LOULAN HOLDINGS LIMITED
樓 蘭 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2002

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

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

This annual report, for which the directors ("Directors") of Loulan Holdings Limited (the "Company") 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 (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. WOO Hang Lung
Mr. Gregory Marc MICHEL

NON-EXECUTIVE DIRECTORS

Mr. CHEN Guoping
Mr. Junichi GOTO
Mr. Toyokazu SHIRAHATA

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LO Chi Man
Mr. LAU Chi Sun Robbie

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town, Grand Cayman, British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Shuang Shui Mo District
Shanshan County
Turpan, Xinjiang, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2001-4
20th Floor
The Broadway
54-62 Lockhart Road
Wanchai
Hong Kong

COMPANY WEBSITE

http://www.loulan.com.cn

COMPANY SECRETARY

Mr. CHAN Him, Alfred, *FCCA, FHKSA*

AUTHORISED REPRESENTATIVES

Mr. WOO Hang Lung
Mr. CHAN Him, Alfred, *FCCA, FHKSA*

SPONSOR

Kim Eng Capital (Hong Kong) Limited
Room 1901, 19th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

COMPLIANCE OFFICER

Mr. WOO Hang Lung

QUALIFIED ACCOUNTANT

Mr. CHAN Him, Alfred, *FCCA, FHKSA*

AUDIT COMMITTEE MEMBERS

Mr. LO Chi Man *(Chairman)*
Mr. LAU Chi Sun Robbie

PRINCIPAL BANKERS

Agricultural Bank of China
Shanshan County Branch
Shanshan County
Xinjiang
PRC

Standard Chartered Bank
Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Standard Chartered Bank
Ground Floor, China Merchants Tower
161 East Lu Jia Zui Road
Pudong, Shanghai,
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

GEM STOCK CODE

8039

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I present the first annual report of the Company and its subsidiaries (the "Group") since the listing of our shares on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 August 2002.

BUSINESS REVIEW

During the year ended 31 December 2002, the Group recorded a loss attributable to shareholders of approximately RMB13,771,000 (2001: loss of approximately RMB1,047,000). Turnover for the year was approximately RMB13,037,000 (2001: approximately RMB23,054,000). Gearing ratio of the Group was decreased from 33 as at 31 December 2001 to 1 as at 31 December 2002 due to the strengthen of shareholders' equity with the proceeds from the listing of the Company's share on the GEM.

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 and its market in PRC and overseas in the coming year, 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 new distributor appointed in Shanghai, 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.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

Woo Hang Lung
Chairman

Hong Kong
26 March 2003

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2002, the Group sold 631 tons of bottled wine (2001: 995 tons), amounted to approximately RMB13,037,000 (2001: RMB16,185,000) which was decreased by 19% compared with last year. The decrease in the sales of the Group was mainly due to the increase in competition in wine market in the northwestern provinces of the PRC. Despite the total Group's sales for the year ended 31 December 2002 has been decreased, the average gross profit margin of the Group's bottled wine has been increased to approximately 47% (2001: 43%). It was due to the increase in the portion of sales of high valued wine which has a higher gross profit margin compared with low valued wine.

For the year ended 31 December 2002, the Group's administrative expense was approximately RMB13,493,000 (2001: RMB6,274,000). The increase was mainly due to the professional financial advise fees and audit fees incurred. In addition, there was the inclusion of staff salary and operating expense 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 year ended 31 December 2002 was approximately RMB13,771,000 (2001: RMB1,047,000). The loss increased was mainly due to the increase in administrative expense as stated above and for last year there was profit attributable to the sale of unbottled wine to a related party and the sales was amounted to approximately RMB7,620,000. Sales of unbottled wine was ceased after year 2001.

FINANCIAL RESOURCES, LIQUIDITY, TREASURY POLICIES AND CHARGES ON GROUP ASSETS

The Group generally finances its operations with cash generated from its operations and banking facilities provided by its bankers facilities provided by its bankers in the PRC and other loans. Other loans mainly comprise loans form財政局、財政廳、農業廳、經計委 of Xinjiang province in the PRC. As at 31 December 2002, the Group had bank loans and other loans in aggregate amount of approximately RMB41.9 million and approximately RMB4.5 million respectively. The Directors are confident that, based on past experience, the respective banks, will renew upon applications by the Group the bank loans of RMB41.9 million. The above were all the borrowing facilities available to the Group and were fully utilised. The Group's bank loans bear interest at fixed rates at a range from 5.1% to 8.7% per annum. The bank loans are secured by floating charges over all the buildings, plant and machinery, motor vehicles and the furniture and fixtures of Xinjiang Loulan, the right to use the trademarks of Xinjiang Loulan and the bank balance of HK$11 million given by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2002, the Group had net current liabilities of approximately RMB9.7 million (31 December 2001: net current liabilities of approximately RMB4.9 million). During the year ended 31 December 2002, the provision for doubtful debts charged to profit and loss account has been reduced to RMB516,000 (2001: RMB1,402,000) as the management has exercise more stringent control over the collection of debts.

During the year, the Group had deposited RMB20 million to a finance company in PRC with a guarantee return of at least 1% per annum.

Taking into consideration the aforesaid bank loans renewal and the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation, development requirements and investments in future.

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, or in the local currencies of the operating subsidiaries, keeping minimum exposure to foreign exchange risk. The Group's liquidity and financing arrangements are reviewed regularly.

MATERIAL ACQUISITIONS/DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANY

Apart from a group reorganisation to rationalise the structure of the Group in preparation for listing of the Shares on GEM of the Stock Exchange, details of which had been set out in the prospectus of the Company dated 31 July 2002 (the "Prospectus") there had been no material acquisitions and disposals of subsidiaries and affiliated company during the year ended 31 December 2002.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not have any significant investments for the year ended 31 December 2002. Other than those disclosed in the Prospectus under the section headed "Business Objectives", the Company did not have any plan for material investments and acquisition of material capital assets as at 31 December 2002. As at the date of this report, the Group is under discussion and negotiation in relation to the acquisition of a potential wine distributor in the PRC. However, up to the date of this report, no legally binded agreement has been entered by the Group in respect of any acquisition. In the event that such acquisition being concluded, a separate announcement will be made to the public.

GEARING RATIO

The Group's gearing ratio based on total borrowings to shareholders' equity was 1 as at 31 December 2002 (31 December 2001:33). The decrease in the gearing ratio from 33 as at 31 December 2001 to 1 as at 31 December 2002 was due to the strengthen of shareholders' equity with the proceeds from the Listing of the Company's share on the GEM of the Stock Exchange on 12 August 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs cost in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

SEGMENTAL REPORTING

Over 90% of the Group's turnover were derived in the PRC and as a result, no further business or geographical segment information is presented.

EMPLOYEE INFORMATION

At 31 December 2002, the Company employed 271 employees (2001:267). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include medical insurance and pensions fund. Staff cost was approximately RMB5,324,000 for the year ended 31 December 2002 as compared with that of approximately RMB3,148,000 for the preceding financial year. The increase was due to the inclusion of staff salary 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. In order to motivate quality employee and attract high caliber candidates to join the Group, the Company has adopted a share option scheme.

