



LOULAN HOLDINGS LIMITED
樓蘭控股有限公司

(Incorporated in the Cayman Islands with limited liability)

2003 FIRST QUARTERLY REPORT

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

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

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 of Hong Kong Limited takes no responsibility for the contents of this 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 report.

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.

RESULTS

The board of Directors (the "Board") of Loulan Holdings Limited (the "Company") reported that the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2003 together with unaudited comparative figures for the three months ended 31 March 2002 are as follows:

Unaudited Consolidated Profit and Loss Account

For the three months ended 31 March 2003

	Notes	For the three months ended 31 March	
		2003 RMB'000	2002 RMB'000
Turnover	3	2,697	4,362
Cost of sales		<u>(1,462)</u>	<u>(2,023)</u>
Gross profit		1,235	2,339
Other revenue		9	5
Selling and distribution costs		(435)	(679)
Administrative expenses		(2,270)	(2,203)
Other operating expenses		<u>(56)</u>	<u>(60)</u>
LOSS FROM OPERATING ACTIVITIES	4	(1,517)	(598)
Finance costs	5	<u>(814)</u>	<u>(803)</u>
LOSS BEFORE TAX		(2,331)	(1,401)
Tax	6	<u>–</u>	<u>–</u>
LOSS BEFORE MINORITY INTERESTS		(2,331)	(1,401)
Minority interests		<u>–</u>	<u>29</u>
LOSS ATTRIBUTABLE TO SHAREHOLDERS		<u>(2,331)</u>	<u>(1,372)</u>
Loss per share – basic (RMB)	8	<u>(0.006)</u>	<u>(0.005)</u>

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 31 March 2003 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002.

3. Turnover

The Group is principally engaged in the production, sale and distribution of grape wine products primarily in the PRC. Turnover represents the net invoiced value of goods sold, after allowances for returns, trade discounts and consumption tax in the People's Republic of China (the "PRC").

	For the three months ended 31 March	
	2003	2002
	RMB'000	RMB'000
Sale of bottled wine	2,981	4,852
Less: Consumption tax	(284)	(490)
	2,697	4,362

4. Loss from operating activities

The Group's loss from operating activities is arrived at after charging:

	For the three months ended 31 March	
	2003	2002
	RMB'000	RMB'000
Cost of inventories sold	1,462	2,023
Depreciation of fixed assets	466	451
Amortisation of intangible assets	76	76
Operating lease rentals in respect of agricultural land	137	137
Less: Amount capitalised	(137)	(137)
	-	-
Staff costs (including directors' remuneration):		
Wages and salaries	1,202	1,082
Pension scheme contributions	115	85
	1,317	1,167
Less: Amount capitalised	(94)	(101)
	1,223	1,066

5. Finance costs

	For the three months ended 31 March	
	2003	2002
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	814	803

6. Tax

No provision for profits tax in the Cayman Islands or Hong Kong has been made as the Group had no income assessable for profits tax for the three months ended 31 March 2003 as well as the corresponding period 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.

No provision for the PRC income tax has been made as there was no assessable income for the three months ended 31 March 2003 (2002: Nil).

7. Dividend

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

8. Loss per share

The calculation of the Group's basic loss per share is based on the unaudited loss attributable to shareholders for the three months ended 31 March 2003 of RMB2,331,000 (2002: RMB1,372,000) and the weighted average of 400,000,000 (2002: 300,000,000) shares in issue during the period.

Diluted loss per share amounts for the three months ended 31 March 2003 and 2002 have not been disclosed, as no diluting event existed during these periods.

9. Segment information

During the three months ended 31 March 2003 and 31 March 2002, 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. Accordingly, the Directors consider that no further business or geographical segment information is presented.

10. Consolidated statement of changes in equity

	Share capital	Share premium	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
2002							
At 1 January 2002	1	-	9,703	1,884	(9,991)	-	1,597
Loss for the three months ended 31 March 2002	-	-	-	-	(1,372)	-	(1,372)
At 31 March 2002	1	-	9,703	1,884	(11,363)	-	225
2003							
At 1 January 2003	4,240	35,739	29,703	1,884	(23,762)	120	47,924
Loss for the three months ended 31 March 2003	-	-	-	-	(2,331)	-	(2,331)
At 31 March 2003	4,240	35,739	29,703	1,884	(26,093)	120	45,593

FINANCIAL REVIEW

For the three months ended 31 March 2003, the Group sold 145 tons of bottled wine (2002: 209 tons), amounted to approximately RMB2,697,000 (2002: RMB4,362,000) which was decreased by 38% when compared with the same period last year. The decrease in the sales of the Group was mainly due to the keen competition of wine market in the northwestern provinces of the PRC. The average gross profit margin of the Group's bottled wine was also decreased to 46% compared with that of 54% in the same period last year. Such decrease was attributable to the increase in the average unit production cost of bottled wine as a result of the decrease in the production volume. The decrease in production volume was matched with the decrease in sales in that period.

For the three months ended 31 March 2003, the Group's selling and distribution costs were approximately RMB435,000 (2002: RMB679,000), which was decreased by 36% compared with the same period last year. The decrease was in line with the decrease of the sales of the Group.

The loss attributable to shareholders for the three months ended 31 March 2003 was approximately RMB2,331,000 (2002: RMB1,372,000). The increase in the loss attributable to shareholders was mainly due to the decrease in the sales of the Group as stated above.

PROSPECTS

The Group has entered into a sale and purchase agreement in March 2003 to acquire the entire equity interest of a state-owned wholesaler and distributor of grape wine, Chinese spirits and beers in Shanghai, the PRC. The Directors believe that the existing distribution network of such wholesaler and distributor will assist the development of the Group, in particular, in market expansion of the Group's penetration in Shanghai, the PRC. The market in Shanghai will be the foundation for further development of the Group in the southern and eastern provinces in the PRC. Upon the completion of the agreement, the acquisition will add to the Group the wholesale business of many brands of grape wine, Chinese spirits and beers and thereby improve the Group's turnover and enlarge the Group earning base in the future.

DISCLOSURE OF INTERESTS

As at 31 March 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 interests (number of shares)	Family interests (number of shares)	Corporate interests (number of shares)	Others interests (number of shares)	Total number of shares	%
Woo Hang Lung	163,125,000	–	–	–	163,125,000	40.78
Chen Guoping	22,500,000	–	–	–	22,500,000	5.63
Junichi Goto	6,000,000	–	–	–	6,000,000	1.5

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 31 March 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 Rules 5.40 to 5.58 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 March 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 three months ended 31 March 2003, none of the Directors or chief executive of the Company or any of their spouse or children under 18 year of age had exercised or was granted or holding options to acquire shares in or debentures of the Company.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 March 2003, shareholders of the Company (including Director or chief executive 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:

Name	Number of shares held	%
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 31 March 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 the securities of the Company or any member of the Group as at the date of this report.

BOARD PRACTICES AND PROCEDURES

The Directors considered that the Company has complied with the requirements 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 three months ended 31 March 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 three months ended 31 March 2003.

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

Hong Kong, 12 May 2003