



## **Kinetana International Biotech Pharma Limited**

**健諾國際生化科技藥業有限公司**

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

(Stock code: 8031)

### **First Quarterly Results Announcement for the three months ended 31 May 2004**

#### **Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

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

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

## **HIGHLIGHTS**

- Turnover of the Group for the three months ended 31 May 2004 was approximately HK\$37,000 as compared to approximately HK\$214,000 for the corresponding period in the previous fiscal year.
- Net loss of the Group for the three months ended 31 May 2004 was approximately HK\$5.30 million as compared to approximately HK\$7.32 million for the corresponding period in the previous fiscal year.
- Loss per share of the Group was approximately HK\$0.0102 for the three months ended 31 May 2004 and HK\$0.0141 for the corresponding period in the previous fiscal year.
- The Board does not recommend the payment of any dividend for the three months ended 31 May 2004.

## UNAUDITED FIRST QUARTERLY RESULTS

The Board of Directors (the “Board”) of Kinetana International Biotech Pharma Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months ended 31 May 2004, together with the unaudited consolidated results for the corresponding periods in 2003, are as follows:–

		<b>Three months ended</b>	
		<b>31 May</b>	
		<b>2004</b>	2003
	<i>Notes</i>	<b>Unaudited</b>	Unaudited
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>TURNOVER</b>	3	<b>37</b>	214
Cost of sales		<b>(23)</b>	(71)
Gross profit		<b>14</b>	143
Other revenue, net		<b>131</b>	198
Selling and distribution costs		<b>(819)</b>	(561)
Administrative expenses		<b>(3,565)</b>	(4,372)
Research and development expenses		<b>(671)</b>	(1,937)
Other operating expenses, net		<b>(361)</b>	(764)
<b>LOSS FROM OPERATING ACTIVITIES</b>		<b>(5,271)</b>	(7,293)
Finance costs		<b>(29)</b>	(16)
Share of profits/(loss) of a jointly-controlled entity		–	(8)
<b>LOSS BEFORE TAX</b>		<b>(5,300)</b>	(7,317)
Tax	4	–	–
<b>NET LOSS FROM ORDINARY ACTIVITIES</b>		<b>(5,300)</b>	(7,317)
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(5,300)</b>	(7,317)
<b>LOSS PER SHARE – Basic (HK\$)</b>	5	<b>(0.0102)</b>	(0.0141)

## NOTES TO THE UNAUDITED THIRD QUARTERLY RESULTS

### 1. Basis of presentation

The unaudited 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 historical cost convention.

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

The basis of preparation and principal accounting policies adopted for the preparation of these unaudited consolidated results are consistent with those used in the preparation of the Group's audited financial statements for the year ended 29 February 2004.

### 3. Turnover

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

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

	Three months ended 31 May	
	2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
Absorption screening services rendered	–	96
Sale of herbal products	37	118
	<u>37</u>	<u>214</u>

### 4. Tax

In accordance with the relevant tax legislation, rules and regulations, interpretations and practices in Hong Kong and Alberta, Canada, no provision for Hong Kong profits tax or overseas income tax has been made for the three months ended 31 May 2004 and the corresponding period in 2003 as the Group had no assessable profits arising in Hong Kong and overseas.

## 5. Loss per share

The calculation of basic loss per share for the three months ended 31 May 2004 is based on the net loss from ordinary activities attributable to shareholders for the three months ended 31 May 2004 of approximately HK\$5,300,000 (three months ended 31 May 2003: HK\$7,317,000), and the weighted average for the three months ended 31 May 2004 of 521,048,170 (three months ended 31 May 2003: 520,524,085 ordinary shares) ordinary shares in issue during the period.

Diluted loss per share amounts for the three months ended 31 May 2004 and 31 May 2003 have not been shown as the share options of the Company and share options and warrants of Kinetana Group Inc. ("KGI"), a wholly-owned subsidiary of the Company, which can be exchanged for ordinary shares of the Company when exercised, which were outstanding during the three months ended 31 May 2004 and 31 May 2003, had anti-dilutive effects on the respective basic loss per share.

## 6. Dividend

The Board does not recommend payment of any dividend for the three months ended 31 May 2004 (three months ended 31 May 2003: Nil).

