



2003

LOULAN HOLDINGS LIMITED



**LOULAN HOLDINGS LIMITED**

**樓蘭控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

Third Quarterly Report 2003

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

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*This report, for which the directors (“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 (“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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# LOULAN HOLDINGS LIMITED

## RESULTS (UNAUDITED)

The board of Directors (the "Board") of Loulan Holdings Limited (the "Company") announce that the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 30 September 2003 together with comparative unaudited figures for the corresponding periods in 2002 are as follows:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	3	<b>72,109</b>	3,155	<b>96,650</b>	9,787
Cost of sales		<b>(66,699)</b>	(1,616)	<b>(88,151)</b>	(4,803)
Gross profit		<b>5,410</b>	1,539	<b>8,499</b>	4,984
Other revenue and gains	4	<b>5,442</b>	10	<b>5,522</b>	17
Selling and distribution costs		<b>(2,302)</b>	(685)	<b>(3,525)</b>	(2,013)
Administrative expenses		<b>(3,363)</b>	(2,998)	<b>(7,843)</b>	(7,006)
Other operating expenses		<b>(3)</b>	(2)	<b>(65)</b>	(63)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	<b>5,184</b>	(2,136)	<b>2,588</b>	(4,081)
Finance costs	6	<b>(979)</b>	(993)	<b>(2,435)</b>	(2,599)
PROFIT/(LOSS) BEFORE TAX		<b>4,205</b>	(3,129)	<b>153</b>	(6,680)
TAX	7	<b>(287)</b>	–	<b>(362)</b>	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		<b>3,918</b>	(3,129)	<b>(209)</b>	(6,680)
Minority interests		–	110	–	283
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		<b>3,918</b>	(3,019)	<b>(209)</b>	(6,397)
Earnings/(loss) per share – basic (RMB)	9	<b>0.010</b>	(0.008)	<b>(0.001)</b>	(0.020)

## NOTES:

### 1. **Group reorganisation**

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

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

### 2. **Basis of preparation and principal accounting policies**

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

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 30 September 2003 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002 and the accounting policy for goodwill which arise from the acquisition of a subsidiary in the period:

#### Accounting policy for goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

### 3. Turnover

The Group is principally engaged in the production, sale and distribution of alcoholic drinks in the PRC. Turnover represents the net invoiced value of goods sold, after allowances for returns, trade discounts and consumption tax in the PRC.

	For the three months ended 30 September		For the nine months ended 30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Sale of goods	72,374	3,475	97,480	10,808
Less: Consumption tax	(265)	(320)	(830)	(1,021)
	<u>72,109</u>	<u>3,155</u>	<u>96,650</u>	<u>9,787</u>

### 4. Other revenue and gains

	For the three months ended 30 September		For the nine months ended 30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Gain on waiver of bank loan (a)	5,000	–	5,000	–
Overprovision of interest expense	277	–	277	–
Overprovision of doubtful debts	140	–	140	–
Others	25	10	105	17
	<u>5,442</u>	<u>10</u>	<u>5,522</u>	<u>17</u>

- (a) The amount represents gain on waiver of bank loan of a related company due to liquidation. This bank loan has previously been taken up by the Group.

## 5. Profit/(loss) from operating activities

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories sold	<b>66,699</b>	1,616	<b>88,151</b>	4,803
Depreciation of fixed assets	<b>738</b>	451	<b>1,756</b>	1,345
Amortisation of intangible assets	<b>182</b>	84	<b>362</b>	253
Operating lease rentals in respect of agricultural land	<b>137</b>	137	<b>412</b>	412
Less: Amount capitalised	<b>(137)</b>	(137)	<b>(412)</b>	(412)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	-	-	-	-
Staff costs (including directors' remuneration):				
Wages and salaries	<b>1,673</b>	1,303	<b>4,312</b>	3,356
Pension scheme contributions	<b>247</b>	117	<b>515</b>	232
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<b>1,920</b>	1,420	<b>4,827</b>	3,588
Less: Amount capitalised	<b>(77)</b>	(104)	<b>(707)</b>	(310)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<b>1,843</b>	1,316	<b>4,120</b>	3,278

## 6. Finance costs

	For the three months ended 30 September		For the nine months ended 30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	<b>979</b>	993	<b>2,435</b>	2,599
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 7. Tax

