



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

Interim Report 2004

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

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

HIGHLIGHTS

- Turnover of the Group for the six months ended 31 August 2004 was approximately HK\$673,000 as compared to approximately HK\$271,000 for the corresponding period in the previous fiscal year.
- Net loss of the Group for the six months ended 31 August 2004 was approximately HK\$9.63 million as compared to approximately HK\$14.66 million for the corresponding period in the previous fiscal year.
- Loss per share of the Group was approximately HK\$0.0185 for the six months ended 31 August 2004 and HK\$0.0282 for the corresponding period in the previous fiscal year.
- The Board does not recommend the payment of any dividend for the six months ended 31 August 2004.

UNAUDITED INTERIM RESULTS

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 31 August 2004

	<i>Notes</i>	Three months ended		Six months ended	
		31 August 2004	2003	31 August 2004	2003
		Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>
TURNOVER	4	636	57	673	271
Cost of sales		(206)	(13)	(229)	(84)
Gross profit		430	44	444	187
Other revenue, net		106	183	237	381
Selling and distribution costs		(1,030)	(13)	(1,848)	(574)
Administrative expenses		(2,632)	(4,978)	(6,197)	(9,350)
Research and development expenses		(621)	(1,648)	(1,293)	(3,585)
Other operating expenses, net		(561)	(865)	(922)	(1,629)
LOSS FROM OPERATING ACTIVITIES		(4,308)	(7,277)	(9,579)	(14,570)
Finance costs		(20)	(62)	(49)	(78)
Share of loss of a jointly-controlled entity		–	(1)	–	(9)
LOSS BEFORE TAX	5	(4,328)	(7,340)	(9,628)	(14,657)
Tax	6	–	–	–	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(4,328)	(7,340)	(9,628)	(14,657)
LOSS PER SHARE – Basic (HK\$)	7	(0.0083)	(0.0141)	(0.0185)	(0.0282)

CONDENSED CONSOLIDATED BALANCE SHEET

31 August 2004

		31 August 2004	29 February 2004
		Unaudited	Audited
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Fixed assets		3,834	4,495
Intangible assets		10,690	10,455
Goodwill:			
Goodwill		10,902	11,690
Negative goodwill		(2,946)	(3,158)
		22,480	23,482
CURRENT ASSETS			
Inventories		2,975	1,793
Tax recoverable		177	388
Trade receivables	9	279	40
Prepayments, deposits and other receivables		1,521	1,112
Cash and cash equivalents		1,289	10,967
		6,241	14,300
CURRENT LIABILITIES			
Trade payables	10	735	185
Other payables and accruals		138	770
Loan from a director	11	996	–
Finance lease payables		1,060	1,237
		2,929	2,192
NET CURRENT ASSETS			
		3,312	12,108
TOTAL ASSETS LESS CURRENT LIABILITIES			
		25,792	35,590
NON-CURRENT LIABILITIES			
Finance lease payables		–	509
		–	509
		25,792	35,081
CAPITAL AND RESERVES			
Issued capital	12	5,210	5,210
Reserves		20,582	29,871
		25,792	35,081

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2004

	Issued share capital Unaudited <i>HK\$'000</i>	Share premium account Unaudited <i>HK\$'000</i>	Contributed surplus account Unaudited <i>HK\$'000</i>	Exchange fluctuation reserve Unaudited <i>HK\$'000</i>	Accumulated losses Unaudited <i>HK\$'000</i>	Total Unaudited <i>HK\$'000</i>
At 1 March 2004	5,210	60,217	35,590	513	(66,449)	35,081
Net gains not recognised in the profit and loss account –						
Exchange realignment	–	–	–	339	–	339
Loss for the period	–	–	–	–	(9,628)	(9,628)
At 31 August 2004	<u>5,210</u>	<u>60,217</u>	<u>35,590</u>	<u>852</u>	<u>(76,077)</u>	<u>25,792</u>
At 1 March 2003	5,205	60,147	35,590	(639)	(38,405)	61,898
Net gains not recognised in the profit and loss account –						
Exchange realignment	–	–	–	763	–	763
Loss for the period	–	–	–	–	(14,657)	(14,657)
At 31 August 2003	<u>5,205</u>	<u>60,147</u>	<u>35,590</u>	<u>124</u>	<u>(53,062)</u>	<u>48,004</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 August 2004