CONTINGENT LIABILITIES

As at 31 December 2002, the Directors are not aware of any material contingent liabilities.

REVIEW OF BUSINESS OBJECTIVES

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress of the Group compared with the business objective set out in the Prospectus of the Company dated 31 July 2002.

	Business objectives up to 31 December 2002 as stated in the Prospectus	Actual business progress up to 31 December 2002
Recruitment of employees in relation to the establishment of sales branch offices and local outlets in the PRC	a. Recruit a total of 15 full-time employees comprising 10 full-time sales employees and 5 full-time management, administration and supporting employees for branch offices and local outlets in the PRC	a. 4 Full-time sales employees were recruited and the remaining is rescheduled to year 2003 for the development and expansion of the branch offices
Marketing and promotional activities to increase sales and enhance brand name recognition	b. Promote the Group's wine products through advertising, sponsoring activities, giving away free samples and website	b. Advertising has been done
	c. Participate in international and local wine competitions and exhibitions	c. Rescheduled the participation to the first half year of 2003
Overseas market expansion	d. Seek suitable distribution agents, strategic alliances and merger and acquisition opportunities for the distribution of the Group's products overseas including Hong Kong	d. The Group is in the process of negotiation to acquire a distribution agent

REVIEW OF BUSINESS OBJECTIVES

	Business objectives up to 31 December 2002 as stated in the Prospectus	Actual business progress up to 31 December 2002
Increase the supply of grapes	e. Continue to look for opportunities to acquire suitable wineries	e. Continue to identify suitable wineries
	f. Hire consulting firms to assist in look for opportunities to acquire suitable vineyards in Xinjiang, the PRC and wineries	f. Continue to identify suitable vineyards
	g. Increase the production of grapes grown in its vineyard from 500 tons in year 2001 to 1,500 tons at the end of year 2002	g. Due to reasons in (e) and (f) above, the increase in production of grapes is postponed
Installation of wine-making facilities	h. Install one bottling line to bottle, cork and label the finished products of 375ml packaging and acquire fermentation tanks, pneumatic press, piston with pump, centrifugalor, diatomaceous earth filter, sheet filter, pasteurization unit type and cooling machine	h. Rescheduled the expected completion date to year 2003 due to the postponement in (a) and (d) above

REVIEW OF BUSINESS OBJECTIVES

USE OF PROCEEDS

The net proceeds from the initial public offering of the Company's shares were about HK$37.7 million of which HK$4.7 million will be used as working capital. The proceeds were partially applied during the year ended 31 December 2002 as follows:

	Total planned use of proceeds as set out in the Prospectus	Amount to be used up to 31 December 2002 as disclosed in the Prospectus	Actual amount used up to 31 December 2002	
	HK$'000	*HK$'000*	*HK$'000*	*Notes*
Market expansion and penetration				
– Expansion of the sales and distribution network in the PRC and overseas market	15,000	4,500	–	*(a)*
– Marketing and promotional activities	3,000	500	206	*(b)*
Expansion of production capacity				
– Acquisition of vineyards and/or wineries	10,000	10,000	–	*(c)*
– Enhancement and installation of production facilities	5,000	4,000	–	*(d)*
	33,000	19,000	206	

Notes:

(a) Actual investment has not been made as the Group is in the process of negotiation to acquire a distribution agent.

(b) The difference is rescheduled to be incurred in year 2003.

(c) The Group is continued to identify suitable vineyards and/or wineries.

(d) The investment is rescheduled to year 2003 due to the postponement as mentioned in (a) above.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Woo Hang Lung, aged 50, is the founder, chairman and managing director of the Group. He is primarily responsible for corporate policy formulation, business strategic planning, business development and overall management of the Group. He has 20 years of experience in economic planning and business investment and held positions varying from a manager to a factory director and worked in the Heilongjiang Provincial Forestry Bureau, the Local Products Company of the Hubei Province, the Light Industry Bureau of Wuhan, the Aeronautical Technology Import and Export Company of the PRC and the Trade and Industrial Centre of Shenzhen.

Mr. Gregory Marc Michel, aged 32, is the chief oenologist and technical improvement consultant of the Group. Prior to joining the Group in April 1998, Mr. Michel worked in three wineries responsible for wine making and laboratory analysis in different Appellatine d'Origine Controlee of France. He worked in Domaine De Montine for one year responsible for wine making. He also worked in Groupment Inter Producture Collioure Banyuls for one year responsible for laboratory analysis. Mr. Michel holds a Master's degree in economics sciences from the University of Economical Sciences, France and a diploma in oenology from the University of Montpellier, France in 1995. The responsibilities of Mr. Michel include wine-making, wine testing, laboratory analysis and quality control.

Non-executive Directors

Mr. Chen Guoping, aged 44, is also the chairman of San Dino Limited which is a garment trading and retailing company. Prior to that, Mr. Chen was the chief executive officer of iTravel Limited which is a subsidiary of tom.com Limited (a listed company on GEM). Mr. Chen has over 11 years of working experience in different departments of the Government of the PRC, including working as an officer of Ministry of Foreign Affairs of the PRC and the chief of the division of Xinhua News Agency, Hong Kong branch.

Mr. Junichi Goto, aged 48, is also the chairman and chief executive officer of Go-To-Asia Investment Limited. Mr. Goto served as the president and chief executive officer of Softbank China Venture Investments Limited from July 1999 to June 2001. Prior to that, he worked in the finance industry for over 20 years. Mr. Goto holds a Bachelor's degree in economics from the University of Tokyo in 1990.

Mr. Toyokazu Shirahata, aged 52, is the director president of Nomura-Citi International Economic Consultants Co., Ltd.. Mr. Shirahata has worked for a renowned Japanese investment banking group, Nomura Group for about 18 years. He is an employee of Nomura Holdings, Inc.. He holds a bachelor's degree in commerce from Waseda University in 1973.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Lo Chi Man, aged 40, is a certified public accountant in Hong Kong and is the sole proprietor of Daniel C.M. Lo & Co., Certified Public Accountants. Mr. Lo is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Lo also holds a degree of Bachelor of Laws in the Peking University, the People's Republic of China.

Mr. Lau Chi Sun Robbie, aged 48, is the chief editor of Wine Now Monthly. Mr. Lau has over 20 years of experience in the media industry.

SENIOR MANAGEMENT

Mr. Zhu Nian Wu, aged 42, is the general manager of Xinjiang Loulan Wine Co. Ltd. (the "Xinjiang Loulan"). Mr. Chu graduated from the Beijing Economic Management Institute in 1984 and Beijing Chinese Political And Legal University in 1994. Mr. Zhu has over 20 years of experience in corporate management. Mr. Zhu joined Xinjiang Loulan in October 2002.

Mr. Chan Him, Alfred, aged 39, is the financial controller, qualified accountant and company secretary of the Group. Mr. Chan has more than 14 years of experience in accounting, auditing and finance. Prior to joining the Group in September 2001, Mr. Chan was a deputy chief executive officer of an internet content provider company. Mr. Chan previously worked with an international accounting firm for nine years. He is a fellow member of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, United Kingdom.

