



LOULAN HOLDINGS LIMITED

樓蘭控股有限公司

(Incorporated in the Cayman Islands with limited liability)

2002

Third Quarterly Report

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

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

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This report, for which the directors (“Directors”) of Loulan Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Loulan Holdings 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 aspects 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.

RESULTS

The Board of Directors (the “Board”) of Loulan Holdings Limited (the “Company”) reported that the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30 September 2002 together with comparative unaudited figures for the corresponding periods in 2001 are as follows:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2002 RMB'000 (Unaudited)	2001 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)	2001 RMB'000 (Unaudited)
Turnover	3	3,155	9,133	9,787	16,270
Cost of sales		(1,616)	(3,419)	(4,803)	(6,702)
Gross profit		1,539	5,714	4,984	9,568
Other revenue		10	55	17	283
Selling and distribution costs		(685)	(440)	(2,013)	(1,677)
Administrative expenses		(2,998)	(1,471)	(7,006)	(3,548)
Other operating expenses		(2)	-	(63)	(247)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	4	(2,136)	3,858	(4,081)	4,379
Finance costs	5	(993)	(802)	(2,599)	(2,399)
(LOSS)/PROFIT BEFORE TAX		(3,129)	3,056	(6,680)	1,980
Tax	6	-	(397)	-	(397)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(3,129)	2,659	(6,680)	1,583
Minority interests		110	(288)	283	(180)
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS		(3,019)	2,371	(6,397)	1,403
(Loss)/earnings per share - basic (RMB)	8	(0.010)	0.008	(0.021)	0.005

NOTES

1. Group reorganization

The Company was incorporated in the Cayman Islands on 29 August 2001 as an exempted company with limited liability and its shares have been listed on the GEM of the Stock Exchange since 12 August 2002.

Pursuant to a group reorganization (the “Reorganization”) to rationale the structure of the Group in preparation for the listing of the company’s shares on the GEM of the Stock Exchange, the Company became the holding company of the Group on 24 July 2002. Details of the Reorganization are set out in the prospectus of the Company dated 31 July 2002 (the “Prospectus”).

2. Basis of preparation and principal accounting policies

The unaudited consolidated results have been prepared in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The results of the Group for the period ended 30 September 2002 and the corresponding financial periods of last year have been prepared on the merger basis as if the current group structure had been in existence throughout the relevant period or since the date of incorporation, whichever is shorter and the Reorganization as disclosed in the Prospectus.

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 30 September 2002 are consistent with those followed in the Accountants’ Report as set out in the Prospectus.

3. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns, trade discounts and consumption tax in the People’s Republic of China (the “PRC”).

	For the three months ended 30 September		For the nine months ended 30 September	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Sale of bottled wine	3,475	2,571	10,808	10,465
Sale of unbottled wine to a related party	—	7,620	—	7,620
	<u>3,475</u>	<u>10,191</u>	<u>10,808</u>	<u>18,085</u>
Less: Consumption tax	(320)	(1,058)	(1,021)	(1,815)
	<u><u>3,155</u></u>	<u><u>9,133</u></u>	<u><u>9,787</u></u>	<u><u>16,270</u></u>