	For the three months ended 30 September		For the nine months ended 30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Provision of profits tax				
– Hong Kong	–	–	–	–
– Mainland China	287	–	362	–
	<u>287</u>	<u>–</u>	<u>362</u>	<u>–</u>

No provision for profits tax in the Cayman Islands or Hong Kong has been made as the Group had no income assessable for profits tax for the three months and the nine months respectively ended 30 September 2003 as well as the corresponding periods of last year 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 Wine Co., Limited ("Xinjiang Loulan"), is a foreign investment enterprise in the PRC which was entitled to an exemption from PRC income tax of 33% for two years commencing from the year ended 31 December 1999, its first profit-making year of operations after offsetting prior year losses. Thereafter, Xinjiang Loulan is entitled to a 50% relief from PRC income tax of 30% payable to the Tax Bureau of the Central Government for the following three years. Xinjiang Loulan is not entitled to any tax exemption or relief in respect of the PRC income tax of 3% payable to the Tax Bureau of the Xinjiang local government commencing from 1 January 2001.

## 8. Dividend

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2003 (2002: Nil).

## 9. Earnings/(loss) per share

The calculation of the Group's basic earnings/(loss) per share for the three months ended 30 September 2003 was based on the unaudited profit attributable to shareholders of approximately RMB3,918,000 (2002: loss of RMB3,019,000) and the weighted average of 400,000,000 (2002: 356,522,000) shares in issue during the period.

The calculation of the Group's basic loss per share for the nine months ended 30 September 2003 was based on the unaudited loss attributable to shareholders of approximately RMB209,000 (2002: RMB6,397,000) and the weighted average of 400,000,000 (2002: 319,048,000) shares in issue during the period.

Diluted earnings/(loss) per share amounts for the three months and nine months respectively ended 30 September 2003 and 2002 have not been disclosed, as no diluting event existed during the periods.

## 10. Consolidated statement of changes in equity

	Issue capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Statutory reserve fund RMB'000	Accumulated losses RMB'000	Fixed assets revaluation reserve RMB'000	Total RMB'000
<b>2002</b>							
At 1 January 2002	1	-	9,703	1,884	(9,991)	-	1,597
Issue of shares	4,239	48,760	-	-	-	-	52,999
Share issuing expenses	-	(13,047)	-	-	-	-	(13,047)
Conversion of shareholder loan to capital	-	-	20,000	-	-	-	20,000
Loss for the nine months ended 30 September 2002	-	-	-	-	(6,397)	-	(6,397)
At 30 September 2002	<u>4,240</u>	<u>35,713</u>	<u>29,703</u>	<u>1,884</u>	<u>(16,388)</u>	<u>-</u>	<u>55,152</u>
<b>2003</b>							
At 1 January 2003	4,240	35,739	29,703	1,884	(23,762)	120	47,924
Loss for the nine months ended 30 September 2003	-	-	-	-	(209)	-	(209)
At 30 September 2003	<u>4,240</u>	<u>35,739</u>	<u>29,703</u>	<u>1,884</u>	<u>(23,971)</u>	<u>120</u>	<u>47,715</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the three months ended 30 September 2003, the Group's turnover amounted to approximately RMB72,109,000 (2002: RMB3,155,000). The significant increase in sales was mainly due to the consolidation of the sales of an alcoholic drinks distributor, approximately RMB69,623,000, which was successfully acquired by the Group in May 2003. The average gross profit margin of the Group was decreased to 8% compared with that of 49% in the same period last year. Such decrease was attributable to the sales of the newly acquired alcoholic drinks distributor which has an average gross profit margin of 6%. For the three months ended 30 September 2003, the Group's selling and distribution costs were approximately RMB2,302,000 (2002: RMB685,000). The increase was due to the newly acquired alcoholic drinks distributor.

The profit attributable to shareholders of the Company for the three months ended 30 September 2003 was RMB3,918,000 (2002: loss of RMB3,019,000). The increase in profit attributable to shareholders was mainly due to the gain on waiver of bank loan of RMB5,000,000 and the contribution of profit from the newly acquired alcoholic drinks distributor as mentioned above.

