LOULAN HOLDINGS LIMITED
樓蘭控股有限公司

(incorporated in the Cayman Islands with limited liability)

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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.

RESULTS (UNAUDITED)

The board of Directors (the "Board") of Loulan Holdings Limited (the "Company") reports that the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 30 June 2004 together with comparative unaudited figures for the corresponding periods in 2003 are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the three months ended 30 June		For the six months ended 30 June	
	Notes	**2004** ***RMB'000***	2003 *RMB'000*	**2004** ***RMB'000***	2003 *RMB'000*
Turnover	3	**7,915**	21,844	**30,510**	24,541
Cost of sales		**(6,891)**	(19,990)	**(24,256)**	(21,452)
Gross profit		**1,024**	1,854	**6,254**	3,089
Other income		**1,396**	71	**1,647**	80
Selling and distribution costs		**(1,055)**	(788)	**(3,501)**	(1,223)
Administrative expenses		**(4,329)**	(2,210)	**(8,715)**	(4,480)
Other operating expenses		**(98)**	(6)	**(423)**	(62)
LOSS FROM OPERATING ACTIVITIES	5	**(3,062)**	(1,079)	**(4,738)**	(2,596)
Finance costs	6	**(842)**	(642)	**(1,644)**	(1,456)
LOSS BEFORE TAX		**(3,904)**	(1,721)	**(6,382)**	(4,052)
Tax	7	**(184)**	(75)	**(184)**	(75)
LOSS ATTRIBUTABLE TO SHAREHOLDERS		**(4,088)**	(1,796)	**(6,566)**	(4,127)
Loss per share – basic (RMB)	9	**(0.010)**	(0.004)	**(0.016)**	(0.010)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2004 RMB'000 (Unaudited)	As at 31 December 2003 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	45,278	46,411
Intangible assets	11	12,792	13,598
		58,070	60,009
CURRENT ASSETS			
Accounts receivable	12	23,627	54,898
Prepayments, deposits and other receivables		23,672	16,142
Inventories	13	25,384	33,503
Other investments	14	784	20,784
Cash and cash equivalents	16	8,853	12,279
		82,320	137,606
CURRENT LIABILITIES			
Bank and other loans	17	51,892	57,192
Accounts payable	18	18,680	59,876
Other payables and accruals	19	28,006	31,744
Tax		832	1,257
		99,410	150,069
NET CURRENT LIABILITIES		(17,090)	(12,463)
TOTAL ASSETS LESS CURRENT LIABILITIES		40,980	47,546
NON-CURRENT LIABILITIES			
Bank and other loans	17	5,400	5,400
Deferred tax	15	1,075	1,075
		34,505	41,071
CAPITAL AND RESERVES			
Issued capital	20	4,240	4,240
Reserves		30,265	36,831
		34,505	41,071

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	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 (Audited)	4,240	35,739	29,703	1,884	(23,762)	120	47,924
Loss for the six months ended 30 June 2003	–	–	–	–	(4,127)	–	(4,127)
At 30 June 2003 (Unaudited)	4,240	35,739	29,703	1,884	(27,889)	120	43,797
2004							
At 1 January 2004 (Audited)	**4,240**	**35,739**	**29,703**	**1,884**	**(30,615)**	**120**	**41,071**
Loss for the six months ended 30 June 2004	**–**	**–**	**–**	**–**	**(6,566)**	**–**	**(6,566)**
At 30 June 2004 (Unaudited)	**4,240**	**35,739**	**29,703**	**1,884**	**(37,181)**	**120**	**34,505**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended	
	30 June 2004 ***RMB'000***	30 June 2003 *RMB'000*
Net cash inflow in operating activities	**4,511**	9,243
Net cash inflow/(outflow) in investing activities	**(982)**	2,186
Net cash inflow/(outflow) from financing	**(6,955)**	(1,456)
Increase/(decrease) in cash and cash equivalents	**(3,426)**	9,973
Cash and cash equivalents at beginning of the period	**12,279**	4,383
Cash and cash equivalents at end of the period	**8,853**	14,356
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**8,853**	14,356

