



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)

First Quarterly Report 2003

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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 Growth Enterprise Market 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 three months ended 31 May 2003 was approximately HK\$214,000 as compared to HK\$300,000 for the corresponding period in the previous fiscal year.
- Net loss of the Group for the three months ended 31 May 2003 was approximately HK\$7.32 million as compared to approximately HK\$4.48 million for the corresponding period in the previous fiscal year.
- Loss per share of the Group was approximately HK\$0.0141 for the three months ended 31 May 2003.
- The Board does not recommend the payment of any dividend for the three months ended 31 May 2003.

UNAUDITED FIRST QUARTERLY RESULTS

The board of directors (the “Board”) of Kinetana International Biotech Pharma Limited (the “Company”) announces that the unaudited consolidated first quarterly results of the Company and its subsidiaries (together the “Group”) for the three months ended 31 May 2003, together with the unaudited consolidated results for the corresponding period in 2002, are as follows:–

		Unaudited Three months ended 31 May 2003 HK\$'000	Unaudited 2002 HK\$'000
	<i>Notes</i>		
TURNOVER	3	214	300
Cost of sales		<u>(71)</u>	<u>(234)</u>
Gross profit		143	66
Other revenue, net		198	241
Selling and distribution costs		(561)	–
Administrative expenses		(4,372)	(3,773)
Research and development expenses		(1,937)	(551)
Other operating expenses, net		<u>(764)</u>	<u>(397)</u>
LOSS FROM OPERATING ACTIVITIES		(7,293)	(4,414)
Finance costs		(16)	(67)
Share of loss of a jointly-controlled entity		<u>(8)</u>	<u>(1)</u>
LOSS BEFORE TAX		(7,317)	(4,482)
Tax	4	<u>–</u>	<u>–</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(7,317)</u>	<u>(4,482)</u>
Loss per share – basic (HK\$)	5	<u>(0.0141)</u>	<u>(0.0116)</u>

Notes:

1. Basis of presentation and consolidation

The unaudited consolidated results of the Group for the three months ended 31 May 2003 include the results of the Company and its subsidiaries for the three months ended 31 May 2003.

The comparative unaudited consolidated financial statements of the Group have been prepared on the basis of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since 11 July 2001 (date of incorporation of Kinetana Holdings (BVI) Limited, a wholly-owned subsidiary of the Company and the then ultimate holding company) rather than from the date of their acquisition pursuant to the Group reorganisation completed on 13 May 2002 to rationalise the Group's structure in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"). Accordingly, the unaudited consolidated results of the Group for the three months ended 31 May 2002 include the results of the Company and its subsidiaries with effect from 1 March 2002.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. Basis of preparation and principal accounting policies

The basis of preparation and principal accounting policies adopted for the preparation of these unaudited consolidated financial statements are consistent with those used in the preparation of the Group's audited financial statements for the year ended 28 February 2003, except that the Group has adopted SSAP 12 (Revised) "Income taxes" and SSAP 35 "Accounting for government grants and disclosure of government assistance" which prescribe new accounting measurements and disclosure practices. The adoption of these SSAPs during the financial period does not have any significant effect on the Group's unaudited consolidated results for the period and the prior period.

3. Turnover

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

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

	Unaudited Three months ended 31 May 2003 HK\$'000	Unaudited 31 May 2002 HK\$'000
Absorption screening services rendered	96	300
Sale of herbal products	118	–
	214	300

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 2003 and the corresponding period in 2002 as the Group had no assessable profits arising in Hong Kong and overseas.

5. Loss per share

The calculation of basic loss per share for the three months ended 31 May 2003 is based on the net loss from ordinary activities attributable to shareholders for the three months ended 31 May 2003 of approximately HK\$7,317,000 (three months ended 31 May 2002: HK\$4,482,000) and the weighted average of 520,524,085 (three months ended 31 May 2002: 387,841,184 ordinary shares deemed to be in issue during the period 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 period.

No diluted loss per share amount for the three months ended 31 May 2003 and the corresponding period in 2002 has been presented as the share options of the Company and share options and warrants of Kinetana Group Inc. (“KGI”), a wholly-owned subsidiary of the Company, which may be exchanged for ordinary shares of the Company when exercised, which were outstanding during the three months ended 31 May 2003 and the corresponding period in 2002 had anti-dilutive effects on the respective basic loss per share.

