



First Quarterly Report
2004



LOULAN HOLDINGS LIMITED

樓蘭控股有限公司

(incorporated in the Cayman Islands with limited liability)

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 reports 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 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 (UNAUDITED)

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 2004 together with comparative unaudited figures for the corresponding periods in 2003 are as follows:

	Notes	For the three months ended 31 March	
		2004 RMB'000	2003 RMB'000
Turnover	3	22,595	2,697
Cost of sales		(17,365)	(1,462)
Gross profit		5,230	1,235
Other income		251	9
Selling and distribution costs		(2,446)	(435)
Administrative expenses		(4,386)	(2,270)
Other operating expenses		(325)	(56)
LOSS FROM OPERATING ACTIVITIES	5	(1,676)	(1,517)
Finance costs	6	(802)	(814)
LOSS BEFORE TAX		(2,478)	(2,331)
Tax	7	—	—
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(2,478)	(2,331)
Loss per share – basic (RMB)	9	(0.006)	(0.006)



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 all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited.

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 31 March 2004 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

3. Turnover

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

4. Segment information

	Selling of self-manufacturing wines For the three months ended 31 March		Distribution of wine products For the three months ended 31 March		Unallocated For the three months ended 31 March		Total For the three months ended 31 March	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2,640	2,697	19,955	-	-	-	22,595	2,697
Results								
Segment results	(832)	(119)	552	-	(1,396)	(1,398)	(1,676)	(1,517)
Finance costs							(802)	(814)
Loss before tax							(2,478)	(2,331)
Tax							-	-
Loss for the period							(2,478)	(2,331)



The Group's turnover was 100% (2003: 100%) derived from Mainland China during the period.

5. Loss from operating activities

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

	For the three months ended 31 March	
	2004 RMB'000	2003 RMB'000
Cost of inventories sold	17,365	1,462
Depreciation of property, plant and equipment	678	466
Amortisation of intangible assets	403	76
Operating lease rentals	151	137
Less: Amount capitalised	—	(137)
	<u>151</u>	<u>—</u>
Staff costs (including directors' remuneration):		
Wages and salaries	1,341	1,202
Pension scheme contributions	100	115
	<u>1,441</u>	<u>1,317</u>
Less: Amount capitalised	—	(94)
	<u><u>1,441</u></u>	<u><u>1,223</u></u>

6. Finance costs

	For the three months ended 31 March	
	2004 RMB'000	2003 RMB'000
Interest on bank and other borrowings wholly repayable within five years	<u>802</u>	<u>814</u>

7. Tax

No provision for profits tax in the Cayman Islands or Hong Kong has been made as the Group had no income assessable to profits tax for the three months ended 31 March 2004 as well as the corresponding periods of last year in these jurisdictions.

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



8. Dividends

The Board does not recommend the payment of a dividend for the three months ended 31 March 2004 (2003: Nil).

9. Loss per share

The calculation of the Group's basic loss per share for the three months ended 31 March 2004 was based on the unaudited net loss attributable to shareholders of approximately RMB2,478,000 (2003: RMB2,331,000) and the weighted average of 400,000,000 (2003: 400,000,000) shares deemed to have been in issue during the period.

Diluted loss per share for the three months ended 31 March 2004 and 2003 have not been disclosed as there were no dilutive potential shares during the periods.

10. Share capital and reserves

	Issued capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Statutory reserve fund RMB'000	Accumulated losses RMB'000	Revaluation reserve RMB'000	Total RMB'000
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	<u>4,240</u>	<u>35,739</u>	<u>29,703</u>	<u>1,884</u>	<u>(26,093)</u>	<u>120</u>	<u>45,593</u>
2004							
At 1 January 2004	4,240	35,739	29,703	1,884	(30,615)	120	41,071
Loss for the three months ended 31 March 2004	-	-	-	-	(2,478)	-	(2,478)
At 31 March 2004	<u>4,240</u>	<u>35,739</u>	<u>29,703</u>	<u>1,884</u>	<u>(33,093)</u>	<u>120</u>	<u>38,593</u>



