



## **GNI Announces Restructuring to Streamline Operation and to Reduce Cost; CEO Luo Succeeds President**

**TOKYO, August 1, 2008** - GNI Ltd. announced today that the Board of Directors has approved a plan to re-organize its structure and management in Japan and China to reduce cost and focus on its core drug development operation. Meanwhile, Ken Suzuki resigned as President and CFO of GNI but will remain as Representative Director. GNI's Representative Director and CEO, Dr. Ying Luo, will succeed Mr. Suzuki as President. These changes will enable the company to more effectively manage and leverage its technologies and cash position to pursue new business opportunities.

As part of the restructuring plan, the Company will close down its Fukuoka research facility. In fiscal 2007, operations in Fukuoka and Tokyo constituted a majority of the Company's financial loss. Starting with gene networks in Japan and other genomics technologies in Shanghai to discover new drug targets, the Company has accumulated a total of 15 patents covering 15 drug targets as of today. Some of the targets have been further validated in wet labs in Shanghai and published in high quality scientific journals such as the Proceedings of the National Academy of Sciences, USA. However, drug target discovery is only the first step of drug development. Drug development is costly and even after targets are discovered it may still be many years before commercialization. For the biotech industry, moving from basic research of drug targets towards clinical trials represents a key milestone. With the anticipated Phase III clinical trials of the Company's lead product candidate, F647 in the second half of 2008, the Company's resources will be shifted towards clinical studies, manufacturing and sales preparation. The Company recently announced a plan to acquire Hengshan Pharmaceuticals in May, which is intended to accelerate the Company's manufacturing and sales activities.

The Company has a more than 4,000 square meter modern campus in Shanghai for laboratory research. Current research programs at Fukuoka will be integrated into the Shanghai operations to take advantage of the cost-efficiency in China. The Company will continue to collaborate with academic professors/consultants in Japan, the United Kingdom and the United States on various drug discovery research projects, including gene network related research, instead of operating its own wet-lab at much higher cost in Japan.

To reduce selling, general, and administrative cost, the Company will downsize the Tokyo headquarters office and close its GNI USA subsidiary. GNI's business model is to test and launch drugs in China first and migrate to Japan/USA when proof-of-concept results are achieved. The Company's staff based in Japan in pre-clinical or manufacturing areas is already working on drug registration or GMP-compliance programs in Shanghai. Some of the headquarter functions, such as IT, will be moved to Shanghai. After completion of the Hengshan acquisition, the Company will explore further savings from integration of the operations of the two campuses in Shanghai. These integrations are intended to also make the operation more efficient and productive.

Collaborations with the Japanese pharmaceutical industry have been an important part of the Company's business model. The Company will continue to conduct pro-active business development in Japan under the direct leadership of the CEO. Recently, the Company signed a collaboration agreement with U.S.-based Epicept Corporation to develop a new liver

disease therapy for Japan and other parts of Asia. Future business development efforts in Japan will be directed at both revenue generation and drug development partnerships.

“When we meet the challenges of deteriorating financial market conditions, we respond by slashing cost and improving productivity,” said Ying Luo, Representative Director, President and CEO of GNI. “After this re-organization, the Company will have a lean and mean cost structure with significant momentum in our drug development in China. After the expected acquisition of Hengshan (subject to due diligence, final agreement negotiation and government approval), we will have around 400 employees, about a 20,000 square meter facility, and projected 20 billion JPY annual revenues generated in Shanghai. With a projected reduced financial loss, 1.1 billion JPY of cash as of end of June 2008, plus a signed agreement with Evolution for up to 1.5 billion JPY in future financing, the Company is much better prepared financially to complete our first product development cycle to become a full-fledged pharmaceutical company,” added Luo.

“Our clinical drug development programs are the core assets of this Company. They will not be impacted by this reorganization. On the contrary, it will be more productive when we consolidate our operations under one roof,” said Dr. Jun Wu, Chief Scientific Officer and Executive Managing Director. “We recently announced positive results of Phase II clinical studies of F647 on IPF disease and newly added liver drug candidate F1013. I am looking forward to initiating Phase III trials of F647 in China soon.”

“We are facing very difficult situation in the stock market. We must focus on our Shanghai operations first to complete the development cycle of our first drug. To achieve a successful transition, I asked Ying Luo to be President and to take his strong leadership in this difficult time because of his strategic mind, creative initiative and industrial knowledge/experiences. My decision is in the best interest of this company I started with. I am confident in Dr. Luo’s vision and leadership to continue to grow GNI into a strategic player in the Asian pharmaceutical industry,” said Suzuki. “

“Mr. Suzuki has shown his dedication to this Company. He has helped the Company through many difficult times. We are enormously grateful for his invaluable contributions over the past 7 years. We have been working closely together and will continue to work together through the transition,” said Luo. “Although we are reducing spending in Japan at this moment to focus on the world’s fastest-growing China market, we will try to catch every new business opportunity in the Japan market in the future,” added Luo.

#### **Financial Impact:**

The Company intends to reduce projected SGA expense on a consolidated basis to 1047 million yen ( $\Delta 24.5\%$ ) in the 2008 fiscal year and 807 million yen ( $\Delta 41.8\%$ ) in the 2009 fiscal year compared with 1387 million yen in the 2007 fiscal year.

The SGA expenses above include Shanghai Genomics acquisition related goodwill charge of 117 million yen in the 2007 fiscal year, 160 million yen in the 2008 fiscal year, and 160 million yen in the 2009 fiscal year.

Excluding goodwill charge, the company intends to reduce projected SGA expense on a consolidated basis to 887 million yen ( $\Delta 30.2\%$ ) in the 2008 fiscal year and 647 million yen ( $\Delta 49.1\%$ ) in the 2009 fiscal year compared with 1270million yen of the 2007 fiscal year.

#### **About GNI**

Founded in 2001, GNI, Ltd. is a clinical-stage international drug development company focusing on development of therapeutic products for cancer and inflammatory diseases in China. In June 2005, GNI acquired Shanghai Genomics, which was also founded in 2001, and currently operates an integrated drug discovery and development platform in Shanghai. The strong drug research and development programs of the Company have also led to

research collaborations with major international pharmaceutical companies. Registered in Tokyo, the Company's main R&D/manufacture/sales activities are located in Shanghai. GNI also has offices in Beijing, Tianjin, and Zhengzhou, China for clinical research and sales activities. For further information, please visit [www.gnipharma.com](http://www.gnipharma.com) and [www.shanghaigenomics.com](http://www.shanghaigenomics.com).

**For further inquiries**

Shinobu Tanaka      Tel: +81 (03) 3580-0751  
Email: [ir@gene-networks.com](mailto:ir@gene-networks.com)

This press release contains "forward-looking" statements, including statements related to GNI's plans to pursue development of product candidates and the timing thereof. Any statements contained in this press release that are not statements of historical fact may be deemed to be forward-looking statements. Words such as "continue," "expected to", "will," "intend to," "strive to" and similar expressions are intended to identify these forward-looking statements. There are a number of important factors that could cause GNI's results to differ materially from those indicated by these forward-looking statements, including risks associated with the timing and success of clinical trials and the commercialization of product candidates. GNI does not undertake any obligation to update forward-looking statements.