### PROSPECTS

In May 2003, the Group has acquired a newly wholly-owned subsidiary, which is a distributor of alcoholic drinks in Shanghai, the PRC. As such, the Group has consolidated the results of such subsidiary for the three months and nine months ended 30 September 2003 respectively. The Directors believe that the existing distribution network of this distributor will assist the development of the Group, in particular, in market expansion of the Group's penetration in Shanghai and the Huadong area of the PRC. The market in Shanghai will be the foundation for further development of the Group in the Huadong area of the PRC. This distributor will also add to the Group, the wholesale business of many brands, including but not limited to the Loulan brand of wines, beers and Chinese spirits to the Group and thereby improve the Group's turnover and enlarge the Group's earning base in the future.

**DISCLOSURE OF INTERESTS**

As at 30 September 2003, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Company:

Name of Director	Personal	Family	Corporate	Others	Total	
	interests	interests	interests	interests		
	(number of shares)	(number of shares)	(number of shares)	(number of shares)	number of shares	%
Woo Hang Lung	163,125,000	–	–	–	163,125,000	40.78
Chen Guoping (Note)	22,500,000	–	–	–	22,500,000	5.63
Junichi Goto	6,000,000	–	–	–	6,000,000	1.5

Note: Mr. Chen Guoping resigned as a director of the Company on 17 July 2003.

Some Directors are holding shares in a subsidiary of the Company which is incorporated in Hong Kong in a non-beneficial interest to meet minimum shareholder requirement.

Save as disclosed above, as at 30 September 2003, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO) or which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred in Rule 5.40 to 5.58 of the GEM Listing Rules.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at 30 September 2003, the following director of the Company ("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 GEM 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 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 of the Company and Director in the case of Mr. Woo Hang Lung) in the business of the Group as more particularly set out in the Prospectus, or any business which may compete, whether directly or indirectly, with any business carried on by any member of the Group in Hong Kong and the PRC.

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

Save as disclosed above, none of the Directors had an interest in a business, which compete or may compete with the business of the Group.

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

During the nine months ended 30 September 2003, none of the Directors or chief executives of the Company or any of their spouse or children under 18 year of age had exercised or was granted or holding options to acquire shares in or debentures of the Company.

**SUBSTANTIAL SHAREHOLDERS**

So far as is known to any Directors or chief executives of the Company, as at 30 September 2003, shareholders of the Company (including Directors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows.

<b>Name</b>	<b>Number of shares held</b>	<b>%</b>
Woo Hang Lung	163,125,000	40.78
New Dragon (No. 7) Investments Limited (Notes 1 and 3)	82,500,000	20.63
Nomura China Venture Investment Fund Limited (Notes 1 and 2)	82,500,000	20.63
China Enterprise Investment Fund (Notes 1 and 3)	82,500,000	20.63
Nomura Holdings, Inc. (Notes 1 and 2)	82,500,000	20.63
JAFCO Co., Ltd. (Notes 1 and 2)	82,500,000	20.63
Global Funds Trust Company (Notes 1 and 3)	82,500,000	20.63
Chen Guoping	22,500,000	5.63

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 Limited and as to 50% by China Enterprise Investment Fund, and (b) the 50% ownership in New Dragon (No. 7) Investments Limited as being beneficially held and controlled by China Enterprise Investment Fund is being held through Global Funds Trust Company, a company incorporated in the Cayman Islands as a trustee.

Save as disclosed, as at 30 September 2003, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

### **SHARE OPTION SCHEME**

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

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

### **INTERESTS OF SPONSOR**

Pursuant to the sponsor agreement dated 31 July 2002 between Kim Eng Capital (Hong Kong) Limited (“Kim Eng”) and the Company, the Company has 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.

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 as at 30 September 2003.

### **BOARD PRACTICES AND PROCEDURES**

The Directors considered that the Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period.

## **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. The audit committee comprises two independent non-executive Directors, namely Mr. Lau Chi Sun, Robbie and Mr. Lo Chi Man who is the Chairman of such committee.

The audit committee has already reviewed the Group's unaudited consolidated results for the nine months ended 30 September 2003.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2003.

By order of the Board  
**Loulan Holdings Limited**  
**Woo Hang Lung**  
Chairman

Hong Kong, 5 November 2003