6. Dividend

The Board does not recommend payment of any dividend for the three months ended 31 May 2003 (three months ended 31 May 2002: Nil).

7. Movement of reserves

	Share premium account <i>HK\$ '000</i>	Contributed surplus account <i>HK\$ '000</i>	Exchange fluctuation reserve <i>HK\$ '000</i>	Accumulated losses <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
As at 1 March 2002	–	35,945	–	(11,260)	24,685
Issue of shares	79,652	–	–	–	79,652
Capitalisation of the share premium amount for shares credited as fully paid	(3,837)	–	–	–	(3,837)
Share issue expenses	(15,429)	–	–	–	(15,429)
Net gains and losses not recognised in the profit and loss account:					
– Exchange realignment	–	–	8	–	8
Loss for the period	–	–	–	(4,482)	(4,482)
As at 31 May 2002	<u>60,386</u>	<u>35,945</u>	<u>8</u>	<u>(15,742)</u>	<u>80,597</u>
As at 1 March 2003	60,147	35,590	(639)	(38,405)	56,693
Net gains and losses not recognised in the profit and loss account:					
– Exchange realignment	–	–	868	–	868
Loss for the period	–	–	–	(7,317)	(7,317)
As 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 first quarterly results for the three months ended 31 May 2003. The Group recorded a turnover of approximately HK\$214,000 which includes service income of approximately HK\$96,000 and sales of the Group's own products of approximately HK\$118,000. The turnover for the three months ended 31 May 2002 was HK\$300,000.

For the three months ended 31 May 2003, the Group incurred a net loss attributable to shareholders of approximately HK\$7.32 million as compared to approximately HK\$4.48 million for the corresponding period in the 2002. The increase was mainly attributable to increases in human resources costs of approximately HK\$0.39 million, the exchange loss of approximately HK\$0.37 million, sales and marketing and business development expenses of approximately HK\$1.08 million, research and development costs, other than salaries, of approximately HK\$0.56 million, and professional fees in relation to continuing listing obligations of approximately HK\$0.15 million.

Prospects

Business Development

The Canadian Group continues to work with multinational pharmaceutical companies in their evaluation of the Group's patented SimBioDAS® technology. Results with one company showed that SimBioDAS® has definitive advantages over its rival technology using Caco-2. The results of this study will be jointly presented in the upcoming American Association of Pharmaceutical Scientists Annual Meeting in Utah, October 2003.

Product Launch

The Group officially launched Echinacea, St. John's Wort and Ginseng in Hong Kong in March 2003. Echinacea was well received by customers in Hong Kong especially in April when Severe Acute Respiratory Syndrome was rife in the region. Echinacea is a conventional western herb which has the ability to enhance human body's immunity system and is particularly effective in fighting against influenza.

Product Research and Development

The Group is developing two multi-herb formulas for improving the general vitality of people with different body conditions. New products that are currently at the stage of pilot formulation include Garlic, Lingzhi, Cordyceps, arthritis and hair growth cream.

Sales and Marketing

The Group has started building a direct sales team in Hong Kong. While the Group has already established its sales channel via drug stores, the Group has decided to open up its own direct sales channels as an alternative in promoting the Group's products.

COMPETING INTEREST

None of the directors or the management shareholders (as defined in The Rules Governing the Listing of Securities on the GEM (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 2003, the interests or short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Rules 5.40 to 5.58 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 pre-IPO Options <i>Note (c)</i>	Agreement for KGI pre-IPO Options <i>Note (d)</i>	Aggregate interest	
Dr. Tam Yun Kau	(a)	22,011,161	500,000	118,737,854	141,249,015	25,190,523	3,619,609	170,059,147	32.67
Mr. Yeung Sui Leung	(b)	4,379,387	—	—	4,379,387	—	—	4,379,387	0.84
Mr. Young Chiu Kit, Patrick		2,114,150	—	—	2,114,150	1,222,841	440,223	3,777,214	0.73
Mr. Chan Mo Po, Paul		—	1,300,000	—	1,300,000	1,222,841	—	2,522,841	0.48
Dr. Antoine A. Noujaim		855,989	—	—	855,989	1,222,841	269,025	2,347,855	0.45
Mr. Lee Chiu Kang		—	—	—	—	1,222,841	—	1,222,841	0.23
Mr. Tam Shong-Tak, David		—	—	—	—	1,222,841	—	1,222,841	0.23