	Six months ended 31 August	
	2004	2003
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	(9,492)	(14,242)
Net cash outflow from investing activities	(408)	(2,730)
Net cash inflow/(outflow) from financing activities	195	(428)
Net decrease in cash and cash equivalents	(9,705)	(17,400)
Cash and cash equivalents at beginning of period	10,967	40,618
Effect of foreign exchange changes, net	27	83
Cash and cash equivalents at end of period	<u>1,289</u>	<u>23,301</u>

NOTES TO THE UNAUDITED INTERIM 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. Segment information

(i) Business segments

The unaudited business segment information for the six months ended 31 August 2004 and the corresponding period in 2003 is as follows:–

Group	Absorption screening technology		Herbal products		Eliminations		Consolidated	
	Six months ended 31 August							
	2004	2003	2004	2003	2004	2003	2004	2003
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>–</u>	<u>124</u>	<u>673</u>	<u>147</u>	<u>–</u>	<u>–</u>	<u>673</u>	<u>271</u>
Segment results	<u>(1,350)</u>	<u>(3,494)</u>	<u>(1,378)</u>	<u>(597)</u>	<u>–</u>	<u>–</u>	<u>(2,728)</u>	<u>(4,091)</u>
Unallocated revenue							237	381
Unallocated expenses							<u>(7,088)</u>	<u>(10,860)</u>
Loss from operating activities							(9,579)	(14,570)
Finance costs							(49)	(78)
Share of loss of a jointly-controlled entity							<u>–</u>	<u>(9)</u>
Loss before tax							<u>(9,628)</u>	<u>(14,657)</u>
Tax							<u>–</u>	<u>–</u>
Net loss from ordinary activities attributable to shareholders							<u>(9,628)</u>	<u>(14,657)</u>

(ii) Geographical segments

The unaudited geographical segment information for the six months ended 31 August 2004 and the corresponding period in 2003 is as follows:–

Group	Hong Kong		The United States		Canada		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>5</u>	<u>105</u>	<u>633</u>	<u>–</u>	<u>35</u>	<u>166</u>	<u>–</u>	<u>–</u>	<u>673</u>	<u>271</u>

4. Turnover

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

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

	Three months ended		Six months ended	
	31 August	2003	31 August	2003
	2004	2003	2004	2003
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Absorption screening services rendered	–	28	–	124
Sale of herbal products	<u>636</u>	<u>29</u>	<u>673</u>	<u>147</u>
	<u>636</u>	<u>57</u>	<u>673</u>	<u>271</u>

5. Loss before tax

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

	Three months ended		Six months ended	
	31 August	2003	31 August	2003
	2004	2003	2004	2003
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of goodwill	394	394	788	788
Negative goodwill recognised as income	(106)	(106)	(212)	(212)
Amortisation of deferred development costs	119	104	236	212
Depreciation	354	451	696	916
Interest on finance leases	21	62	49	78
Interest income	<u>–</u>	<u>(77)</u>	<u>(25)</u>	<u>(169)</u>

6. Tax

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

7. Loss per share

The calculation of basic loss per share for the three months and six months ended 31 August 2004 is based on the net loss from ordinary activities attributable to shareholders for the three months and six months ended 31 August 2004 of approximately HK\$4,328,000 and HK\$9,628,000, respectively (three months and six months ended 31 August 2003: HK\$7,340,000 and HK\$14,657,000, respectively), and the weighted average of 521,048,170 (three months and six months ended 31 August 2003: 520,524,085 ordinary shares) ordinary shares in issue during the periods.

Diluted loss per share amounts for the three months and six months ended 31 August 2004 and 31 August 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 and six months ended 31 August 2004 and 31 August 2003, had anti-dilutive effects on the respective basic loss per share.