4. (Loss)/profit from operating activities

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

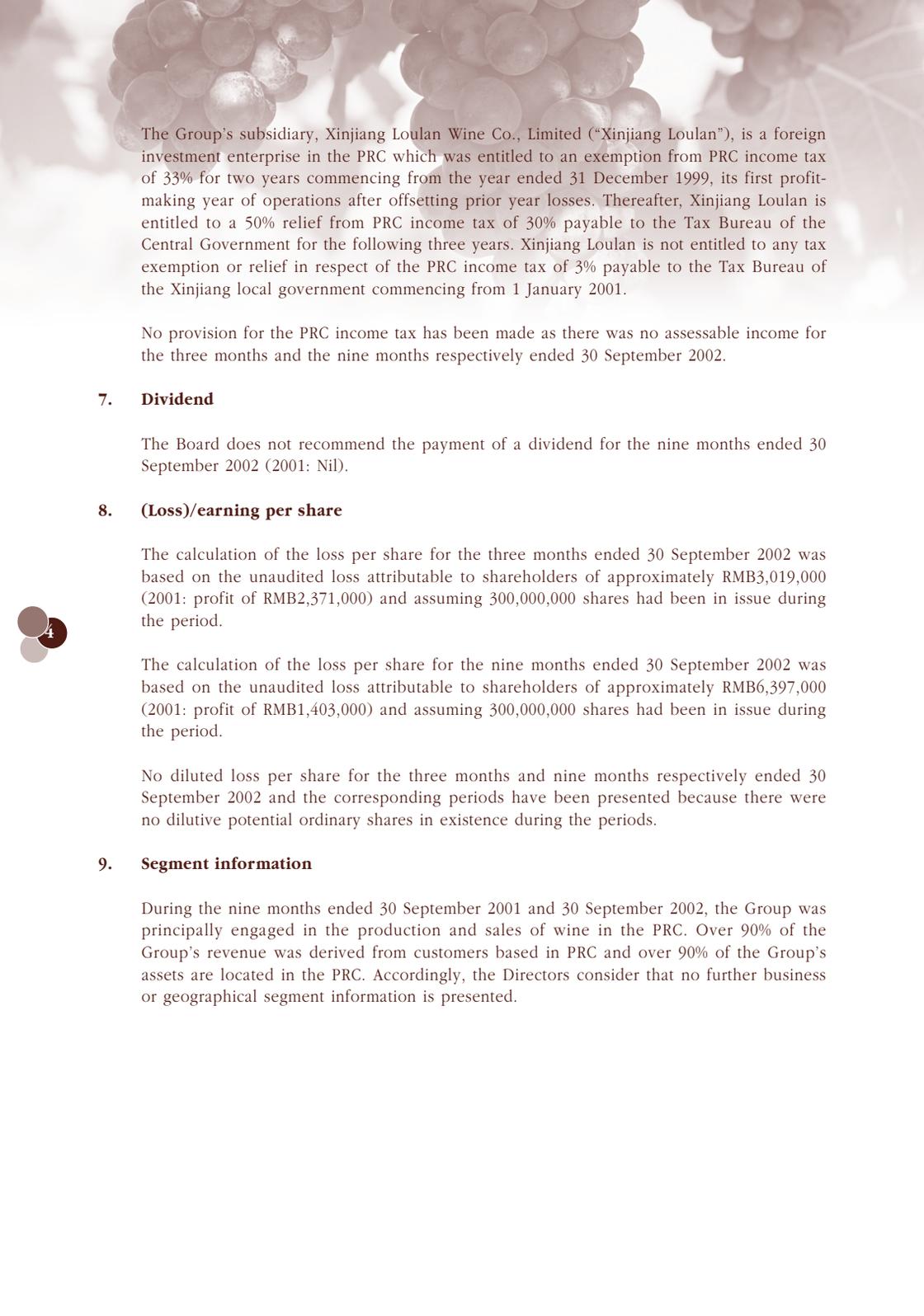
	For the three months ended 30 September		For the nine months ended 30 September	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Cost of inventories sold	1,496	3,326	4,683	6,609
Depreciation of fixed assets	451	458	1,345	1,411
Amortisation of intangible assets	84	84	253	236
Operating lease rentals in respect of agricultural land	137	137	412	412
Less: Amount capitalised	(137)	(137)	(412)	(412)
	-	-	-	-
Staff costs (including directors' remuneration):				
Wages and salaries	1,303	929	3,356	2,340
Pension scheme contributions	117	74	232	237
	1,420	1,003	3,588	2,577
Less: Amount capitalised	(104)	(105)	(310)	(479)
	<u>1,316</u>	<u>898</u>	<u>3,278</u>	<u>2,098</u>

5. Finance costs

	For the three months ended 30 September		For the nine months ended 30 September	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Interest on bank borrowings wholly repayable within five years	<u>993</u>	<u>802</u>	<u>2,599</u>	<u>2,399</u>

6. Tax

No provision for profits tax in the Cayman Islands or Hong Kong has been made as the Group had no income assessable for profits tax for the three months and the nine months respectively ended 30 September 2002 as well as the corresponding periods of last year in these jurisdictions.