## 7. Movement of reserves

	Share premium account Unaudited HK\$'000	Contributed surplus account Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000	Accumulated losses Unaudited HK\$'000	Total Unaudited HK\$'000
At 1 March 2004	60,217	35,590	513	(66,449)	29,871
Net gains not recognised in the profit and loss account – Exchange realignment	–	–	(242)	–	(242)
Loss for the period	–	–	–	(5,300)	(5,300)
At 31 May 2004	<u>60,217</u>	<u>35,590</u>	<u>271</u>	<u>(71,749)</u>	<u>24,329</u>
At 1 March 2003	60,147	35,590	(639)	(38,405)	56,693
Net gains not recognised in the profit and loss account – Exchange realignment	–	–	868	–	868
Loss for the period	–	–	–	(7,317)	(7,317)
At 31 May 2003	<u>60,147</u>	<u>35,590</u>	<u>229</u>	<u>(45,722)</u>	<u>50,244</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of operations**

The Board announces the Group's unaudited consolidated first quarterly results for the three months ended 31 May 2004. The Group recorded a turnover of approximately HK\$37,000 for the three months ended 31 May 2004 which represents sales of the Group's own products. The turnover for the three months ended 31 May 2003 was HK\$214,000.

For the three months ended 31 May 2004, the Group incurred a net loss attributable to shareholders of approximately HK\$5.30 million as compared to approximately HK\$7.32 million for the corresponding period in 2003.

### **Prospects**

#### *Business Development*

The Group's subsidiary in the United States (KUSA) has focused on marketing to the professional natural health market in the United States since the beginning of 2004. KUSA has scaled-up the manufacturing processes of two of its new products, Arthroxin™ and Somamax™ in a GMP contract manufacturing house in the United States. The strategy for the marketing of these products is to use direct channels to sell to consumers. Two distributors have been engaged and one is currently distributing the Group's products through professional channels. The Group's products will also be distributed through a chain of independent pharmacies, comprising of more than two thousand stores nation wide in the United States and a natural product agent connected to a newsletter and radio talk show.

#### *Product Launch*

Sales of both Arthroxin™, a topical product for relieving joint and muscle pain and Somamax™, a sleep aid, developed using the Group's proprietary technologies, have been launched in the first week of June 2004.

#### *Product Research and Development*

The Group is currently focusing on the development of a proprietary hair growth product. The prototype is currently being improved in the Group's Edmonton laboratory.

## *Sales and Marketing*

Sales of Arthroxin™ commenced in the United States in June 2004. In August 2004, this product is going to be introduced to the chiropractic market. Since its introduction, the market's response to Somamax™ has been positive.

## *Contingent liability*

It has come to the attention of the Company that the cell line (the "Licensed Cell Line") used in the SimBioDAS® process to estimate absorption of new chemical entities and natural products may not have been of human origin. The Licensed Cell Line was developed and supplied by a third party. At the time of acquisition, the Group was assured by the owner of the Licensed Cell Line 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 expected to be negligible and to 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 of 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 its legal advisors.

As at 31 May 2004, no claims of damages or litigation in connection with this event has been made against the Company or the Group. However, a multi-national pharmaceutical company with whom the company had contracted with to evaluate the Licensed Cell Line has requested for refund of certain sums of money paid pursuant to the agreement and for the retraction of the resultant published article. This matter has been turned over to the company's intellectual property counsel for further action. The possibility of any future claims or litigation against the Company or the Group in respect of the above cannot be ascertained at this stage. Accordingly, no provision has been recognized in these unaudited consolidated results for any possible future claims or litigation against the Company or the Group. Any resulting liability arising from such claims or litigation in the future, if any, is not expected to materially affect the financial position of the Group. The Company has 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 31 May 2003.

## **COMPETING INTEREST**

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

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

As at 31 May 2004, the interests or short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 of the GEM Listing Rules, were as follows:

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

### Notes:

- (a) The family interest of Dr. Tam Yun Kau in the shares of the Company is held by Dr. Tam-Zaman Nuzhat, the wife of Dr. Tam Yun Kau. The corporate interest of Dr. Tam Yun Kau in the shares of the Company is held by 943788 Alberta Ltd., a company incorporated in Canada and wholly-owned by Dr. Tam Yun Kau.
- (b) Mr. Yeung Sui Leung also holds an approximately 16.67% equity interest in Grand Interest Development Limited, which holds 30,815,591 shares of the Company as at 31 May 2004. Details of Grand Interest Development Limiter's interest in the shares and underlying shares of the Company are set out in the Section "Substantial Shareholders" below.