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 condensed 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.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax to the financial statements. The adoption of this accounting policy has been applied retrospectively, but has no material effect on the results for the current or prior accounting periods. Accordingly, no prior periods adjustment is necessary.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the period ended 30 June 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 People's Republic Of China (the "PRC"). Turnover represents the net invoiced value of goods sold, after allowances for goods returns, trade discounts, consumption tax and value-added tax in the PRC.

4. Segment information

For management purposes, the Group is currently organizing turnover by operating division: (i) selling of self-manufacturing wines; and (ii) distribution of wine products. These divisions are the basis on which the Group reports its primary segment information. An analysis of the Group's turnover and results for the six months ended 30 June 2004 with the corresponding period in 2003 by business segment is presented below:

	Selling of self-manufacturing wines for the six months ended 30 June		Distribution of wine products for the six months ended 30 June		Unallocated for the six months ended 30 June		Total for the six months ended 30 June	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	**4,716**	4,474	**25,794**	20,067	**–**	–	**30,510**	24,541
Results								
Segment results	**(606)**	(509)	**(1,241)**	356	**(2,891)**	(2,443)	**(4,738)**	(2,596)
Finance costs							**(1,644)**	(1,456)
Loss before tax							**(6,382)**	(4,052)
Tax							**(184)**	(75)
Loss for the period							**(6,566)**	(4,127)

The Group's turnover was 100% (2003: 100%) derived from the PRC 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 30 June		For the six months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost of inventories sold	**6,891**	19,990	**24,256**	21,452
Depreciation of property, plant and equipment	**1,329**	552	**2,007**	1,018
Amortisation of intangible assets	**403**	104	**806**	180
Operating lease rentals	**151**	138	**302**	275
Less: Amount capitalised	**–**	(138)	**–**	(275)
	151	–	**302**	–
Staff costs (including directors' remuneration):				
Wages and salaries	**1,763**	1,437	**3,104**	2,639
Retirement scheme contributions	**591**	153	**691**	268
	2,354	1,590	**3,795**	2,907
Less: Amount capitalised	**–**	(536)	**–**	(630)
	2,354	1,054	**3,795**	2,277

6. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**842**	642	**1,644**	1,456

7. Tax

	For the three months ended 30 June		For the six months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Provision for the period				
in respect of profits for the period				
– Hong Kong	**–**	–	**–**	–
– The PRC	**–**	75	**–**	75
Under-provision for last year				
– The PRC	**184**	–	**184**	–
	184	75	**184**	75

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 six months respectively ended 30 June 2004 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.

8. Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2004 (2003: Nil).

9. Loss per share

The calculation of the Group's basic loss per share for the three months ended 30 June 2004 was based on the unaudited net loss attributable to shareholders of approximately RMB4,088,000 (2003: RMB1,796,000) and the weighted average of 400,000,000 (2003: 400,000,000) shares deemed to have been in issue during the period.

The calculation of the Group's basic loss per share for the six months ended 30 June 2004 is based on the unaudited loss attributable to shareholders of RMB6,566,000 (2003: RMB4,127,000) and the weighted average of 400,000,000 (2003: 400,000,000) shares in issue during the period.

Diluted loss per share amounts for the three months and six months respectively ended 30 June 2004 and 2003 have not been disclosed as there were no dilutive potential shares during the periods.