The Group's subsidiary, Xinjiang Loulan Wine Co., Limited ("Xinjiang Loulan"), is a foreign investment enterprise in the PRC which was entitled to an exemption from PRC income tax of 33% for two years commencing from the year ended 31 December 1999, its first profit-making year of operations after offsetting prior year losses. Thereafter, Xinjiang Loulan is entitled to a 50% relief from PRC income tax of 30% payable to the Tax Bureau of the Central Government for the following three years. Xinjiang Loulan is not entitled to any tax exemption or relief in respect of the PRC income tax of 3% payable to the Tax Bureau of the Xinjiang local government commencing from 1 January 2001.

No provision for the PRC income tax has been made as there was no assessable income for the three months and the nine months respectively ended 30 September 2002.

7. Dividend

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2002 (2001: Nil).

8. (Loss)/earning per share

The calculation of the loss per share for the three months ended 30 September 2002 was based on the unaudited loss attributable to shareholders of approximately RMB3,019,000 (2001: profit of RMB2,371,000) and assuming 300,000,000 shares had been in issue during the period.

The calculation of the loss per share for the nine months ended 30 September 2002 was based on the unaudited loss attributable to shareholders of approximately RMB6,397,000 (2001: profit of RMB1,403,000) and assuming 300,000,000 shares had been in issue during the period.

No diluted loss per share for the three months and nine months respectively ended 30 September 2002 and the corresponding periods have been presented because there were no dilutive potential ordinary shares in existence during the periods.

9. Segment information

During the nine months ended 30 September 2001 and 30 September 2002, the Group was principally engaged in the production and sales of wine in the PRC. Over 90% of the Group's revenue was derived from customers based in PRC and over 90% of the Group's assets are located in the PRC. Accordingly, the Directors consider that no further business or geographical segment information is presented.

10. Share capital and reserves

	Share capital <i>RMB'000</i>	Share Premium <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	Reserve fund <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
2001						
At 1 January 2001	1	-	9,703	1,579	(8,639)	2,644
Profit for the nine months ended 30 September 2001	-	-	-	-	1,403	1,403
At 30 September 2001	1	-	9,703	1,579	(7,236)	4,047
2002						
At 1 January 2002	1	-	9,703	1,884	(9,991)	1,597
Issue of shares	4,239	48,760	-	-	-	52,999
Share issuing expenses	-	(13,047)	-	-	-	(13,047)
Conversion of shareholder loan to capital	-	-	20,000	-	-	20,000
Loss for the nine months ended 30 September 2002	-	-	-	-	(6,397)	(6,397)
At 30 September 2002	4,240	35,713	29,703	1,884	(16,388)	55,152

FINANCIAL REVIEW

For the three months ended 30 September 2002, the Group sold 114 tons of bottled wine (2001: 106 tons), amounted to approximately RMB3,155,000 (2001: RMB2,571,000) which was increased by 23% compared with the same period last year. The average gross profit margin of the Group's bottled wine was also increased to 49% compared with that of 48% in the same period last year.

For the three months ended 30 September 2002, the Group's administrative expenses was approximately RMB2,998,000 (2001: RMB1,471,000). The increase was mainly due to the inclusion of staff salary and operating expenses of the Group's office in Hong Kong since 1 August 2001 and the inclusion of two executive Directors' salary commencing from 1 August 2001. Both of the Directors' salary was paid by a related company prior to 1 August 2001.

The loss attributable to shareholders for the three months ended 30 September 2002 was approximately RMB3,019,000 (2001: profit of RMB2,371,000). The loss increased was mainly due to the increase in administrative expenses as stated above and for same period last year, the profit was attributable to the sale of unbottled wine to a related party amounted to approximately RMB7,620,000. Sales of unbottled wine was ceased after the year ended 31 December 2001.