(c) KIBP pre-IPO Options

The Company conditionally adopted a pre-IPO share option scheme (the “KIBP Pre-IPO Share Option Scheme”) on 7 May 2002. A summary of the principal terms of the KIBP Pre-IPO Share Option Scheme is set out in the subsection headed “Pre-IPO Share Option Schemes-(a) KIBP Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus. As at 31 May 2004, the following directors of the Company were granted or interested in the following options under the KIBP Pre-IPO Share Option Scheme:

Name of Director		Number of share options interested as at 1 March and 31 May 2004	Date of grant	Exercise period	Exercise price HK\$
	<i>Notes</i>				
Dr. Tam Yun Kau	(i)	12,228,409	07/05/02	03/12/02 to 03/12/07	0.325
	(i)	6,114,204	07/05/02	03/06/03 to 03/06/08	0.325
	(i)	6,114,205	07/05/02	03/06/04 to 03/06/09	0.325
	(ii)	733,705	09/05/02	03/12/02 to 03/12/07	0.325
Mr. Young Chiu Kit, Patrick	(i)	1,222,841	15/05/02	03/12/02 to 03/12/07	0.325
Dr. Antoine A. Noujaim	(i)	1,222,841	07/05/02	03/12/02 to 03/12/07	0.325
Mr. Lee Chiu Kang	(i)	1,222,841	07/05/02	03/12/02 to 03/12/07	0.325
Mr. Tam Shong-Tak, David	(i)	1,222,841	07/05/02	03/12/02 to 03/12/07	0.325
Mr. Chan Mo Po, Paul	(i)	1,222,841	07/05/02	03/12/02 to 03/12/07	0.325

*Notes:*

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

(d) KGI pre-IPO Options

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

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

As at 31 May 2004, the following directors of the Company were conditionally granted or interested in the following options under the KGI Share Option Plan (as supplemented by the Exchange Agreement):

Name of Director		Number of KGI share options interested as at 1 March and 31 May 2004	Number of shares exchanged for pursuant to the Exchange Agreement	Date of grant	Exercise period pursuant to the Exchange Agreement	Exercise price CAN\$
	<i>Notes</i>					
Dr. Tam Yun Kau	(i)	8,000	195,655	31/03/00	03/12/02 to 31/03/05	0.5
	(ii)	70,000	1,711,977	01/07/01	03/12/02 to 01/07/06	0.5
	(ii)	70,000	1,711,977	19/12/01	03/12/02 to 19/12/06	0.5
Mr. Young Chiu Kit, Patrick	(i)	18,000	440,223	31/03/00	03/12/02 to 31/03/05	0.5
Dr. Antoine A. Noujaim	(i)	11,000	269,025	31/03/00	03/12/02 to 31/03/05	0.5

*Notes:*

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

(e) Share Option Scheme

The Company adopted a share option scheme (the “Share Option Scheme”) on 7 May 2002 the principal terms of which are set out in the note 26 to the financial statements as included in the annual report of the Company for the year ended 29 February 2004.

As at 31 May 2004, options to subscribe for an aggregate of 18,200,000 shares of the Company had been granted or agreed to be granted to the following directors under the Share Option Scheme. Details are as follows:–

<b>Name of Director</b>	<b>Notes</b>	<b>Number of Options interested as at 1 March and 31 May 2004</b>	<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price HK\$</b>
Dr. Tam Yun Kau	(i)	260,000	10/10/03	10/01/04 to 09/10/13	0.071
Mr. Yeung Sui Leung	(i)	260,000	10/10/03	10/01/04 to 09/10/13	0.071
Mr. Young Chiu Kit, Patrick	(i)	2,600,000	10/10/03	10/01/04 to 09/10/13	0.071
Mr. Chan Mo Po, Paul	(i)	260,000	10/10/03	10/01/04 to 09/10/13	0.071
Dr. Antoine A. Noujaim	(i)	260,000	10/10/03	10/01/04 to 09/10/13	0.071
Mr. Lee Chiu Kang	(i)	2,600,000	10/10/03	10/01/04 to 09/10/13	0.071
Dr. Chan Wai Kit, Albert	(i)	260,000	10/10/03	10/01/04 to 09/10/13	0.071
Mr. Tam Shong-Tak, David	(i)	2,600,000	10/10/03	10/01/04 to 09/10/13	0.071