8. Dividend

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

9. Trade receivables

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

	31 August 2004	29 February 2004
	Unaudited	Audited
	HK\$'000	HK\$'000
0 – 90 days	269	40
Over 90 days	10	–
	279	40

10. Trade payables

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

	31 August 2004 Unaudited <i>HK\$'000</i>	29 February 2004 Audited <i>HK\$'000</i>
0 – 90 days	684	142
Over 90 days	51	43
	<u>735</u>	<u>185</u>

11. Loan from a director

The loan is unsecured and interest free.

12. Share capital

	31 August 2004 Unaudited <i>HK\$'000</i>	29 February 2004 Audited <i>HK\$'000</i>
Authorised:		
1,000,000,000 (29 February 2004: 1,000,000,000) ordinary shares of HK\$0.01 each	<u>10,000</u>	<u>10,000</u>
Issued and fully paid:		
521,048,170 (29 February 2004: 521,048,170) ordinary shares of HK\$0.01 each	<u>5,210</u>	<u>5,210</u>

13. Capital commitments

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

	31 August 2004 Unaudited <i>HK\$'000</i>	29 February 2004 Audited <i>HK\$'000</i>
Capital commitments in respect of contributions to research and development projects:		
Contracted, but not provided for	<u>-</u>	<u>204</u>

14. Related party transactions

	Six months ended 31 August	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Continuing transactions:		
Salaries, bonuses, allowances, and benefits in kind paid to Dr. Nuzhat Tam-Zaman and retirement benefits scheme contributions thereof	203	256
Consultancy fees paid to Patrick C. Young Professional Corporation, Chartered Accountant	<u>–</u>	<u>36</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

The Board announces the Group's unaudited consolidated interim results for the six months ended 31 August 2004. The Group recorded a turnover of approximately HK\$673,000 for the six months ended 31 August 2004 which represents sales of the Group's own products. The turnover for the six months ended 31 August 2003 was HK\$271,000.

For the six months ended 31 August 2004, the Group incurred a net loss attributable to shareholders of approximately HK\$9.63 million as compared to approximately HK\$14.66 million for the corresponding period in 2003.

Prospects

Business Development

Since the end of 2003, the Group has focused on establishing a channel to distribute its products in the US professional market. The strategy for marketing is to use channels which have direct contact with patients or consumers. Two distributors are currently distributing the Group's products to the professional channels. The products are also going to be distributed through a chain of independent pharmacies, comprising of more than two thousand stores nation wide. The products are also being sold through natural product agencies that have a newsletter and radio talk show.

Product Launch

Arthroxin™, a topical product developed using Kinetana's proprietary technologies for relieving joint and muscle pain and Somamax™, a sleep aid, have been launched in June 2004. These products can be purchased through selected doctors, pharmacies and alternative health practitioners.

Product Research and Development

Kinetana is currently improving a proprietary multi-herb hair growth formula which has shown some initial success in a small group of subjects.

Kinetana is also working with natural product companies that intend to use Kinetana's biophytoceutics technology to develop natural products.

Kinetana has also identified three human intestinal cell lines as potential candidates for absorption prediction.

Sales and Marketing

Our marketing team in the United States has carefully identified a blend of professional and targeted retail sales channels. Sales of Arthroxin™ in the US were launched in June. We expect to enter the chiropractic market in September.

Since its introduction in June, market's response to Somamax™ has been positive. This has been attributed partially to the marketing strategy and partially to the effectiveness of the product.

Future plans for material investments

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

Liquidity, Financial Resources and Capital Structure

The Group's net current assets as at 31 August 2004 was approximately HK\$3.31 million (29 February 2004: HK\$12.11 million). Cash and bank balances as at 31 August 2004 were approximately HK\$1.29 million (29 February 2004: HK\$10.97 million). There were no bank borrowings and capital instruments as at 31 August 2004 (29 February 2004: Nil). As at 31 August 2004, there was an unsecured and interest free loan of HK\$996,000 from a director (29 February 2004: Nil).

Employee information

As at 31 August 2004, the Group had 13 full time employees, a decrease by 6 from 19 as at 29 February 2004. During the six months ended 31 August 2004, staff costs, excluding directors' remuneration, totaled HK\$2.02 million. The Group's employment and remuneration policies remained the same as detailed in the Company's annual report for the year ended 29 February 2004.