PROSPECTS

The Directors believe that with the Group's experience in research, production and marketing of wine products in the PRC and the Group's plans to expand its existing vineyards, the Group is well positioned to capture the opportunity offered by the PRC wine market. On the other hand, with the high quality of the Group's grape wine products which have won the Group a recognised brand name of high quality wine particularly in the PRC and the two new sales agency contracts signed in May 2002 under which the Group currently has over 200 sales points in Shanghai including reputable hotels, restaurants and shops, it is envisaged that the Group will achieve a grow in turnover and improvement in profitability in the coming periods.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 September 2002, the interests of the Directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of Director	Personal interests (number of Shares)	Family interests (number of shares)	Corporate interests (number of shares)	Other interests (number of shares)	Total number of Shares
Mr. Woo Hang Lung ("Mr. Woo")	163,125,000	-	-	-	163,125,000
Mr. Chen Guoping	22,500,000	-	-	-	22,500,000
Mr. Junichi Goto	6,000,000	-	-	-	6,000,000

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES IN THE COMPANY

During the nine months ended 30 September 2002, none of the Directors or chief executive of the Company or any of their spouse or children under 18 year of age had exercised or was granted or holding options to acquire shares in or debentures of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the register, which is required to be kept under Section 16(1) of the SDI Ordinance, showed that the Company has been notified of the following interests, being 10% or more of the issued share capital of the Company. These interests were in addition to those disclosed above in respect of the Directors and chief executives:

Name	Number of Ordinary Shares
New Dragon (No. 7) Investments Limited <i>(Note 1 and 3)</i>	82,500,000
Nomura China Venture Investment Fund Limited <i>(Note 1 & 2)</i>	82,500,000
China Enterprise Investment Fund <i>(Note 1 & 3)</i>	82,500,000
Nomura Holdings, Inc. <i>(Note 1 & 2)</i>	82,500,000
JAFCO Co., Ltd. <i>(Note 1 & 2)</i>	82,500,000
Global Funds Trust Company <i>(Note 3)</i>	82,500,000

Notes:

- (1) So far as the Directors are aware, New Dragon (No. 7) Investments Limited is beneficially owned and controlled as to 50% by Nomura China Venture Investment Fund Limited and as to 50% by China Enterprise Investment Fund.
- (2) So far as the Directors are aware, Nomura China Venture Investment Fund Limited is beneficially owned as to 60% by Nomura Holdings, Inc. and as to 40% by JAFCO Co., Ltd.
- (3) So far as the Directors are aware, (a) New Dragon (No. 7) Investments Limited is beneficially owned and controlled as to 50% by Nomura China Venture Investment Fund Ltd. and as to 50% by China Enterprise Investment Fund, and (b) the 50% ownership in New Dragon (No. 7) Investments Limited as being beneficially held and controlled by China Enterprise Investment Fund is being held through Global Funds Trust Company, a company incorporated in Cayman Islands as a trustee.



INTERESTS OF THE DIRECTORS, INITIAL MANAGEMENT SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND OTHERS IN COMPETING BUSINESS

A Director and some of the initial management shareholders of the Company are interested in businesses which compete or may compete, either directly or indirectly, with the businesses of the Group as follows:

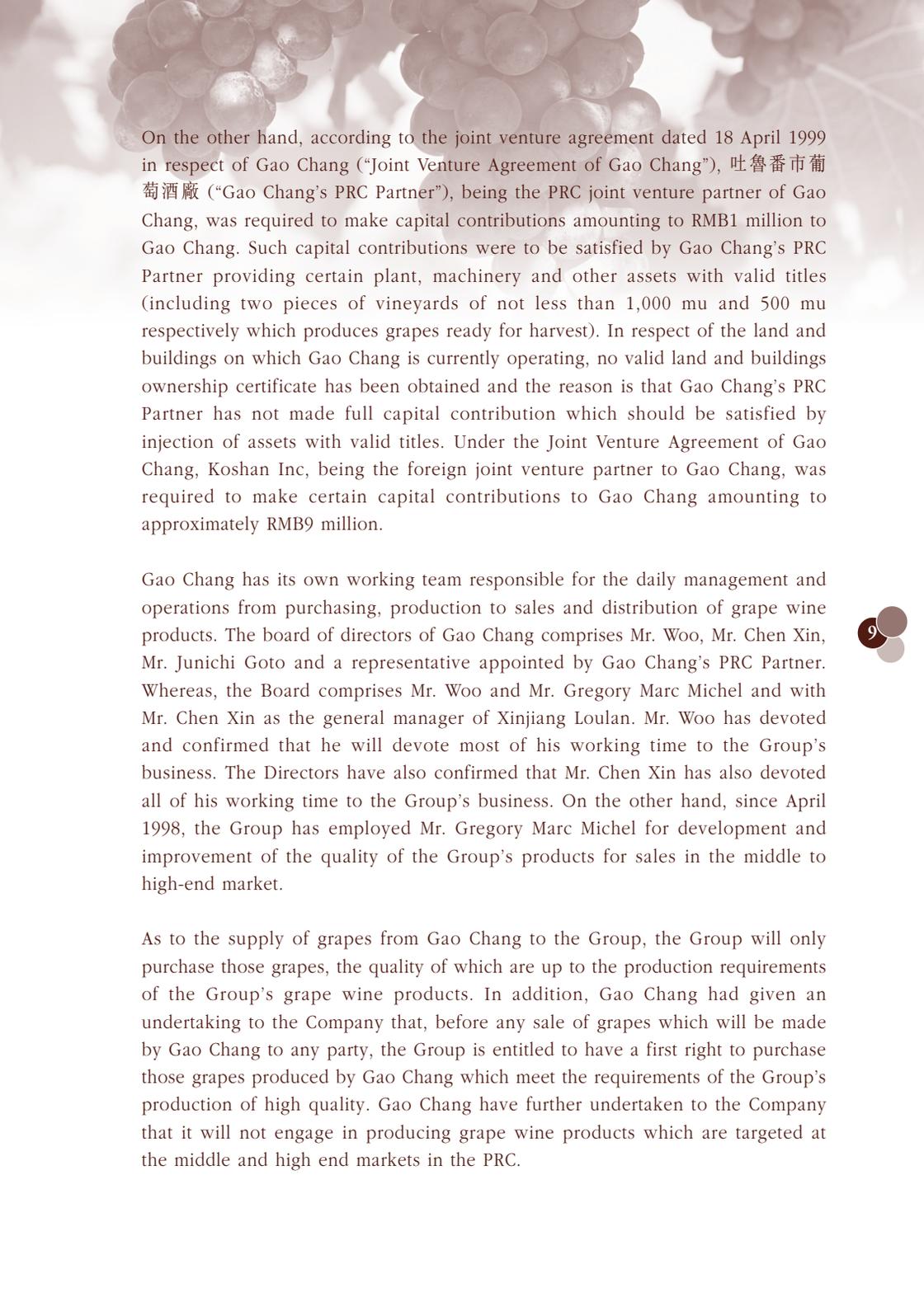
Interests of Mr. Woo – a Director

(a) 新疆吐魯番高昌葡萄酒業有限公司 (*Golden Sun Winery (Turpan) Limited* (“*Gao Chang*”))

Mr. Woo is interested in the equity capital of Koshan Inc so as to exercise or control the exercise of 72.5% of voting power at general meetings of Koshan Inc and the remaining 27.5% was owned by New Dragon (No. 7) Investments Limited. Koshan Inc is interested in 90% of the equity interest of Gao Chang. Gao Chang is principally engaged in the processing and bottling of non-premium grape wine and the sale and distribution of these grape wine products in the PRC. It has also been supplying grapes to Xinjiang Loulan for producing grape wine. Currently, Gao Chang has a few grape wine products for sale in the PRC market, some of which are sold under the brand name of “Gao Chang (高昌)”. Gao Chang’s products are principally of low price range and are primarily targeted at the low-end markets, particularly the rural cities in the northwestern provinces of the PRC. Gao Chang’s products have not participated in any wine competition so far.

The ex-factory prices of certain types of wine such as Pu Tao Gong Jiu, one of the Group’s products, are comparable to that of the grape wine products bottled by Gao Chang. However, the sales derived from the Group’s three best selling products, namely Lou Lan Dry Red Wine, Lou Lan Medium Dry Red Wine and Lou Lan Red Wine accounted for approximately 74.9% and 71.9% of the Group’s total turnover (in terms of bottled wine) respectively for each of the two years ended 31 December 2001 and the sales of the Group’s best-selling product, Lou Lan Dry Red Wine accounted for approximately 51.2% and 53.4% of the Group’s total turnover (in terms of bottled wine) respectively over the same periods. Therefore, the Directors consider that there is no significant direct competition between the business of the Group and that of Gao Chang. At present, Mr. Woo has no intention to change the existing business profile of Gao Chang whose products are targeted at low-end market.