Mr. Jiang Zhong Xin, aged 58, is the deputy general manager (production) of the Group, primarily responsible for production and quality assurance, include the ISO9002 accreditation procedures in Xinjiang Loulan. Mr. Jiang is a senior engineer. Before joining the Group in August 1999, he held supervisory roles in the office of corporate management and the office of factory management in the Railway Bureau of Urumqi, the Ministry of Railway from 1972 to 1999. He is an accredited quality management auditor and qualified ISO9000 standards internal auditor of the Ministry of Railway. Mr. Jiang has extensive experience in quality, technology and production management. He holds a Bachelor's degree in machinery manufacturing equipment from Xinjiang Technical Institute and a Bachelor's degree in foreign economics from the Correspondence College of China Central Communist Party.

Mr. Huang Jian Qing, aged 33, is the oenologist and supervisor of the fermentation workshop of the Group. Prior to joining the Group in October 1996, Mr. Huang was the general manager in technology of Qingling Wild Plants Grape Wine Factory from 1992 to 1995. Mr. Huang has developed a series of wine products of the Group and published a number of articles including "the Influences of Grape, Winemaking Process and Equipment on Quality of Wine". Mr. Huang graduated from the Northwest Agricultural University with a Bachelors' degree in vine nurturing and wine-making.

REPORT OF THE DIRECTORS

The directors present their report and audited financial statements of the Company and the Group for the year ended 31 December 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability indent under the Companies Law of the Cayman Islands on 29 August 2001. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies now comprising the Group on 24 July 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1 and 4 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 57.

The directors do not recommend the payment of any dividends in respect for the year.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law (2000 Revision) of the Cayman Islands, amounted to RMB30,542,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers were as follows:

Purchases	
– the largest supplier	15.18%
– five largest suppliers combined	52.09%
Sales	
– the largest customer	13.23%
– five largest customers combined	39.82%

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to date of this report were:

Executive directors:

Woo Hang Lung *(Chairman)*	(appointed on 6 September 2001)
Gregory Marc Michel	(appointed on 12 December 2001)
Chen Xin	(appointed on 5 October 2001 and resigned on 15 April 2002)

Non-executive directors:

Chen Guoping	(appointed on 8 October 2001)
Junichi Goto	(appointed on 5 October 2001)
Toyokazu Shirahata	(appointed on 12 December 2001)
Lo Chi Man*	(appointed on 5 October 2001)
Lau Chi Sun, Robbie*	(appointed on 12 December 2001)

* *Independent non-executive directors*

In accordance with article 14(4) of the Company's articles of association, Chen Guoping and Junichi Goto will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 12 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Woo Hang Lung and Mr. Gregory Marc Michel have entered into a service contract with the Company for an initial term of two years commencing from 12 August 2002 which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

The non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

The independent non-executive directors are appointed for a period of one year which will continue thereafter until terminated by at least one month's notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 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:

Interests in the Company:

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
Woo Hang Lung	163,125,000	–	–	–	163,125,000
Chen Guoping	22,500,000	–	–	–	22,500,000
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 interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as disclosed in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in Listing Rules, as set out below.

Mr. Woo Hang Lung owns controlling interest or investment interest in Golden Sun Winery (Turpan) Limited ("Gao Chang"). Gao Chang is principally engaged in the processing and bottling of non-premium grape wine and the sale and distribution of such grape wine products in the People's Republic of China (the "PRC"). Currently, Gao Chang has several 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.

Each of Mr. Woo Hang Lung 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 Hang Lung) in the business of the Group as more particularly set out in the Company's prospectus (the "Prospectus") dated 31 July 2002, 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 of the Company had an interest in business, which compete or may compete with the business of the Group.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	%
Woo Hang Lung	163,125,000	40.78
New Dragon (No. 7) Investments Limited *(Note 1 and 3)*	82,500,000	20.63
Nomura China Venture Investment Fund Limited *(Note 1 and 2)*	82,500,000	20.63
China Enterprise Investment Fund (Note 1 and 3)	82,500,000	20.63
Nomura Holdings, Inc. *(Note 1 and 2)*	82,500,000	20.63
JAFCO Co., Ltd. *(Note 1 and 2)*	82,500,000	20.63
Global Funds Trust Company *(Note 3)*	82,500,000	20.63

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 Funds is being held through Global Funds Trust Company, a company incorporated in Cayman Islands as a trustee.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

SPONSOR'S INTERESTS

As confirmed by the Company's sponsor as at 26 March 2003, 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.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the three years ended 31 December 2002 and the assets, liabilities and minority interests of the Group as at 31 December 2000, 2001 and 2002, prepared on the bases set out in note below, is as follows:

RESULTS

	Year ended 31 December		
	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*
Turnover	**13,037**	23,054	25,228
Cost of sales	**(6,844)**	(11,424)	(12,599)
Gross profit	**6,193**	11,630	12,629
Other revenue	**45**	408	1,660
Selling and distribution costs	**(2,490)**	(2,313)	(2,980)
Administrative expenses	**(13,493)**	(6,274)	(5,100)
Other operating expenses	**(397)**	(247)	(532)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(10,142)**	3,204	5,677
Finance costs	**(3,820)**	(3,710)	(3,104)
PROFIT/(LOSS) BEFORE TAX	**(13,962)**	(506)	2,573
Tax	**(2)**	(564)	(109)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(13,964)**	(1,070)	2,464
Minority interests	**193**	23	(246)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(13,771)**	(1,047)	2,218
Earnings/(loss) per share – basic *(RMB)*	**(0.041)**	(0.003)	0.007

REPORT OF THE DIRECTORS

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December		
	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*
TOTAL ASSETS	**123,175**	79,943	71,112
TOTAL LIABILITIES	**(75,251)**	(78,153)	(68,252)
MINORITY INTERESTS	**–**	(193)	(216)
	47,924	1,597	2,644

Note: The summary financial information for each of the two years ended 31 December 2001 has been extracted from the Prospectus. The summary of the results of the Group includes the results of the Company and its subsidiaries as if the Group structure as set out in the Prospectus had been in existence throughout the three years ended 31 December 2002.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. During the year, the audit committee had held three meetings for reviewing and supervising the financial reporting process, the Company's financial statements, and providing advice and recommendations to the Board.

During the year, the audit committee comprised two members, Mr. Lau Chi Sun, Robbie and Mr. Lo Chi Man, both of whom are independent non-executive directors of the Company.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the directors, the Company has complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 December 2002.