10. Property, plant and equipment

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/Valuation						
At 1 January 2004	34,314	13,670	1,446	4,295	7,265	60,990
Additions	–	–	82	780	136	998
Acquired on acquisition of a subsidiary	–	–	–	–	–	–
Disposals	–	(802)	–	–	–	(802)
At 30 June 2004	**34,314**	**12,868**	**1,528**	**5,075**	**7,401**	**61,186**
Depreciation						
At 1 January 2004	6,763	5,514	431	1,144	727	14,579
Provided for the period	820	364	112	340	371	2,007
Disposals	–	(678)	–	–	–	(678)
At 30 June 2004	**7,583**	**5,200**	**543**	**1,484**	**1,098**	**15,908**
Net Book Value						
At 30 June 2004	**26,731**	**7,668**	**985**	**3,591**	**6,303**	**45,278**
At 31 December 2003	27,551	8,156	1,015	3,151	6,538	46,411

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

Certain of the Group's property, plant and equipment with an aggregate carrying amount of RMB27,022,000 (31 December 2003: RMB28,462,000) were pledged to secure banking facilities granted to the Group, as disclosed in note 17.

The Group is still in the process of registering a property, with a net book value of RMB677,000, with the local government for the transfer of legal title.

11. Intangible assets

	Trademarks *RMB'000*	Production technology and know-how *RMB'000*	Goodwill *RMB'000*	Total *RMB'000*
Cost				
As at 1 January 2004	650	5,456	10,441	16,547
Additions	–	–	–	–
As at 30 June 2004	**650**	**5,456**	**10,441**	**16,547**
Accumulated amortisation				
As at 1 January 2004	232	1,955	762	2,949
Charge for the period	17	137	652	806
As at 30 June 2004	**249**	**2,092**	**1,414**	**3,755**
Net book value				
As at 30 June 2004	**401**	**3,364**	**9,027**	**12,792**
As at 31 December 2003	418	3,501	9,679	13,598

12. Accounts receivable

An aged analysis of accounts receivable is as follows:

	At 30 June 2004 ***RMB'000***	At 31 December 2003 *RMB'000*
Current to 90 days	**8,542**	52,029
91 to 180 days	**5,542**	2,015
181 to 365 days	**8,646**	2,711
Over 365 days	**12,060**	9,466
	34,790	66,221
Less: Provision for doubtful debts	**(11,163)**	(11,323)
	23,627	54,898

13. Inventories

	At 30 June 2004 *RMB'000*	At 31 December 2003 *RMB'000*
Consumable stores	**4,387**	4,251
Work in progress	**10,635**	10,168
Finished goods	**10,362**	19,084
	25,384	33,503

14. Other investments

	At 30 June 2004 *RMB'000*	At 31 December 2003 *RMB'000*
Listed equity securities	**664**	664
Investment fund		
Listed	**120**	120
Unlisted *(a)*	**–**	20,000
	784	20,784

(a) The investment fund of RMB20 million together with the return had been received during the first quarter of this year.

15. Deferred tax

At the balance sheet date, the major components of the provided deferred tax are as follows:

	At 30 June 2004 *RMB'000*	At 31 December 2003 *RMB'000*
Tax losses	**–**	–
Acquisition of a subsidiary	**1,075**	1,075
Deferred tax/(asset)	**1,075**	1,075

16. Cash and cash equivalents and pledged bank deposit

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Cash and bank balances	**8,853**	12,279
Pledged bank deposit	**–**	–
	8,853	12,279
Less: Pledged bank deposit:		
Pledged as security for bank loans	**–**	–
Cash and cash equivalents	**8,853**	12,279

17. Bank and other loans

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Bank loans, secured	**52,782**	55,082
Other loans, unsecured	**4,510**	7,510
	57,292	62,592
Bank loan repayable:		
Within one year or on demand	**47,382**	49,682
In the second year	**2,400**	2,400
After second years but within fifth years	**3,000**	3,000
	52,782	55,082
Other loans repayable:		
Within one year or on demand	**4,510**	7,510
	57,292	62,592
Portion classified as current liabilities	**(51,892)**	(57,192)
Long term portion	**5,400**	5,400

The Group's bank loans amounted RMB52,782,000 (31 December 2003: 55,082,000) are secured by certain categories of the Group's property, plant and equipment with an aggregate carrying amount of RMB27,022,000 (31 December 2003: RMB28,462,000).