Charge on group assets

As at 31 August 2004, the Group presently does not have any material charge on assets of the Group (29 February 2004: CAN\$165,500).

Exposure to fluctuations in exchange rates

The Group continues to adopt a conservative policy with all bank deposits being kept in either Hong Kong Dollars, U.S. Dollars, or in the local currencies of the operating subsidiaries in an attempt to minimise exposure to foreign exchange risks. The Group does not currently engage in hedging any currencies risks, as it considers the costs associated with such hedging arrangements would exceed the benefits. However, management will continue to monitor the relevant circumstances and will implement such measures, as it deems prudent.

Gearing ratio

As at 31 August 2004, there was a loan from a director of approximately HK\$1.00 million, finance lease payables of approximately HK\$1.06 million and the shareholders' equity was approximately HK\$25.79 million. The gearing ratio was 7.97% (29 February 2004: 4.98%).

Significant investments and acquisitions

During the period ended 31 August 2004, the Group made no material or significant investments or acquisitions or disposals of subsidiaries.

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 August 2004 and 29 February 2004, no claim 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 the financial statements 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.

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.

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\$60.97 million has been utilised up to 31 August 2004 and has been applied in accordance with the proposed applications set out in the Prospectus (as revised and detailed in the Company's audited financial statements for the year ended 29 February 2004), details of which are set out as follows:

	Planned usage for the period from 1 March 2004 to 31 August 2004 HK\$ million	Actual usage for the period from 1 March 2004 to 31 August 2004 HK\$ million	Variance HK\$ million	Remarks
Acquisition of chemical analysis equipment and machinery for pilot formulation and pilot production of herbal products	4.1	0.2	3.9	Management has decided to lease the equipment in order to preserve cash.

	Planned usage for the period from 1 March 2004 to 31 August 2004	Actual usage for the period from 1 March 2004 to 31 August 2004	Variance	Remarks
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	
Hiring of additional technical staff and consultant for pilot formulation and pilot production of natural herbal products	1.1	1.0	0.1	No material variance.
Additional Research and development staff, including those in analytical chemistry and cell biology, for the refinement and upgrades of SimBioDAS® technology	–	0.2	(0.2)	The total manpower cost involved in the project is more than expected especially before the Group launched its products. The budgeted costs as stated in the Prospectus were not sufficient.
Sales and marketing of the Group's services and products	0.7	0.8	(0.1)	The budget was for the sales and marketing of one product, i.e. Ginkgo. The introductions of all the new products require additional funding.
ITF matching fund obligations under the collaborative projects with HKUST and CUHK	0.2	0.2	–	No material variance.

	Planned usage for the period from 1 March 2004 to 31 August 2004	Actual usage for the period from 1 March 2004 to 31 August 2004	Variance	Remarks
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	
Acquisition of analytical chemistry and cell biology equipment for refinement and upgrades of the SimBioDAS® technology	1.0	–	1.0	Management has identified a robot system which can be adapted for the Group's purposes and is available in the market. The Group will buy the system in the future when the need arises.
Establishing a facility in Canada for development of an automated SimBioDAS® technology	0.3	–	0.3	The Group has identified a robot system which can be purchased for approximately USD\$250,000. By acquiring instead of developing the Group's own system, the Group can achieve substantial savings in costs and time.
Acquisition of equipment to perform contract services using SimBioDAS® technology	0.2	–	0.2	The Group's Edmonton laboratory has leased two 1100 LC/MSD (Liquid Chromatography/ Mass spectrometry) systems in March 2003. The Group has decided to lease instead of purchasing the equipment in order to preserve cash.
Marketing and promotion activities of the Group's herbal products	2.0	2.6	(0.6)	The higher costs were a result of more products being launched in the market.

	Planned usage for the period from 1 March 2004 to 31 August 2004	Actual usage for the period from 1 March 2004 to 31 August 2004	Variance	Remarks
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	
Herbal product development	1.2	1.4	(0.2)	Higher costs were due to faster pace of herbal product development.
General working capital	–	3.4	(3.4)	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	10.8	9.8	1.0	

There were no material deviations from the intended use of net proceeds for the period ended 31 August 2004 as disclosed in the Company's audited financial statements for the year ended 29 February 2004 and the Prospectus.