On the other hand, according to the joint venture agreement dated 18 April 1999 in respect of Gao Chang (“Joint Venture Agreement of Gao Chang”), 吐魯番市葡萄酒廠 (“Gao Chang’s PRC Partner”), being the PRC joint venture partner of Gao Chang, was required to make capital contributions amounting to RMB1 million to Gao Chang. Such capital contributions were to be satisfied by Gao Chang’s PRC Partner providing certain plant, machinery and other assets with valid titles (including two pieces of vineyards of not less than 1,000 mu and 500 mu respectively which produces grapes ready for harvest). In respect of the land and buildings on which Gao Chang is currently operating, no valid land and buildings ownership certificate has been obtained and the reason is that Gao Chang’s PRC Partner has not made full capital contribution which should be satisfied by injection of assets with valid titles. Under the Joint Venture Agreement of Gao Chang, Koshan Inc, being the foreign joint venture partner to Gao Chang, was required to make certain capital contributions to Gao Chang amounting to approximately RMB9 million.

Gao Chang has its own working team responsible for the daily management and operations from purchasing, production to sales and distribution of grape wine products. The board of directors of Gao Chang comprises Mr. Woo, Mr. Chen Xin, Mr. Junichi Goto and a representative appointed by Gao Chang’s PRC Partner. Whereas, the Board comprises Mr. Woo and Mr. Gregory Marc Michel and with Mr. Chen Xin as the general manager of Xinjiang Loulan. Mr. Woo has devoted and confirmed that he will devote most of his working time to the Group’s business. The Directors have also confirmed that Mr. Chen Xin has also devoted all of his working time to the Group’s business. On the other hand, since April 1998, the Group has employed Mr. Gregory Marc Michel for development and improvement of the quality of the Group’s products for sales in the middle to high-end market.

As to the supply of grapes from Gao Chang to the Group, the Group will only purchase those grapes, the quality of which are up to the production requirements of the Group’s grape wine products. In addition, Gao Chang had given an undertaking to the Company that, before any sale of grapes which will be made by Gao Chang to any party, the Group is entitled to have a first right to purchase those grapes produced by Gao Chang which meet the requirements of the Group’s production of high quality. Gao Chang have further undertaken to the Company that it will not engage in producing grape wine products which are targeted at the middle and high end markets in the PRC.

(b) *Luray Limited*

Mr. Woo is beneficially interested in 80% of the entire issued share capital of Luray Limited (“Luray”). The principal business of Luray is the importing and exporting of grape wine products and machine spare parts and in particular, Luray has only provided such services to Xinjiang Loulan for exporting the grape wine products sold under the “Lou Lan” brand name in Hong Kong. In respect of the export of the Group’s products after listing of the Shares on GEM of the Stock Exchange, it is the present intention of the Directors to engage other import and export companies in the PRC, which are independent of and not connected with the Directors, substantial shareholders, initial management shareholders, chief executive of the Company or its subsidiaries or any of its respective associates. For the nine months ended 30 September 2002, no export of the Group’s products has been conducted.