Included in bank loan above, RMB26.8 million has been overdued. It is due to the dispute with a bank as detailed in note 31 to the financial statements as at 31 December 2003, the Group had suspended repayment of both the principal installments and interests due.

18. Accounts payable

An aged analysis of accounts payable is as follows:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Current to 90 days	6,020	48,479
91 to 180 days	5,541	696
181 to 365 days	50	754
Over 365 days	7,069	9,947
	18,680	59,876

19. Other payables and accruals

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Value-added tax payable	2,209	3,823
Consumption tax payable	3,498	4,328
Salaries and staff welfare payable	121	213
Amount due to directors	4,173	1,897
Accrued expenses	9,098	11,640
Other payables	8,907	9,843
	28,006	31,744

20. Share capital

	At 30 June 2004 and At 31 December 2003	
	Number of shares	*RMB'000*
Authorised ordinary shares of HK$0.01 each	10,000,000,000	106,000
Issued and fully paid ordinary shares of HK$0.01 each	400,000,000	4,240

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2004, the Group's turnover and average gross profit margin amounted to approximately RMB30,510,000 (2003: RMB24,541,000) and 21% (2003: 13%) respectively. For the same period, the Group's selling and distribution costs and administrative expenses were approximately RMB3,501,000 (2003: RMB1,223,000) and RMB8,715,000 (2003: RMB4,480,000), respectively. The increases in turnover, selling and distribution costs and administrative expenses was because of the acquisition of the wholly owned subsidiary, Shanghai Shen Hong Food and Wine Logistics Company Limited (the "Shanghai Shen Hong") in May 2003. Due to the change of marketing strategy of Shanghai Shen Hong to focus on better return products from mass selling of low gross profit products, the turnover of RMB5,800,000 for the three months ended 30 June 2004 is representing a decrease of approximately 70% as compared to the turnover for the three months ended 31 March 2004, resulting from the decision made after 31 March 2004 that the Group was firmly stopping the selling of high cost and low profitable products to give way of products with high return. This decision is also made according to the original objective of acquisition of Shanghai Shen Hong, that in future the Group will benefit from the existing logistic and channel set up of Shanghai Shen Hong for promoting the Group's brand of Loulan products. The average gross profit margin of the Group increases from approximately 9% (for the year ended 31 December 2003) to approximately 21% for the six months ended 30 June 2004.

The segment loss for the selling of self manufacturing wines increased approximately from RMB509,000 to RMB606,000 for the six months ended 30 June 2004 compared with the corresponding period in 2003. The result was mainly due to: (1) starting of the amortisation of capitalization expenses in relation to vineyard from 2003 onward. Loss for the six months ended 30 June 2004 includes depreciation expenses and rental expenses of approximately RMB371,000 and RMB302,000 which was immediately expenses off to the profit and loss account. The corresponding figure was capitalized for the same period in 2003. (2) An amount of approximately RMB704,000 recovered from bad debt in the current period.

The loss attributable to shareholders of the Company for the six months ended 30 June 2004 was RMB6,566,000 (2003: RMB4,127,000).

PROSPECTS

In May 2003, the Group has acquired a wholly owned subsidiary, Shanghai Shen Hong which is a distributor of alcoholic drinks in Shanghai, the PRC. As such, the Group has consolidated the results of such subsidiary for the three months and six months ended 30 June 2004 respectively. 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 the PRC. The market in Shanghai will be the foundation for the further development of the Group in the Huadong area of the PRC.

During the period under review and the transitional period needed for the change of marketing strategy, the Group has established its sales forces to explore new markets in the mainland China. Shanghai Shen Hong has established a domestic sales office in Nanjiang and is exploring the market in the city of Suzhou, Wuxi and Beijing in the second half of 2004 with major emphasis of the Loulan brand of wine. Furthermore, Loulan brand of wine has been 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, and the enormous China market will certainly brought with the Group fruitful results.