REPORT OF THE DIRECTORS

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Woo Hang Lung
Chairman

Hong Kong
26 March 2003

REPORT OF THE AUDITORS

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the members
Loulan Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTIES

In forming our opinions, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group's operations generated a net loss during the year of RMB13,771,000 and the Group also had net current liabilities of RMB9,675,000 at the balance sheet date. Prior to and subsequent to the balance sheet date, the directors initiated a number of measures to improve the Group's financial/liquidity position and relieve its liquidity pressure for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's financing arrangements/plans detailed in note 2 to the financial statements. The financial statements do not

REPORT OF THE AUDITORS

include any adjustments that might be necessary should the implementation of such measures become unsuccessful. We consider that appropriate estimates and disclosures regarding the above fundamental uncertainties have been made and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
Ernst & Young

Hong Kong
26 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Year ended 31 December 2002)

	Notes	**2002** *RMB'000*	2001 *RMB'000*
Turnover	6	**13,037**	23,054
Cost of sales		**(6,844)**	(11,424)
Gross profit		**6,193**	11,630
Other revenue		**45**	408
Selling and distribution costs		**(2,490)**	(2,313)
Administrative expenses		**(13,493)**	(6,274)
Other operating expenses		**(397)**	(247)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	7	**(10,142)**	3,204
Finance costs	8	**(3,820)**	(3,710)
LOSS BEFORE TAX		**(13,962)**	(506)
Tax	11	**(2)**	(564)
LOSS BEFORE MINORITY INTERESTS		**(13,964)**	(1,070)
Minority interests		**193**	23
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	13	**(13,771)**	(1,047)
Loss per share – basic *(RMB)*	12	**(0.041)**	(0.003)

CONSOLIDATED BALANCE SHEET

(31 December 2002)

	Notes	2002 RMB'000	2001 RMB'000
NON-CURRENT ASSETS			
Fixed assets	14	**34,295**	34,050
Intangible assets	15	**4,224**	4,529
Long term deposit	17	**19,080**	–
		57,599	38,579
CURRENT ASSETS			
Accounts receivable	18	**7,951**	5,283
Prepayments, deposits and other receivables		**3,596**	2,971
Inventories	19	**17,656**	20,302
Due from related companies	20	**–**	11,109
Short term investment	21	**20,000**	–
Deferred tax	22	**330**	330
Pledged bank deposit	23	**11,660**	–
Cash and cash equivalents	23	**4,383**	1,369
		65,576	41,364
CURRENT LIABILITIES			
Bank and other loans	24	**46,392**	18,250
Accounts payable	25	**4,056**	4,060
Other payables and accruals	26	**23,907**	20,467
Tax		**896**	894
Due to a related company	20	**–**	2,600
		75,251	46,271
NET CURRENT LIABILITIES		**(9,675)**	(4,907)
TOTAL ASSETS LESS CURRENT LIABILITIES		**47,924**	33,672
NON-CURRENT LIABILITIES			
Bank and other loans	24	**–**	(31,882)
MINORITY INTERESTS		**–**	(193)
		47,924	1,597
CAPITAL AND RESERVES			
Issued capital	27	**4,240**	1
Reserves		**43,684**	1,596
		47,924	1,597

WOO HANG LUNG
Director

GREGORY MARC MICHEL
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Year ended 31 December 2002)

	Issued capital	Share premium account	Contributed surplus	Statutory reserve fund	Accumulated losses	Fixed assets revaluation reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2001	1	–	9,703	1,579	(8,639)	–	2,644
Net loss for the year	–	–	–	–	(1,047)	–	(1,047)
Appropriation to statutory reserve fund	–	–	–	305	(305)	–	–
At 31 December 2001 and 1 January 2002	1	–	9,703	1,884	(9,991)	–	1,597
Issue of shares	4,239	48,761	–	–	–	–	53,000
Capitalisation of a shareholder's loan	–	–	20,000	–	–	–	20,000
Share issue expenses	–	(13,022)	–	–	–	–	(13,022)
Surplus on revaluation	–	–	–	–	–	120	120
Net loss for the year	–	–	–	–	(13,771)	–	(13,771)
At 31 December 2002	**4,240**	**35,739**	**29,703**	**1,884**	**(23,762)**	**120**	**47,924**

CONSOLIDATED CASH FLOW STATEMENT

(Year ended 31 December 2002)

	2002 *RMB'000*	2001 *RMB'000*
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before tax	**(13,962)**	(506)
Interest expenses	**3,820**	3,710
Interest income	**(27)**	(38)
Income tax paid	**–**	(109)
Loss on disposal of fixed assets	**56**	–
Depreciation of fixed assets	**2,095**	1,907
Amortisation of intangible assets	**305**	305
Provision for obsolete stock	**578**	–
Provision for doubtful debts	**516**	1,402
Provision for amount due from a related company	**92**	222
Operating profit/(loss) before working capital changes	**(6,527)**	6,893
Increase in accounts receivable	**(2,239)**	(1,778)
Write-off of accounts receivable against provision for doubtful debt	**(905)**	–
Decrease in inventories	**2,068**	2,532
Increase in prepayments, deposits and other receivables	**(665)**	(1,850)
Decrease/(increase) in amounts due from related companies	**11,017**	(8,916)
Decrease in accounts payable	**(4)**	(447)
Increase in other payables and accruals	**1,337**	6,323
Increase/(decrease) in amount due to related company	**(2,600)**	2,600
Net cash inflow from operating activities	**1,482**	5,357
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	**(2,276)**	(2,943)
Interest received	**27**	38
Deposit for the potential acquisition of distribution outlets	**(19,080)**	–
Fund investment	**(20,000)**	–
Increase in pledged bank deposit	**(11,660)**	–
Net cash outflow from investing activities	**(52,989)**	(2,905)

CONSOLIDATED CASH FLOW STATEMENT

(Year ended 31 December 2002)

	2002	2001
	RMB'000	*RMB'000*
CASH FLOW FROM FINANCING ACTIVITIES		
New bank loans	**10,000**	–
Repayment of bank loans	**(13,740)**	–
New other loans	**–**	7,240
Capitalisation of a shareholder's loan	**20,000**	–
Interest paid	**(1,717)**	(10,310)
Share issue expenses	**(13,022)**	–
Proceeds from issue of share capital	**53,000**	–
Net cash inflow/(outflow) from financing activities	**54,521**	(3,070)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**3,014**	(618)
Cash and cash equivalents at beginning of year	**1,369**	1,987
CASH AND CASH EQUIVALENTS AT END OF YEAR	**4,383**	1,369
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**4,383**	1,369

BALANCE SHEET
(Year ended 31 December 2002)

	Notes	2002 RMB'000	2001 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*16*	**3,169**	–
Long term deposit	*17*	**19,080**	–
		22,249	–
CURRENT ASSETS			
Prepayments, deposits and other receivables		**283**	2,010
Pledged bank deposit	*23*	**11,660**	–
Cash and cash equivalents	*23*	**2,234**	–
		14,177	2,010
CURRENT LIABILITIES			
Other payables and accruals	*26*	**1,644**	349
Due to a related company		**–**	559
		1,644	908
NET CURRENT ASSETS		**12,533**	1,102
		34,782	1,102
CAPITAL AND RESERVES			
Issued capital	*27*	**4,240**	1
Reserves	*28*	**30,542**	1,101
		34,782	1,102

WOO HANG LUNG
Director

GREGORY MARC MICHEL
Director

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

1. GROUP REORGANISATION AND CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O.Box 2681GT, George Town, Grand Cayman, British West Indies.

The principal place of business of the Group is located at Shuang Shui Mo District, Shanshan County, Turpan, Xinjiang, PRC.

The principal activities of the Group are the production and sale of wine products.

The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 29 August 2001. On incorporation, the Company had an authorised share capital of HK$390,000 divided into 7,800,000 shares of HK$0.05 each, of which 1 share was allotted and issued nil paid on 6 September 2001. Apart from the foregoing, no other transactions were carried out by the Company during the period from 29 August 2001 (date of incorporation) to 31 December 2001.