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2004, the group's turnover and average gross profit margin amounted to approximately to RMB22,595,000 (2003: RMB2,697,000) and 23% (2003: 46%) respectively. For the same period, the Group's selling and distribution costs and administrative expenses were approximately RMB2,446,000 (2003: RMB435,000) and RMB4,386,000 (2003: RMB2,270,000), respectively. The significant increases in sales, selling and distribution costs and administrative expenses and decreases in average gross profit margin was because of the acquisition of the wholly owned subsidiary, Shanghai Shen Hong in May 2003. The average gross profit margin of Shanghai Shen Hong increases from 7% (for the year ended 31 December 2003) to 21% for the three months ended 31 March 2004. The major reason is Shanghai Shen Hong has realigned its marketing strategy and changed its focus from low gross profit to products with a better return.

The segment loss for the selling of self manufacturing wines increased approximately from RMB119,000 to RMB832,000 for the three months ended 31 March 2004 compared with the corresponding period in 2003. The worse off of the result was due to stopping of the capitalization of expenses in relation to vineyard from 2004 onward. Loss for the current period includes depreciation expenses and rental expenses of approximately RMB181,000 and RMB151,000 which was immediately expenses off to the profit and loss account. The corresponding figure was capitalized for the same period in 2003.

The loss attributable to shareholders of the Company for the three months ended 31 March 2004 was RMB2,478,000 (2003: RMB2,331,000).

PROSPECTS

In May 2003, the Group has acquired a wholly owned subsidiary, Shanghai Shen Hong which is a distributor of alcoholic drinks in Shanghai, PRC. As such, the Group has consolidated the results of such subsidiary for the three months ended 31 March 2004. The Directors believe the existing distribution network of Shanghai Shen Hong will assist the development of the Group, in particular, in market penetration of the Group's in Shanghai and Huadong area of PRC. The market in Shanghai will be the foundation for the further development of the Group in the Huadong area of the PRC.



Shanghai Shen Hong is planning to explore the market in the city of Nanjiang, Suzhou, Wuxi and Beijing in the middle of 2004 with major emphasis of the Loulan brand of wine. Furthermore, Loulan brand of wine will be introduced into the existing marketing channel in Shanghai in middle of 2004. The directors believe by exploration of other markets in the Huadong area of the PRC and the introduction of the Loulan brand of wine into Shanghai will improve the Group's turnover, cashflow and enlarge the Group's earning base in the future.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2004, 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
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 2004, 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 31 March 2004, 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 2004, 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 31 March 2004, 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.

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 2004, 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 to act as a sponsor to the Company.

With effective from 30 March 2004, as certain licensed persons of Kim Eng, who are eligible to act as principal and assistant supervisors (as defined in the GEM Listing Rules) will be de-registered as license persons of Kim Eng, Kim Eng will no longer comply with the eligibility criteria as set out in Chapter 6 of the GEM Listing Rules with effect from 30 March 2004 and have to cease its role as continuing sponsor of the Company.

The Company is in its final stage in finalizing its replacement sponsor agreement with a potential replacement sponsor. The Company has used its best endeavours to locate a replacement sponsor as soon as possible in order to comply with the GEM Listing Rules.



APPOINTMENT TO INDEPENDENT NON-EXECUTIVE DIRECTOR

Pursuant to Update 18 of the GEM Listing Rules which is effective from 31 March 2004. The Company is required to have three independent non-executive directors in the Board of directors. The Company is locating a suitable candidate to fill the vacancy and the appointment will be made in the due course.

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 three months ended 31 March 2004.

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 2004.

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

The Board comprises of:

Woo Hang Lung (*Executive director*)

Zhu Zheng Ming (*Executive director*)

Junichi Goto (*non-executive director*)

Lo Chi Man (*Independent non-executive director*)

Lau Chi Sun, Robbie (*Independent non-executive director*)

Hong Kong, 7 May 2004