The directors of the Company presently do not anticipate any material deviation from the intended use of the net proceeds as disclosed in the Company's audited financial statements for the year ended 29 February 2004 and the Prospectus.

To the extent that the net proceeds are not immediately applied for the above purposes, it is the present intention of the directors to maintain such net proceeds from the initial public offering as short term deposits with financial institutions in Hong Kong until such time as they are required.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

For the period from 1 March 2004 to 31 August 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
Drug-screening services		
<i>Product development</i>		
<ul style="list-style-type: none">• To continue the development of an automated system on the SimBioDAS® technology for rapid screenings by implementing features, such as those relating to increasing speed, to reduce costs without affecting functionality.	<ul style="list-style-type: none">• Automated development has been curtailed	<ul style="list-style-type: none">• Since the public offering, several pharmaceutical companies have implemented automated screening in-house, and on different systems. It will be preferable to offer them the basic system and help them to tailor it individually for their automated systems. For other customers, the robotic system which can be adapted for the Group's purposes and is available in the market will be used, saving development costs.
<ul style="list-style-type: none">• To continue the development of the second generation of the SimBioDAS® technology by selecting a single cell line or fresh human liver cells and begin adapting it or them to the automated SimBioDAS® system.	<ul style="list-style-type: none">• Kinetana is screening three small intestinal cell lines for their suitability as potential replacements for SCBN	<ul style="list-style-type: none">• The issues related to the species of origin of the SCBN cell line have delayed the development of SimBioDAS®, due to the necessity to screen for and select a new cell line of human origin.
<ul style="list-style-type: none">• To continue the refinement of the cell culture system for the SimBioDAS® technology through developing further the growth conditions to support the expression of additional transport systems, such as those for amino acids and sugars as well as the multiple drug resistance (MDR) transporter in the cell lines.	<ul style="list-style-type: none">• This step has been delayed and will be conducted on a new cell line.	

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

For the period from 1 March 2004 to 31 August 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
<i>Sales and marketing</i>		
<ul style="list-style-type: none">• To license the SimBioDAS® technology to customers for their own absorption tests.	<ul style="list-style-type: none">• This has been delayed as explained above.	
<ul style="list-style-type: none">• 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.	<ul style="list-style-type: none">• This has been delayed.	
<i>Resources deployment</i>		
<ul style="list-style-type: none">• To employ 1 technician for drug screening in the cell biology development.	<ul style="list-style-type: none">• This has been delayed	<ul style="list-style-type: none">• Additional financial resources are required to do this.
Herbal and TCM		
<i>Product development</i>		
<ul style="list-style-type: none">• In Hong Kong, to finalise the manufacturing procedures of Lingzhi and Danshen as food supplements.	<ul style="list-style-type: none">• This development was not pursued due to the curtailing of operations in Hong Kong.	
<ul style="list-style-type: none">• In Canada, to finalise the manufacturing procedure of Silymarin and Allium Sativum (commonly known as Garlic) as food supplements.	<ul style="list-style-type: none">• Not done	<ul style="list-style-type: none">• In following recent market trends, Kinetana has concentrated on developing products based on multi-herb mixtures such as Arthroxin™ and Somamax™

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

For the period from 1 March 2004 to 31 August 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
<ul style="list-style-type: none">• To continue the development of Echinacea, St. John's Wort, Ginseng and Cordyceps militaris through developing new formulations with specific active ingredient profiles.	<ul style="list-style-type: none">• This has been done for the first three herbs and Canadian product licence applications based on these profiles are near completion.	
<ul style="list-style-type: none">• To conduct pre-clinical toxicology studies on the new Ginkgo formulation and to begin the planning of clinical trials.	<ul style="list-style-type: none">• Not done	<ul style="list-style-type: none">• With the advent of a new regulatory system in Canada, emphasis is being placed on obtaining product licenses to continue marketing the initial products before further development is continued. There is no plan at the present time to conduct a clinical trial on Ginkgo, simply because the Ginkgo market is crowded and there is no immediate economic benefit to invest a lot of resources in this single herb.
<ul style="list-style-type: none">• In Hong Kong, to support the ITF projects on TCM-based cardiovascular and liver cancer formulations.	<ul style="list-style-type: none">• The projects are being concluded at the two institutions.	