Group reorganisation

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 12 August 2002, the Company became the holding company of the companies now comprising the Group. This was accomplished by the Company acquiring the entire issued share capital of Powerful Kingdom Inc., which is, at the date of this report, is the intermediate holding company of the other subsidiaries set out in note 16 to the financial statements, in consideration of and in exchange for the allotment and issue of a total of 99,995 shares of HK$0.01 each in the share capital of the Company, credited as fully paid, to the former shareholders of Powerful Kingdom Inc. Further details of the Group Reorganisation are set out in the Company's prospectus (the "Prospectus") dated 31 July 2002.

2. CORPORATE UPDATE

The Group reported a net loss attributable to shareholders of RMB13,771,000 for the year ended 31 December 2002 and at that date, its consolidated current liabilities exceeded its consolidated current assets by RMB9,675,000. Nevertheless, the financial statements have been prepared on a going concern basis, which the directors believe to be appropriate, because the directors believe that, based on past experience, the Group's bankers will renew, upon application by the Group, the bank loans of RMB42 million on their respective due dates during the year ending 31 December 2003.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : Presentation of financial statements
- SSAP 11 (Revised) : Foreign currency transaction
- SSAP 15 (Revised) : Cash flow statement
- SSAP 34 : Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 26 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associate are translated at an average rate for the year on consolidation, rather than at the closing rate. This has had no material effect on the amounts previously recorded in the financial statements.

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on page 27 and 28 of the financial statements and the notes thereto have been revised in accordance with the new requirements. The cash flows of the Company's overseas subsidiaries are now translated using the exchange rates at the dates of the cash flows or, if applicable, at the weighted average exchange rates, whereas before, they were translated at the applicable rates of exchange ruling at the balance sheet date. Further details about the impact of this change are described in the accounting policy for foreign currencies as set out in note 4.

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with SSAP27 "Accounting for group reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the financial years presented, rather than from the date of their acquisitions on 24 July 2002. Accordingly, the consolidated results and cash flows of the Group for the period from 1 January 2001 to 31 December 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation, where this is a shorter period. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole, as the principal activities of the Group were carried out by those subsidiaries summarised in note 16 to the financial statements prior to and after the Group Reorganisation.

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

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are presented in Renminbi ("RMB") and have been prepared under the historical cost convention.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The Company's interests in subsidiaries are stated at cost less any impairment losses.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On the disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life less any estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the terms of the joint venture
Plant and machinery	4.5% – 7.8 %
Furniture, fixtures and equipment	9% – 11.3 %
Motor vehicles	9% – 14.8 %
Vineyard development	10%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Vineyard development represents the costs incurred in preparing agricultural land for the planting of grapes. Cost comprises the direct costs of development and interest charges on related borrowed funds during the period of development. Vineyard development costs are amortised over the estimated economic life of the commercial harvesting of the grapes, which is 10 years, on a straight-line basis.

Intangible assets and amortisation

Intangible assets are recognised when it is probable that future economic benefits that are attributable to the assets will flow to the Group and that the costs of the assets can be measured reliably.

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Trademarks	Over the terms of the joint venture or 20 years, whichever is the shorter
Production technology and know-how	Over the terms of the joint venture or 20 years, whichever is the shorter

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

In accordance with the general practice in the wine industry, wine inventories are included in current assets, although a portion of such inventories may be aged for periods longer than one year.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the Company and overseas subsidiaries, are translated into RMB using the net investment method. The profit and loss accounts of the Company and overseas subsidiaries are translated to RMB at the weighted average exchange rates for the year, and their balance sheets are translated to RMB at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the Company and overseas subsidiaries are translated to RMB at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of the Company and overseas subsidiaries which arise throughout the year are translated to RMB at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts and the cash flows of the Company and overseas subsidiaries were translated to RMB at the exchange rates at the balance sheet date. The adoption of the revised SSAPs 11 and 15 have had no material effect on the amounts reported in the financial statements.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits scheme

The Company and its subsidiaries which are incorporated outside the PRC operate a defined contribution Mandatory Provident Fund retirement benefits schemes (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance, for all of its employees in Hong Kong. The Scheme became effective on 6th July 2002. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the Scheme except for the employer voluntary contributions, which are refunded to the Company and subsidiaries incorporated outside the PRC when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

In addition, retirement benefits are paid by Xinjiang Loulan to the PRC employees who, at their own discretion, contribute to the retirement benefits plans managed by the relevant authorities of the provinces/municipalities in the PRC in which they operate. The retirement benefits paid by Xinjiang Loulan are based on certain percentages of the employees' salary costs in accordance with the relevant regulations in the PRC and are charged to the profit and loss account as incurred. The Group discharges its employee retirement obligations upon payment of the retirement benefits to the above retirement benefits plans.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

i. from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

ii. interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

iii. rental income, on a time proportion basis over the lease terms.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Short term investments

Short term investments are stated at fair value and any change in fair value is recorded in the profit and loss account for the year in which the change occurs.

5. SEGMENT INFORMATION

During the year, the Group was principally engaged in the production and sale of wine in the PRC. Over 90% of the Group's revenue was derived from customers based in the PRC and over 90% of the Group's assets are located in the PRC.

6. TURNOVER

The Group's turnover represents the invoiced value of wine product sold, net of value-added tax, consumption tax, and allowance for goods returned and trade discounts.

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

	2002	2001
	RMB'000	*RMB'000*
Sale of bottled wine	**14,358**	17,604
Sale of unbottled wine to a related party	**–**	7,620
	14,358	25,224
Less: consumption tax	**(1,321)**	(2,170)
	13,037	23,054

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2002	2001
	RMB'000	*RMB'000*
Cost of inventories sold	**6,844**	11,424
Depreciation of fixed assets	**2,095**	1,907
Loss on dispoal of fixed assets	**56**	–
Amortisation of intangible assets*	**305**	305
Operating lease rentals in respect of agricultural land	**550**	550
Less: Amount capitalised	**(550)**	(550)
	–	–
Staff costs (including directors' remuneration – note (9)):		
Wages and salaries	**4,847**	2,822
Pension scheme contributions**	**477**	326
	5,324	3,148
Less: Amount capitalised	**(415)**	(747)
	4,909	2,401
Auditors' remuneration	**583**	13
Provision for obsolete stock	**578**	–
Provision for amount due from a related company	**92**	222
Provision for doubtful debts	**516**	1,402
Interest income	**(27)**	(38)

* *The amortisation of intangible assets is included in "Cost of sales" on the face of consolidated profit and loss account.*

** *During the year, there were no forfeited contribution available to offset the Group's pension scheme contribution.*

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

8. FINANCE COSTS

	2002	2001
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**3,820**	3,710

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited and section 161 of the Companies Ordinance is as follows:

	2002	2001
	RMB'000	*RMB'000*
Executive directors:		
Fees	**–**	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**1,304**	487
Pension scheme contributions	**13**	9
Non-executive directors:		
Fees	**–**	–
Independent non-executive directors:		
Fees	**32**	–
	1,349	496

The remuneration paid by the Group to the executive directors of the Company for the year ended 31 December 2002, analysed on an individual basis, was RMB829,000 (2001: RMB290,000), RMB421,000 (2001: RMB157,000) and RMB67,000 (2001: RMB49,000).