*Notes:*

- (i) Directors personally hold the above options.
- (ii) All the above-mentioned options are unlisted and represent physically settled equity derivatives.
- (iii) The directors do not consider it appropriate to disclose a theoretical value of the options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading.

Save as disclosed above, as at 31 May 2004, none of the directors or their associates as well as the chief executive of the Group had any interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.40 of the GEM Listing Rules. During the reporting period, there were no debt securities issued by the Group at any time.

## SUBSTANTIAL SHAREHOLDERS

As at 31 May 2004, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

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

### Notes:

- (a) 943788 Alberta Ltd. is an investment holding company incorporated in Canada and wholly owned by Dr. Tam Yun Kau.
- (b) The 141,249,015 shares of the Company referred to above include 500,000 shares held by Dr. Tam-Zaman Nuzhat herself, 22,011,161 shares held by Dr. Tam Yun Kau and 118,737,854 shares held by 943788 Alberta Ltd.. Dr. Tam-Zaman Nuzhat is the wife of Dr. Tam Yun Kau and is deemed to be interested in the shares held by Dr. Tam Yun Kau and 943788 Alberta Ltd.. The 25,190,523 KIBP pre-IPO share options referred to above include 733,705 share options held by Dr. Tam-Zaman Nuzhat herself and 24,456,818 share options held by Dr. Tam Yun Kau. The 3,619,609 shares exchanged for pursuant to the Exchange Agreement for KGI pre-IPO Options above include 3,423,954 shares held by Dr. Tam-Zaman Nuzhat herself and 195,655 shares held by Dr. Tam Yun Kau. The 520,000 share options referred to the Share Option Scheme represents shares options held by Dr. Tam Yun Kau. Details of Dr. Tam-Zaman Nuzhat's interests in KIBP pre-IPO Options and KGI pre-IPO Options are set out in notes (c), (d) and (e), respectively, to the section headed "Directors' and Chief Executive's Interests or Short Positions in Shares and Options" above.
- (c) Mr. Yeung Sui Leung, a director of the Company, holds an approximately 16.67% equity interest in Grand Interest Development Limited.
- (d) All the above mentioned options are unlisted and represent physically settled equity derivatives.

Save as disclosed above, as at 31 May 2004, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) on 7 May 2002 the principal terms of which are set out in the note 26 to the financial statements as included in the annual report of the Company for the year ended 29 February 2004.

As at 31 May 2004, options to subscribe for an aggregate of 2,950,000 shares of the Company had been granted or agreed to be granted to the Company’s employees under the Share Option Scheme. Details are as follows:–

Number of employees	Number of options interest			Date of grant	Exercise period	Exercise price HK\$
	As at 1 March 2004	Lapsed during the period	As at 31 May 2004			
8	3,100,000	150,000	2,950,000	27 May 2003	27 May 2003 to 27 May 2013	0.071

The directors do not consider it appropriate to disclose a theoretical value of the options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading.

## SPONSOR’S INTEREST

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 31 May 2004.

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

## COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

In the opinion of the directors, the Company had complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the accounting period covered by the first quarterly report.

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

During the three months ended 31 May 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

### **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference based upon the "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants and, in the opinion of the directors, complied with Rules 5.28 to 5.30 as set out in Chapter 5 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 3 June 2002. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consists of the two independent non-executive directors, namely Mr. Chan Mo Po, Paul and Dr. Chan Wai Kit, Albert, and a non-executive director, Mr. Tam Shong-Tak, David. Mr. Chan Mo Po, Paul is the chairman of the audit committee. The Group's unaudited consolidated financial statements for the three months ended 31 May 2004 have been reviewed by the audit committee, who was of the opinion that the preparation of such financial statements complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made.

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

Hong Kong, 9 July 2004

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

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