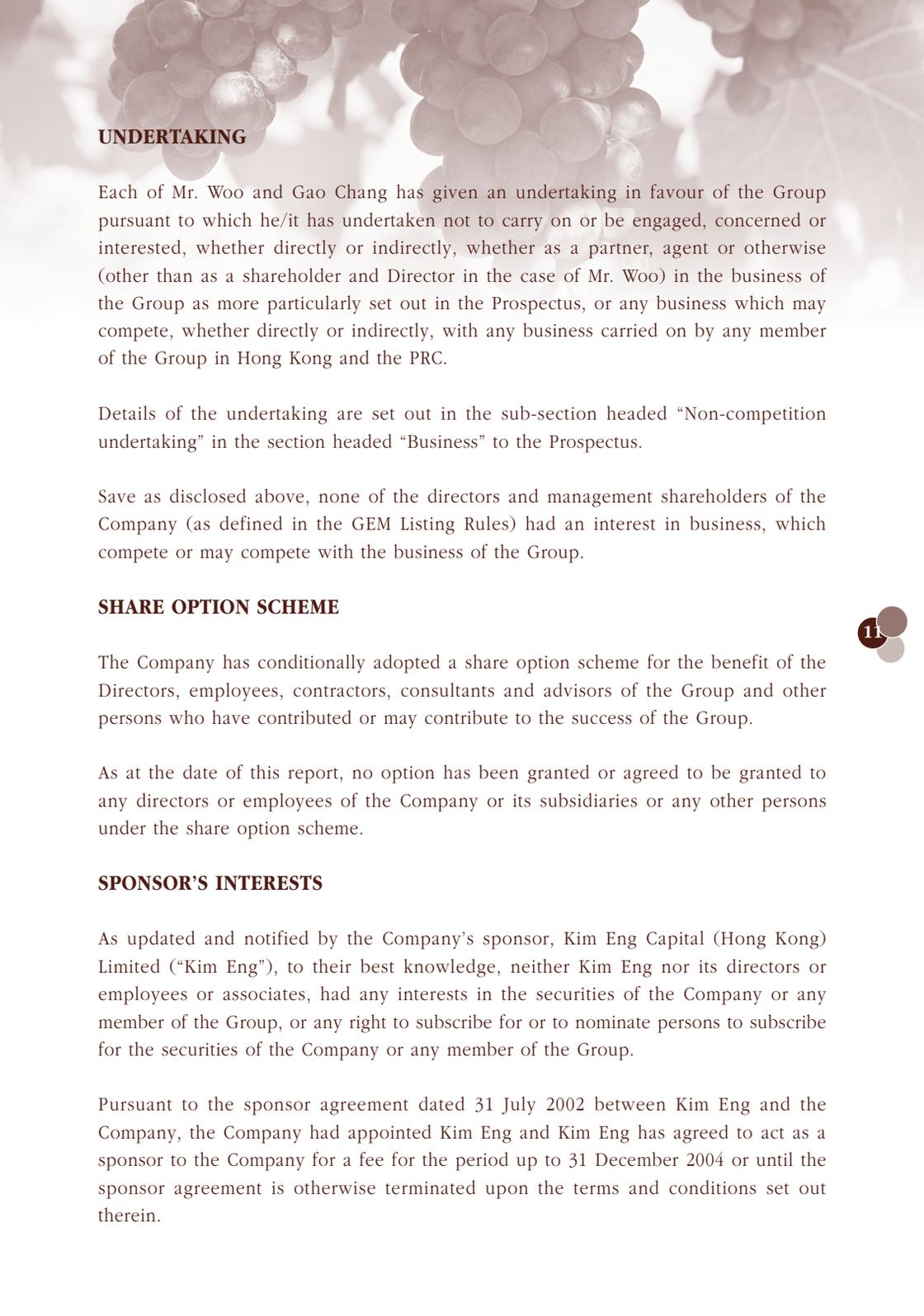
Interests of New Dragon (No. 7) Investments Limited, Nomura China Venture Investment Fund Ltd., Nomura Holdings Inc., JAFCO Co. Ltd., China Enterprise Investment Fund, Go-To-Asia Investment Limited and Mr. Junichi Goto

New Dragon (No. 7) Investments Limited is interested in the equity capital of Koshan Inc so as to exercise or control the exercise of 27.5% of voting power at general meeting of Koshan Inc. Koshan Inc is interested in 90% of the equity interest of Gao Chang. Mr. Junichi Goto, a non-executive Director, is also a director of Koshan Inc. The interests of each of Nomura China Venture Investment Fund Ltd., Nomura Holdings Inc., JAFCO Co., Ltd. and China Enterprise Investment Fund are shareholders (direct or indirect, as the case may be) of New Dragon (No. 7) Investments Limited. Go-To-Asia Investment Limited is the fund manager of China Enterprise Investment Fund. For details of the business of Koshan Inc and Gao Chang, please refer to the above paragraph headed “Interests of Mr. Woo – a Director” in this section.