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 December 2002, analysed on an individual basis, was RMB16,000 (2001: Nil) and RMB16,000 (2001: Nil)

During the year no directors waived any emoluments and no emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group as compensation for loss of offices.

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two directors during the years ended 31 December 2002 and 2001, and the information relating to their remuneration is disclosed in note 9. Details of the remuneration paid to the remaining three non-director, highest paid individuals during the years, are as follows:

	2002	2001
	RMB'000	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**1,194**	443
Pension scheme contributions	**27**	22
	1,221	465

The number of the above non-director, highest paid individuals whose remuneration fell within the designated band is as follows:

	Number of employees	
	2002	2001
Nil to RMB1,000,000	**3**	3

During the year, no emoluments have been paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of offices.

11. TAX

	2002	2001
	RMB'000	*RMB'000*
Provision for the year in respect of profits for the year		
– Hong Kong	**–**	–
– Mainland China	**2**	894
Deferred tax	**–**	(330)
	2	564

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

11. TAX *(Continued)*

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 year ended 31 December 2002 in these jurisdictions.

Taxes on profits assessable elsewhere in the PRC have been calculated based on the existing legislation, interpretations and practices at the prevailing rates of tax.

The Group's subsidiary, 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.

12. LOSS PER SHARE

The calculation of the Group's basic loss per share is based on the loss on ordinary activities attributable to shareholders for the year of RMB13,771,000 (2001: RMB1,047,000) and the weighted average of 339,452,000 (2001: 300,000,000) shares deemed to have been in issue during the year.

Diluted loss per share amounts for the year ended 31 December 2002 and 2001 have not been disclosed, as no diluting event existed during these years.

13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company, was RMB6,298,000 (2001: RMB659,000).

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

14. FIXED ASSETS

Group

	Leasehold land and buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Vineyard development *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2002	21,466	13,160	1,027	1,633	5,933	43,219
Additions	4	72	147	721	1,332	2,276
Disposals	–	–	(10)	(73)	–	(83)
Surplus on revaluation	120	–	–	–	–	120
At 31 December 2002	21,590	13,232	1,164	2,281	7,265	45,532
Depreciation:						
At 1 January 2002	4,669	3,894	247	359	–	9,169
Provided for the year	896	878	125	196	–	2,095
Disposals	–	–	(2)	(25)	–	(27)
At 31 December 2002	5,565	4,772	370	530	–	11,237
Net book value:						
At 31 December 2002	16,025	8,460	794	1,751	7,265	34,295
At 31 December 2001	16,797	9,266	780	1,274	5,933	34,050

The Group's land use rights and buildings are situated in the PRC and held under medium term leases.

No interest has been capitalised in vineyard development.

Certain of the Group's fixed assets with an aggregate carrying amount of RMB19,195,000 (2001: RMB20,111,000) were pledged to secure a banking facility granted to the Group, as disclosed in note 24.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

14. FIXED ASSETS *(Continued)*

Group *(Continued)*

In preparation for the listing of the shares of the Company on the GEM of the Stock Exchange, a revaluation on the leasehold land and buildings of the Group was performed. The effect of such revaluation was incorporated in the financial statements in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The Group leasehold land and buildings are stated at valuation, on an open market value, by Sallmanns (Far East) Limited at 30 June 2002. Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately RMB16,369,000 as at 30 June 2002.

15. INTANGIBLE ASSETS

Group

	Trademarks	Production technology and know-how	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
As at 1 January 2002 and 31 December 2002	650	5,456	6,106
Accumulated amortisation:			
As at 1 January 2002	168	1,409	1,577
Provided for the year	32	273	305
As at 31 December 2002	200	1,682	1,882
Net book value:			
As at 31 December 2002	450	3,774	4,224
As at 31 December 2001	482	4,047	4,529

The trademarks with an aggregate carrying amount of RMB450,000 (2001: RMB482,000) were pledged to secure a banking facility granted to the Group.

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	RMB'000	*RMB'000*
Unlisted shares, at cost	**1,762**	1,762
Due from subsidiaries	**4,774**	–
Due to a subsidiary	**(3,367)**	(1,762)
	3,169	–

The balances due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries are as follow:

Name	Place of incorporation/ registration	Nominal value of Issued and fully paid share capital/ registered capital	Percentage of attributable equity interest Direct	Indirect	Principal activities	Place of operation
Powerful Kingdom Inc.	British Virgin Islands	USD800	100	–	Investment holding	Hong Kong
Xinjiang Loulan Wine Co., Ltd * 新疆樓蘭酒業有限公司	the PRC	RMB10,000,000	–	90	Selling, distribution and production of wines	the PRC
Crownhead Limited	Hong Kong	HK$2	–	100	Provision of management services	Hong Kong

* *Xinjiang Loulan Wine Co., Ltd is a Sino-foreign equity joint venture established in the PRC.*

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

17. LONG TERM DEPOSIT

	2002	2001
	RMB'000	*RMB'000*
Long term deposit	**19,080**	–

The balance represents a deposit made on the potential acquisition of distribution outlets for the Group's product.

18. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable is as follows:

	Group	
	2002	2001
	RMB'000	*RMB'000*
Current to 90 days	**3,927**	3,055
91 to 180 days	**1,095**	1,044
181 to 365 days	**1,640**	2,595
Over 365 days	**6,733**	4,462
	13,395	11,156
Less: Provision for doubtful debts	**(5,444)**	(5,873)
	7,951	5,283

The Group generally allows average credit periods ranging from 30 to 180 days to its trade debtors.

19. INVENTORIES

	Group	
	2002	2001
	RMB'000	*RMB'000*
Raw materials	**3,021**	3,917
Work in progress	**12,953**	13,096
Finished goods	**1,682**	3,289
	17,656	20,302

There were no inventories carried at net realisable value as at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

20. DUE FROM/(TO) RELATED COMPANIES

Particulars of the amounts due from/(to) related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

			Maximum balance outstanding during	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due from:				
Shanshan Paper	**4,810**	4,718	**4,810**	4,993
Provision for amount due from Shanshan Paper	**(4,810)**	(4,718)		
	–	–		
Shanshan Wine	**–**	50	**–**	50
Gao Chang	**–**	11,059	**–**	11,059
	–	11,109		

The amounts due from related companies are trading balances except for the amount due from Shanshan Paper which mainly consisted of advances. The amounts due from/(to) related companies are unsecured, non-interest bearing and are repayable on demand.

21. SHORT TERM INVESTMENT

	Group	
	2002	2001
	RMB'000	*RMB'000*
Fund investment, at cost	**20,000**	–

The investment reaches maturity on 30 September 2003 and has a guaranteed return of 1%.

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

22. DEFERRED TAX

	Group	
	2002	2001
	RMB'000	*RMB'000*
Deferred tax asset	**330**	330

The deferred tax asset mainly arose from tax losses brought forward by the Group.

