note)*
TURNOVER	**1,125**	717	750	–	–
Cost of sales	**(143)**	(573)	(205)	–	–
Gross profit	**982**	144	545	–	–
Other revenue and gains	**666**	2,030	612	138	88
Selling and distribution costs	**(1,257)**	(1,642)	–	–	–
Administrative expenses	**(17,784)**	(17,439)	(11,249)	(7,094)	(3,190)
Research and development expenses	**(6,706)**	(7,806)	(3,301)	(1,295)	(537)
Other operating expenses	**(3,792)**	(2,250)	(1,303)	(8)	(1,312)
LOSS FROM OPERATING ACTIVITIES	**(27,891)**	(26,963)	(14,696)	(8,259)	(4,951)
Finance costs	**(161)**	(160)	(216)	(100)	(86)
Share of profit/(loss) of a jointly-controlled entity	**8**	(22)	14	–	–
LOSS BEFORE TAX	**(28,044)**	(27,145)	(14,898)	(8,359)	(5,037)
Tax	**–**	–	–	–	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(28,044)**	(27,145)	(14,898)	(8,359)	(5,037)

ASSETS AND LIABILITIES

	29 February 2004	28 February 2003	28 February 2002
	HK$'000	*HK$'000*	*HK$'000*
TOTAL ASSETS	**37,782**	64,667	31,282
TOTAL LIABILITIES	**(2,701)**	(2,769)	(6,442)
	(35,081)	61,898	24,840

Note: The summary of the results of the Group for the three years ended 28 February 2002, as extracted from the Company's prospectus dated 22 May 2002, includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the three financial years ended 28 February 2002.

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