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

For the period from 1 March 2004 to 31 August 2004

Business Objective as stipulated in the Prospectus	Actual progress and development	Remarks
<i>Sales and marketing</i>		
<ul style="list-style-type: none">• To implement marketing plans for Lingzhi, Danshen, Silymarin and Garlic in the North American, European and Asian markets.	<ul style="list-style-type: none">• Plans for Arthroxin™ and Somamax™ in the US have been implemented.	<ul style="list-style-type: none">• In keeping with current market trends, single herb product development is being curtailed in favour of multi-herb products.
<ul style="list-style-type: none">• To refine the marketing plans for Ginkgo, Ginseng, Cordyceps militaris, Echinacea and St. John's Wort.	<ul style="list-style-type: none">• This is being done.except for Cordyceps which is delayed due to supply issues with quality raw herb.	
<ul style="list-style-type: none">• To launch Lingzhi, Danshen, Silymarin and Garlic as food supplements in North American, European and Asian markets.	<ul style="list-style-type: none">• Arthroxin™ and Somamax™ were launched, and more multi-herb products are in various stages of design/development.	
<i>Resources deployment</i>		
<ul style="list-style-type: none">• To file drug patent applications for Ginkgo and liver cancer formulae.	<ul style="list-style-type: none">• A US patent application covering the ginkgo profile was filed.	
<ul style="list-style-type: none">• To outsource animal pharmacology and toxicology studies.	<ul style="list-style-type: none">• Not done	<ul style="list-style-type: none">• This has not been pursued because of the lack of potential economic benefit.

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

As at 31 August 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 to 5.58 of the GEM Listing Rules, were as follows:

Name of Director	Notes	Interests in shares			Total interest share	Interests in underlying shares pursuant to			% of the Company's issued share capital	
		Personal interest	Family interest	Corporate interest		Exchange Agreement	Share	Aggregate interest		
					KIBP pre-IPO Options	for KGI pre-IPO Options	Option Scheme			
					Note (c)	Note (d)	Note (e)			
Dr. Tam Yun Kau	(a)	-	500,000	50,749,015	51,249,015	25,190,523	3,619,609	520,000	80,579,147	15.46
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 August 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 August 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	Notes	Number of share options interested as at 1 March and 31 August 2004	Date of grant	Exercise period	Exercise price HK\$
Dr. TamYun Kau	(i), (iv)	12,228,409	07/05/02	03/12/02 to 03/12/07	0.325
	(i), (iv)	6,114,204	07/05/02	03/06/03 to 03/06/08	0.325
	(i), (iv)	6,114,205	07/05/02	03/06/04 to 03/06/09	0.325
	(ii), (iv)	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.
 - (iv) Pursuant to a sale and purchase agreement with a third party, Dr. Tam Yun Kau has unconditionally and irrevocably waived all his rights in all outstanding options granted to him. For details of the sale and purchase agreement, refer to the Company's announcement on 1 September 2004.
- (d) KGI pre-IPO Options

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

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

As at 31 August 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	Notes	Number of KGI share options interested as at 1 March and 31 August 2004	Number of shares exchanged for pursuant to the Exchange Agreement	Date of grant	Exercise period pursuant to the Exchange Agreement	Exercise price CAN\$
Dr. Tam Yun Kau	(i), (iv)	8,000	195,655	31/03/00	03/12/02 to 31/03/05	0.5
	(ii), (iv)	70,000	1,711,977	01/07/01	03/12/02 to 01/07/06	0.5
	(ii), (iv)	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.
 - (iv) Pursuant to a sale and purchase agreement with a third party, Dr. Tam has unconditionally and irrevocably waived all his rights in all outstanding options granted to him. For details of the sale and purchase agreement, refer to the Company's announcement on 1 September 2004.
- (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 August 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:—