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSIT

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**4,383**	1,369	**2,234**	–
Pledged bank deposit	**11,660**	–	**11,660**	–
	16,043	1,369	**13,894**	–
Less: Pledged bank deposit: Pledged as security for bank loans	**(11,660)**	–	**(11,660)**	–
Cash and cash equivalents	**4,383**	1,369	**2,234**	–

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

24. BANK AND OTHER LOANS

	Group	
	2002	2001
	RMB'000	*RMB'000*
Bank loans, secured	**41,882**	38,382
Other loans, unsecured	**4,510**	11,750
	46,392	50,132
Bank loans repayable:		
Within one year or on demand	**41,882**	6,500
In the second year	**–**	31,882
	41,882	38,382
Other loans repayable:		
Within one year or on demand	**4,510**	11,750
	46,392	50,132
Portion classified as current liabilities	**(46,392)**	(18,250)
Long term portion	**–**	31,882

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

24. BANK AND OTHER LOANS *(Continued)*

The Group's bank loans are secured by:

(i) floating charges over certain categories of the Group's fixed assets with an aggregate carrying amount as follows:

	Group	
	2002	2001
	RMB'000	*RMB'000*
Buildings	**8,389**	8,867
Plant and machinery	**8,460**	9,266
Motor vehicles	**1,728**	1,219
Furniture, fixtures and equipment	**618**	759
	19,195	20,111

(ii) floating charges over the right to use the trademarks of Xinjiang Loulan; and

(iii) a pledged bank deposit of RMB11,660,000.

As at the date of this report, the Group is still in the process of registering these fixed assets and the right to use the trademarks of Xinjiang Loulan with the local government as securities for the bank loan.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

25. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the balance sheet date is as follows:

	Group	
	2002	2001
	RMB'000	*RMB'000*
Current to 90 days	**2,571**	2,158
91 to 180 days	**260**	467
181 to 365 days	**61**	289
Over 365 days	**1,164**	1,146
	4,056	4,060

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Value-added tax payable	**5,730**	7,407	**–**	–
Consumption tax payable	**5,009**	5,475	**–**	–
Salaries and staff welfare payable	**95**	72	**–**	–
Accrued expenses	**9,027**	5,158	**1,644**	2,011
Other payables	**4,046**	2,355	**–**	–
	23,907	20,467	**1,644**	2,011

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

27. SHARE CAPITAL

The following is a summary of movements in the authorised and issued share capital of the Company:

		Number of shares		
	Note	**Ordinary shares of HK$0.05 each**	**Ordinary shares of HK$0.01 each**	**Value** *RMB'000*
Authorised:				
On incorporation	*27(i)*	7,800,000	–	413
Change of nominal value of shares from HK$0.05 each to HK$0.01 each	*27(ii)*	(7,800,000)	39,000,000	–
Increase in authorised share capital	*27(iii)*	–	9,961,000,000	105,587
At 12 August 2002 (the listing date), and 31 December 2002		Nil	10,000,000,000	106,000
Issued and fully paid:				
Allotted, issued and nil paid	*27(i)*	1	–	–
Change of nominal value of shares from HK$0.05 each to HK$0.01 each	*27(ii)*	(1)	5	–
On acquisition of Powerful Kingdom Inc. – consideration shares issues	*27(iv)*	–	99,995	1
Pro forma share capital of the Group at 31 December 2001		Nil	100,000	1
Capitalisation of the share premium account	*27(v)*	–	299,900,000	3,179
New issue of shares	*27(vi)*	–	100,000,000	1,060
At 12 August 2002 (the listing date) and 31 December 2002		Nil	400,000,000	4,240

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

27. SHARE CAPITAL *(Continued)*

(i) As at the date of incorporation of the Company, its initial authorised share capital was HK$390,000 (RMB413,000) divided into 7,800,000 ordinary shares of HK$0.05 each in the capital of the Company, one of which was allotted and issued nil paid on 6 September 2001.

(ii) Pursuant to the written resolutions dated 5 October 2001, each of the issued and unissued ordinary shares of HK$0.05 each in the capital of the Company was subdivided into 5 ordinary shares of HK$0.01 each in the capital of the Company. As a result of the subdivision, the authorised share capital of the Company was HK$390,000 (RMB413,000) divided into 39,000,000 shares of HK$0.01 each.

(iii) On 24 July 2002, written resolutions were passed pursuant to which the authorised share capital of the Company was increased from HK$390,000 (RMB413,000) to HK$100,000,000 (RMB105,587,000) by the creation of an additional 9,961,000,000 shares.

(iv) As consideration for the acquisition by the Company of the entire issued share capital of Powerful Kingdom Inc., the Company allotted and issued an aggregate of 99,995 shares credited as fully paid to the original shareholders of Powerful Kingdom Inc.

(v) On 24 July 2002, resolutions of the sole shareholders of the Company were passed pursuant to which, inter alia:

Conditional on the share premium account of the Company being credited as a result of the new issue of shares, the directors were authorised to capitalise HK$2,999,000 (RMB3,179,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par an aggregate of 299,900,000 shares for allotment and issue to the holders of shares on the register of members of the Company at the close of business on 24 July 2002.

(vi) On 12 August 2002, the Company issued 100,000,000 new shares of HK$0.01 each to the public at an issue price of HK$0.5 each, for a total cash consideration of HK$50,000,000 (RMB53,000,000), before issue expenses.

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, employees, suppliers, customers, advisors and shareholders of the Group. The Scheme became effective on 24 July 2002 ("Adoption Date") and, unless otherwise cancelled or amended, will remain in force for the period of 10 years started from the Adoption Date.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

27. SHARE CAPITAL *(Continued)*

Share option scheme *(Continued)*

HK$1.00 is payable by each Eligible Person to the Company on acceptance of the offer of an option.

The subscription price for any share of the Company issuable under the Scheme is, subject to any adjustments made to the terms of the Scheme, be a price determined by the Board and notified to each Person and will be not less than the greater of (i) the nominal value of a share; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day; or (iii) an amount equal to the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. No options may be granted under any scheme of the Company (including the Scheme) if this will result in the 30% limit being exceeded.

The total number of shares of the Company available for issue under options which may be granted under the Scheme and any other share option schemes must not, in aggregate, exceed 40,000,000 shares, representing 10% of the issued share capital of the Company as at 31 December 2002, unless shareholders' approval has been obtained.

No share options have been granted under the Scheme as at the date of this report.

NOTES TO FINANCIAL STATEMENTS

(31 December 2002)

28. RESERVES

The amounts of the Group's reserves and the movements therein for current and prior years are presented in the consolidated statement of changes in equity on page 26 of the financial statements.

Xinjiang Loulan is required to follow the laws and regulations of the PRC and its articles of association. Under these requirements, the amount of the appropriation to the statutory reserve fund of Xinjiang Loulan is determined by the board of directors of Xinjiang Loulan in accordance with the relevant laws and regulations of the PRC. The statutory reserve fund may only be used, upon approval by the relevant authority, to offset accumulated losses or to increase capital.

If Xinjiang Loulan's reserve fund is not sufficient to compensate for its losses in prior years, its current year's net profit is used to make good the losses before allocations are set aside for the reserve fund.