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 2003. Details of Grand Interest Development Limited'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 of the Company dated 22 May 2002 (the “Prospectus”). As at 31 May 2003, the following directors of the Company were granted or interested in the following options under the KIBP Pre-IPO Share Option Scheme:

Name of Director	Notes	Number of share options interested as at 1 March and 31 May 2003	Date of grant	Exercise period	Exercise price HK\$
Dr. TamYun 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 2003, the following directors of the Company were conditionally granted or interested in the following options under the KGI Share Option Plan (as supplemented by the Exchange Agreement):

Name of Director	Notes	Number of KGI share options interested as at 1 March and 31 May 2003	Number of shares exchanged for pursuant to the Exchange Agreement	Date of grant	Exercise period pursuant to the Exchange Agreement	Exercise price CANS
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
Mr. Young Chiu Kit, Patrick	(ii)	70,000	1,711,977	19/12/01	03/12/02 to 19/12/06	0.5
	(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) The above options are personally held by Directors.
- (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.

Save as disclosed above, as at 31 May 2003, none of the directors or their associates as well as the chief executive of the Group had any interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules. During the reporting period, there was no debt securities issued by the Group at any time.

SUBSTANTIAL SHAREHOLDERS

As at 31 May 2003, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name of Shareholder	Notes	Interests in shares	Interests in underlying shares pursuant to			Aggregate interest	% of the Company's issued share capital
			KIBP pre-IPO Options	Exchange Agreement for KGI pre-IPO Options	Exchange Agreement for warrants of KGI <i>Note (d)</i>		
943788 Alberta Ltd.	(a)	118,737,854	—	—	—	118,737,854	22.81
Dr. Tam-Zaman Nuzhat	(b)	141,249,015	25,190,523	3,619,609	—	170,059,147	32.67
Grand Interest Development Limited	(c)	30,815,591	—	—	7,703,898	38,519,489	7.40

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. Details of Dr. Tam-Zaman Nuzhat's interests in KIBP pre-IPO Options and KGI pre-IPO Options are set out in notes (c) and (d), 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. Grand Interest Development Limited holds 315,000 warrants of KGI to subscribe for an aggregate of 315,000 common shares of KGI at an exercise price of CAN\$3.10 per share. Pursuant to the Exchange Agreement, the exercise in full of the KGI's warrants held by Grand Interest Development Limited would result in the allotment and issue of 7,703,898 shares of the Company.
- (d) Warrants of KGI are unlisted and represent physically settled equity derivatives.

Save as disclosed above, as at 31 May 2003, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) on 7 May 2002 the principal terms of which are set out in the note 28 to the financial statements as included in the annual report of the Company for the year ended 28 February 2003.

As at 31 May 2003, options to subscribe for an aggregate of 4,400,000 shares of the Company had been granted or agreed to be granted under the Share Option Scheme. Details are as follows:–

Number of employees	Number of options		As at 31 May 2003	Date of grant	Exercise period	Exercise price HK\$
	As at 1 March 2003	Granted				
13	—	4,400,000	4,400,000	27/05/03	27/05/03 to 27/05/13	0.071

SPONSOR’S INTEREST

Hantec Capital Limited (“HCL”) has been appointed as sponsor of the Company for the period from 20 March 2003 to 28 February 2005, for which HCL will receive a fee. As updated and notified by HCL, neither HCL nor any of its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31 May 2003.

Save as disclosed above, HCL had no other interest in the Company as at 31 May 2003.

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

During the three months ended 31 May 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants and, in the opinion of the directors, complied with Rules 5.23 to 5.27 as set out in Chapter 5 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 3 June 2002. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consists of the two independent non-executive directors, namely Mr. Chan Mo Po, Paul and Dr. Chan Wai Kit, Albert, and a non-executive director, Mr. Tam Shong-Tak, David. Mr. Chan Mo Po, Paul is the chairman of the audit committee. The Group's unaudited results for the three months ended 31 May 2003 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with applicable accounting standards, the 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, 10 July 2003