Name of Director	Notes	Number of Options interested as at 1 March and 31 August 2004	Date of grant	Exercise period	Exercise price HK\$
Dr. Tam Yun Kau	(i), (iv)	260,000	10/10/03	10/01/04 to 09/10/13	0.071
		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
		260,000	10/10/03	10/04/04 to 09/10/13	0.071

Name of Director	Notes	Number of Options interested as at 1 March and 31 August 2004	Date of grant	Exercise period	Exercise price HK\$
Mr. Young Chiu Kit, Patrick	(i)	2,600,000	10/10/03	10/01/04 to 09/10/13	0.071
		2,600,000	10/10/03	10/04/04 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
		260,000	10/10/03	10/04/04 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
		260,000	10/10/03	10/04/04 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
		2,600,000	10/10/03	10/04/04 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
		260,000	10/10/03	10/04/04 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
		2,600,000	10/10/03	10/04/04 to 09/10/13	0.071

Notes:

- (i) Directors personally hold the above options.
- (ii) All the above-mentioned options are unlisted and represent physically settled equity derivatives.
- (iii) The directors do not consider it appropriate to disclose a theoretical value of the options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading.
- (iv) Pursuant to a sale and purchase agreement with a third party, Dr. Tam has unconditionally and irrevocably waived all his rights in all outstanding options granted to him. For details of the sale and purchase agreement, refer to the Company's announcement on 1 September 2004.

Save as disclosed above, as at 31 August 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 to 5.58 of the GEM Listing Rules. During the reporting period, there were no debt securities issued by the Group at any time.

SUBSTANTIAL SHAREHOLDERS

As at 31 August 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 underlying shares pursuant to					% of the Company's issued share capital
		Interests in shares	KIBP pre-IPO Options	The Exchange Agreement for KGI pre-IPO Options	Share Option Scheme	Aggregate interest	
Neurolink Limited		90,000,000	–	–	–	90,000,000	17.27
Dr. Tam-Zaman Nuzhat	(a), (b)	51,249,015	25,190,523	3,619,609	520,000	80,579,147	15.46
943788 Alberta Ltd.	(c)	50,749,015	–	–	–	50,749,015	9.74
Grand Interest Development Limited	(d)	30,815,591	–	–	–	30,815,591	5.91

Notes:

- (a) The 51,249,015 shares of the Company referred to above include 500,000 shares held by Dr. Tam-Zaman Nuzhat herself and 50,749,015 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.
- (b) Pursuant to a sale and purchase agreement with a third party, Dr Tam has unconditionally and irrevocably waived all his rights in all outstanding options granted to him. For details of the sale and purchase agreement, refer to the Company's announcement on 1 September 2004.
- (c) 943788 Alberta Ltd. is an investment holding company incorporated in Canada and wholly owned by Dr. Tam Yun Kau.
- (d) Mr. Yeung Sui Leung, a director of the Company, holds an approximately 16.67% equity interest in Grand Interest Development Limited.
- (e) All the above-mentioned options are unlisted and represent physically settled equity derivatives.

Save as disclosed above, as at 31 August 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 August 2004, options to subscribe for an aggregate of 2,700,000 shares of the Company had been granted or agreed to be granted to the Company’s employees under the Share Option Scheme. Details are as follows:–

Number of employees	Number of options interest			Date of grant	Exercise period	Exercise price HK\$
	As at 1 March 2004	Lapsed	As at 31 August 2004			
7	3,100,000	400,000	2,700,000	27/05/03	27/05/03 to 27/05/13	0.071

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

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 August 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 5.29 TO 5.39 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 5.29 to 5.39 of the GEM Listing Rules throughout the accounting period covered by the interim report.

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

During the six months ended 31 August 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 5.23 to 5.24 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 two independent non-executive directors, Mr. Chan Mo Po, Paul and Mr. Chan Ping Kuen, Francis 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 six months ended 31 August 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, 13 October 2004

At the date of this report, the executive directors are Dr. Tam Yun Kau, Mr. Young Chiu Kit, Patrick and Mr. Foo Young Yee, the non-executive director is Mr. Tam Shong-Tak, David and the independent non-executive directors are Mr. Chan Mo Po, Paul, Mr. Chan Ping Kuen, Francis and Mr. To Christopher.