The Group's contributed surplus arose as a result of the Group Reorganisation on the basis that the Company had become the holding company of the Group on 24 July 2002, and it represents the excess of the par value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

Movements in the reserves of the Company during the year were as follows:

Company

	Share premium account	Contributed surplus	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Arising from the issue of shares for the acquisition of subsidiary	–	1,760	–	1,760
Net loss for the year	–	–	(659)	(659)
At 31 December 2001	–	1,760	(659)	1,101
Issue of shares	48,761	–	–	48,761
Share issue expenses	(13,022)	–	–	(13,022)
Net loss for the year	–	–	(6,298)	(6,298)
At 31 December 2002	35,739	1,760	(6,957)	30,542

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

29. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with the following related parties:

Name	Nature of transactions	*Notes*	**2002 RMB'000**	2001 RMB'000
新疆鄯善葡萄酒廠 ("Shanshan Wine")	Recharge of expenses paid on behalf of the related party by the Group	*(i), (v)*	**–**	50
新疆鄯善紙箱廠 ("Shanshan Paper")	Purchases of packaging materials	*(iv), (vi)*	**266**	325
	Recharge of expenses paid on behalf of the related party by the Group	*(v)*	**–**	1,201
	Purchase of a fixed asset	*(vii)*	**–**	214
Luray Limited ("Luray")	Sales of bottled wine	*(ii), (viii)*	**–**	342
新疆吐魯番高昌葡萄酒業有限公司 ("Gao Chang")	Sales of unbottled wine	*(iii), (ix)*	**–**	7,620
	Sales of raw materials	*(x)*	**–**	2
	Recharge of expenses paid on behalf of the related party by the Group	*(v)*	**–**	322
	Purchases of bottled wine	*(xi)*	**–**	1,393

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

29. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) Shanshan Wine holds a 10% equity interest in Xinjiang Loulan.

(ii) Mr. Woo Hang Lung, a shareholder and director of the Company, is also a shareholder of Luray Limited.

(iii) Mr. Woo Hang Lung, a shareholder and director of the Company, is also a director of Gao Chang. Mr. Woo Hang Lung and New Dragon (No. 7) Investments Limited, shareholders of the Company, have indirect beneficial interests in Gao Chang.

(iv) Shanshan Wine is also the sole shareholder of Shanshan Paper.

(v) Last year the amounts represented expenses paid by Xinjiang Loulan on behalf of the related parties and such amounts were charged at the actual costs incurred.

(vi) Xinjiang Loulan purchased packaging materials from Shanshan Paper during the year and such transactions were charged at pre-agreed rates.

(vii) Shanshan Paper disposed of a machine to Xinjiang Loulan at a consideration of RMB214,000 in 2001, which was the carrying amount of the fixed asset upon its disposal.

(viii) Xinjiang Loulan made sales of bottled wine to Luray for the year ended 31 December 2001. The transactions were made with reference to market prices for the 2001 sales .

(ix) Xinjiang Loulan made sales of unbottled wine to Gao Chang last year. Such transactions were made on a cost plus basis, with a gross profit of approximately RMB4,628,000, on a sale of approximately RMB7,620,000 before deduction of consumption tax of approximately RMB750,000.

(x) Xinjiang Loulan made sales of raw materials to Gao Chang last year. Such sale transactions were made with reference to prevailing market prices.

(xi) Xinjiang Loulan purchased bottled wine from Gao Chang last year. Such purchase transactions were made at market rates.

NOTES TO FINANCIAL STATEMENTS
(31 December 2002)

30. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its vineyard and office premises under operating lease arrangements.

As at 31 December, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2002	2001
	RMB'000	*RMB'000*
Land and building expiring:		
Within one year	**1,111**	883
In the second to fifth years, inclusive	**2,733**	2,560
Over five years	**18,275**	18,996
	22,119	22,439

31. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

32. COMPARATIVE FIGURES

As further explained in note 3, due to the adoption of certain new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2003.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December		
	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*
Turnover	**13,037**	23,054	25,228
Cost of sales	**(6,844)**	(11,424)	(12,599)
Gross profit	**6,193**	11,630	12,629
Other revenue	**45**	408	1,660
Selling and distribution costs	**(2,490)**	(2,313)	(2,980)
Administrative expenses	**(13,493)**	(6,274)	(5,100)
Other operating expenses	**(397)**	(247)	(532)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(10,142)**	3,204	5,677
Finance costs	**(3,820)**	(3,710)	(3,104)
PROFIT/(LOSS) BEFORE TAX	**(13,962)**	(506)	2,573
Tax	**(2)**	(564)	(109)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(13,964)**	(1,070)	2,464
Minority interests	**193**	23	(246)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(13,771)**	(1,047)	2,218
Earnings/(loss) per share – basic *(RMB)*	**(0.041)**	(0.003)	0.007

FINANCIAL SUMMARY

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December		
	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*
TOTAL ASSETS	**123,175**	79,943	71,112
TOTAL LIABILITIES	**(75,251)**	(78,153)	(68,252)
MINORITY INTERESTS	**–**	(193)	(216)
	47,924	1,597	2,644

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Loulan Holdings Limited (the "**Company**") will be held at 11:00 a.m. on 25 April 2003 at The Empire Hotel, PM Floor, 33 Hennessy Road, Wanchai, Hong Kong to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors (the "**Directors**") of the Company and auditors for the year ended 31 December 2002;

2. to re-elect Directors and to authorise the board of Directors to fix the Directors' remuneration;

3. to re-appoint auditors and to authorise the board of Directors to fix their remuneration; and, as special business, to consider and, if thought fit, passing the following resolutions (the "**Resolution(s)**") as ordinary Resolutions:

4. "**THAT**:

    (a) subject to paragraph (c) below, pursuant to the Rules (the "**GEM Listing Rules**") Governing the Listing of Securities on the Growth Enterprise Market ("**GEM**") operated by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the Directors during the Relevant Period (as herein defined) of all the powers of the Company to allot, issue and deal with unissued shares (each a "**Share**") of HK$0.01 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

    (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

    (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as herein defined); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time, shall not exceed the aggregate of:

        (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(bb) (if the Directors are so authorised by a separate ordinary Resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of that Resolution),

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purposes of this Resolution:

"**Relevant Period**" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law of Cayman Islands (the "**Companies Law**"), or any other applicable law of Cayman Islands to be held; and

(iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution;

"**Rights Issue**" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

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5. "**THAT**:

    (a) the exercise by the Directors during the Relevant Period (as herein defined) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the GEM Listing Rules and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

    (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

    (c) for the purposes of this Resolution, "**Relevant Period**" means the period from the date of the passing of this Resolution until whichever is the earliest of:

        (i) the conclusion of the next annual general meeting of the Company;

        (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law, or any other applicable law of Cayman Islands to be held; and

        (iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution."

6. "**THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution."

By order of the board of Directors
Woo Hang Lung
Chairman

Hong Kong, 26 March 2003

NOTICE OF ANNUAL GENERAL MEETING

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong:
Rooms 2001-4
20th Floor
The Broadway
54-62 Lockhart Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy for use at the annual general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the principal place of business of the Company in Hong Kong at Rooms 2001-4, 20th Floor, The Broadway, 54-62 Lockhart Road, Wanchai, Hong Kong. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.

3. In relation to proposed Resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of Shares under the GEM Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders of the Company.

4. In relation to proposed Resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholder of the Company. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed Resolution as required by the GEM Listing Rules is set out a separate document to be despatched to the shareholders of the Company with the annual report for the year.