Others

Xinjiang Shanshan Grape Winery Plant (“Shanshan Grape Winery”)

The Directors have confirmed that, at the time of the establishment of Xinjiang Loulan, Shanshan Grape Winery, being the PRC joint venture partner, had contributed by way of injection of assets, including land and wine making facilities. The Directors have confirmed that, save for its 10% shareholding interest in Xinjiang Loulan, Shanshan Grape Winery is not engaged in any wine production and distribution business. Accordingly, the Directors consider that there is no competition between the Group and Shanshan Grape Winery.



UNDERTAKING

Each of Mr. Woo and Gao Chang has given an undertaking in favour of the Group pursuant to which he/it has undertaken not to carry on or be engaged, concerned or interested, whether directly or indirectly, whether as a partner, agent or otherwise (other than as a shareholder and Director in the case of Mr. Woo) in the business of the Group as more particularly set out in the Prospectus, or any business which may compete, whether directly or indirectly, with any business carried on by any member of the Group in Hong Kong and the PRC.

Details of the undertaking are set out in the sub-section headed “Non-competition undertaking” in the section headed “Business” to the Prospectus.

Save as disclosed above, none of the directors and management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in business, which compete or may compete with the business of the Group.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme for the benefit of the Directors, employees, contractors, consultants and advisors of the Group and other persons who have contributed or may contribute to the success of the Group.

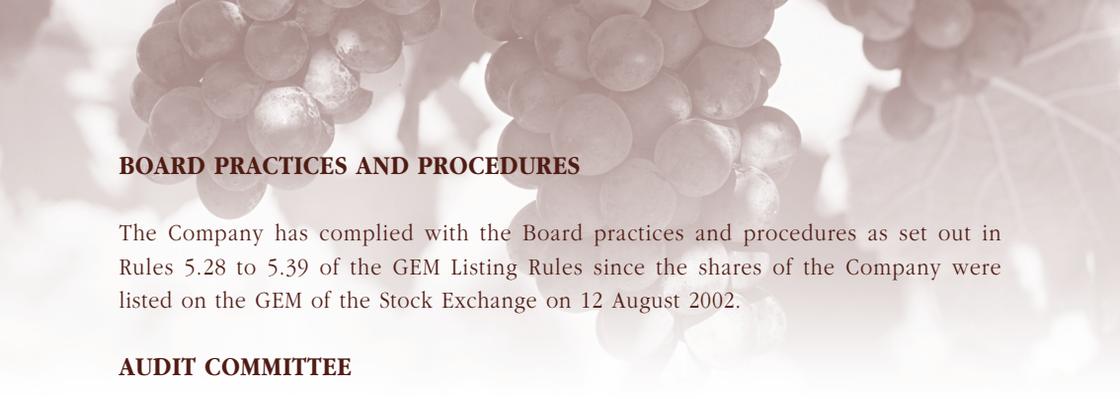
As at the date of this report, no option has been granted or agreed to be granted to any directors or employees of the Company or its subsidiaries or any other persons under the share option scheme.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Kim Eng Capital (Hong Kong) Limited (“Kim Eng”), to their best knowledge, neither Kim Eng nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsor agreement dated 31 July 2002 between Kim Eng and the Company, the Company had appointed Kim Eng and Kim Eng has agreed to act as a sponsor to the Company for a fee for the period up to 31 December 2004 or until the sponsor agreement is otherwise terminated upon the terms and conditions set out therein.





BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the shares of the Company were listed on the GEM of the Stock Exchange on 12 August 2002.

AUDIT COMMITTEE

The Company has established an audit committee on 24 July 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises two independent non-executive Directors, namely Mr. Lau Chi Sun, Robbie and Mr. Lo Chi Man who is the chairman of such committee.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Company.

The audit committee has already reviewed the Group's unaudited consolidated results for the nine months ended 30 September 2002.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2002.

By Order of the Board
Loulan Holdings Limited
Woo Hang Lung
Chairman

Hong Kong, 12 November 2002