

First Quarterly Report 2005



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 2005 together with comparative unaudited figures for the corresponding periods in 2004 are as follows:

	<i>Notes</i>	For the three months ended 31 March	
		2005	2004
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	2,771	22,595
Cost of sales		(2,196)	(17,365)
Gross profit		575	5,230
Other income		1,862	251
Selling and distribution costs		(578)	(2,446)
Administrative expenses		(3,789)	(4,386)
Other operating expenses		(124)	(325)
LOSS FROM OPERATIONS	5	(2,054)	(1,676)
Finance costs	6	(807)	(802)
LOSS BEFORE TAXATION		(2,861)	(2,478)
Taxation	7	(74)	–
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(2,935)	(2,478)
Loss per share – basic (RMB)	9	(0.007)	(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 the applicable disclosure requirements of chapter 18 of the GEM Listing Rules applicable to quarterly results disclosure.

The principal accounting policies adopted in preparing the unaudited consolidated results for the period ended 31 March 2005 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2004.

3. Turnover

The Group is principally engaged in the production, sales 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		Distribution of wine products		Unallocated		Total	
	For the three months ended 31 March		For the three months ended 31 March		For the three months ended 31 March		For the three months ended 31 March	
	2005	2004	2005	2004	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<u>2,494</u>	<u>2,640</u>	<u>277</u>	<u>19,955</u>	<u>-</u>	<u>-</u>	<u>2,771</u>	<u>22,595</u>
Results								
Segment results	<u>(1,162)</u>	<u>(832)</u>	<u>(126)</u>	<u>552</u>	<u>(766)</u>	<u>(1,396)</u>	<u>(2,054)</u>	<u>(1,676)</u>
Finance costs							(807)	(802)
Loss before tax							<u>(2,861)</u>	<u>(2,478)</u>
Tax							<u>(74)</u>	<u>-</u>
Loss for the period							<u><u>(2,935)</u></u>	<u><u>(2,478)</u></u>

The Group’s turnover was 100% (2004: 100%) derived from Mainland China during the period.

5. **Loss from operations**

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

	For the three months ended 31 March	
	2005	2004
	RMB'000	<i>RMB'000</i>
Cost of inventories sold	2,196	17,365
Depreciation of property, plant and equipment	532	678
Amortization of intangible assets	164	403
Operating lease rentals	151	151
Staff costs (including directors' remuneration):		
Wages and salaries	958	1,341
Pension scheme contributions	97	100
	1,055	1,441

6. **Finance costs**

	For the three months ended 31 March	
	2005	2004
	RMB'000	<i>RMB'000</i>
Interest on bank and other borrowings wholly repayable within five years	807	802

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 2005 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 2005 (2004: Nil).

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9. Loss per share

The calculation of the Group's basic loss per share for the three months ended 31 March 2005 was based on the unaudited net loss attributable to shareholders of approximately RMB2,935,000 (2004: RMB2,478,000) and the weighted average of 400,000,000 (2004: 400,000,000) shares deemed to have been in issue during the period.

Diluted loss per share for the three months ended 31 March 2005 and 2004 have not been disclosed as there were no dilutive potential shares during the periods.

10. Share capital and reserves

	Share Issued Capital <i>RMB'000</i>	premium account <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	Statutory reserve fund <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Revaluation reserve <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,478)</u>	<u>-</u>	<u>(2,478)</u>
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>
2005							
At 1 January 2005	4,240	35,739	29,703	1,884	(80,278)	120	(8,592)
Loss for the three months ended 31 March 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,935)</u>	<u>-</u>	<u>(2,935)</u>
At 31 March 2005	<u>4,240</u>	<u>35,739</u>	<u>29,703</u>	<u>1,884</u>	<u>(83,213)</u>	<u>120</u>	<u>(11,527)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2005, the group's turnover and average gross profit margin amounted to approximately to RMB2,771,000 (2004: RMB22,595,000) and 21% (2004: 23%) respectively. For the same period, the Group's selling and distribution costs and administrative expenses were approximately RMB578,000 (2004: RMB2,446,000) and RMB3,789,000 (2004: RMB4,386,000), respectively. The significant decreases in sales, selling and distribution costs and administrative expenses and decreases in average gross profit margin were mainly due to the fact that the business of one of the wholly owned subsidiary, Shanghai Shen Hong has dropped drastically. (details please refer to the annual report of 2004)

The segment loss for the selling of self manufacturing wines increased approximately from RMB832,000 to RMB1,162,000 for the three months ended 31 March 2005 compared with the corresponding period in 2004. That is because at the end of year 2004, the Company has tried to enhance its market share as well as to participate into the lower-end market by reducing its unit selling price, and hence increase sales and reduce unit cost. However, the results in the first quarter of 2005 were not able to reflect what expected.

The loss attributable to shareholders of the Company for the three months ended 31 March 2005 was RMB2,935,000 (2004: RMB2,478,000).

PROSPECTS

At present, the wine industry in the PRC is still in its developing stage. The consumption of alcoholic beverages in China is approximately 30 million tons per year, in which only 1% attributable to wine beverages. As the consumption of wine beverages in China has become very popular, the prospect of wine industry in China is expected to be optimistic.. The wine beverage which is produced under the Company's own brand name "Loulan" is well known and widely recognised in Xingjiang province, the PRC. The Board is confident that, with such good base, accompanying with the developing of the wine industry in China, "Loulan" will progressively develop its markets in other parts of China, especially in the South-eastern part of China.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2005, 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 5.46 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	41,250,000	–	–	–	41,250,000	10.3

Note: Mr. Woo Hang Lung pledged 163 million shares to REXCAPITAL Financial Holdings Limited (the “REXCAPITAL”) which is held by TKR Finance Limited (the “TKR”) as to 63.8%. TKR is facing winding-up petition by Global Tech (Holdings) Limited. This winding-up petition was passed by court on 21 July 2004.

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 2005, 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 5.46 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 March 2005, 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 2005, 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 2005, 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 <i>(Notes 1 and 3)</i>	41,250,000	10.30
Nomura China Venture Investment Fund Limited <i>(Notes 1 and 2)</i>	41,250,000	10.30
China Enterprise Investment Fund <i>(Notes 1 and 3)</i>	41,250,000	10.30
Nomura Holdings, Inc. <i>(Notes 1 and 2)</i>	41,250,000	10.30
JAFCO Co., Ltd. <i>(Notes 1 and 2)</i>	41,250,000	10.30
Global Funds Trust Company <i>(Notes 1 and 3)</i>	41,250,000	10.30
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 100% 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, the 100% ownership in New Dragon (No. 7) Investments Limited as being beneficially held and control by China Enterprise Investment Fund is being held through Global Funds Trust Company, a company incorporated in the Cayman Islands as a trustee.
- (4) Mr. Woo Hang Lung pledged 163 million shares to REXCAPITAL Financial Holdings Limited (the "REXCAPITAL") which is held by TKR Finance Limited (the "TKR") as to 63.8%. TKR is facing winding-up petition by Global Tech (Holdings) Limited. This winding-up petition was passed by court on 21 July 2004.

Save as disclosed, as at 31 March 2005, 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.

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 5.34 to 5.45 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 three independent non-executive Directors, namely Mr. Lau Chi Sun, Robbie, Mr. Wang Desheng and Mr. Yue Kwai Wa, Ken, 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 2005.

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 2005.

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

The Board comprises of:

Woo Hang Lung (*Executive director*)

Junichi Goto (*non-executive director*)

Yue Kwai Wa, Ken (*Independent non-executive director*)

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

Wang Desheng (*Independent non-executive director*)

Hong Kong, 23 June 2005