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

As at 30 June 2004, the Group had bank loans and other loans in aggregate amount of approximately RMB52,782,000 (31 December 2003: RMB55,082,000) and approximately RMB4,510,000 (31 December 2003: RMB7,510,000) respectively. The bank loans amounted to RMB52,782,000 are secured by a fixed charge of a building of Shanghai Shen Hong and floating charges over all the buildings, plant and machinery, motor vehicles, furniture and fixtures, inventories, and the right to use of trademarks of Xinjiang Loulan with an aggregate carrying amount of RMB42,976,000. The Group's bank loans bear interest at fixed rates at a range from 5.1% to 5.8% per annum.

As at 30 June 2004, the Group's total cash and bank balances was approximately RMB8,853,000 (31 December 2003: RMB12,279,000). As at 30 June 2004, the Group had net current liabilities of approximately RMB17,090,000 (31 December 2003: RMB12,463,000).

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

During last year, the Group successfully acquired the entire equity interest of Shanghai Shen Hong, a state-owned distributor of alcoholic drinks in Shanghai, the PRC, for an aggregate consideration of RMB15,000,000.

Shanghai Shen Hong is a wholesaler and distributor of alcoholic drinks in Shanghai and the Huadong area of the PRC. It mainly provides distribution services to supermarkets, restaurants, hotels and retailers in Shanghai and the Huadong area of the PRC. It possesses its own delivery teams. The major products distributed by it include Chinese spirits, beer and grape wine which are mainly produced in the PRC. Its existing distribution network will rapidly facilitate the Group's expansion into the Huadong area of the PRC.

The Directors consider that the newly acquired subsidiary will add to the Group the wholesale business to the Group and thereby improve the Group's turnover, cashflow and enlarge the Group's earning base in the future.

Save as aforesaid, the Group did not have any material acquisitions and /or disposals of subsidiaries and affiliated company.

FUTURE PLANS FOR MATERIAL INVESTMENTS

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 30 June 2004.

GEARING RATIO

The Group expresses its gearing ratio as a percentage of long term debts over total assets. As at 30 June 2004, the Group had a gearing ratio of 3.8% (31 December 2003: 2.7%). The Group generally finances its operations with equity funding, bank and other borrowings.

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.

EMPLOYEE INFORMATION

At 30 June 2004, the Group employed 309 employees (2003: 297). 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 RMB3,795,000 for the six months ended 30 June 2004 as compared with that of approximately RMB2,907,000 for the corresponding period of the preceding financial year. The increase was mainly due to the inclusion of staff costs contributed by an alcoholic drinks distributor which was acquired by the Group during last year.

CONTINGENT LIABILITIES

Pending litigation

During last year, Xinjiang Loulan Wine Co., Limited initiated a lawsuit against a bank in respect of a bank loan amounting to RMB8.17 million together with bank loan interest of RMB2 million. The bank loan is under the Loan Transfer Agreement dated 17 June 1996 (the "Agreement") for a total of RMB31.8 million. The Directors considered that this Agreement was entered into by the then general manger of Xinjiang Loulan without proper authorization from the Board. The Directors consider that Xinjiang Loulan is not liable to the bank loan up to an amount of RMB8.17 million, of which RMB5 million has been written off in 2003, as it had never received such proceeds from the bank and the bank loan interest had been paid under misrepresentation. Xinjiang Loulan had submitted a court summons to the People's Court of China in January 2004 and expects that the outcome of the litigation will crystallize in 2004. Xinjiang Loulan had suspended repayment of principal installments and interests.

In May 2004, Industrial and Commercial Bank of China ("ICBC") initiated legal proceedings against Shanghai Shen Hong, in respect of a bank loan of RMB3,000,000 which was overdued on 14 April, 2004. As at the date of this report, an agreement between ICBC and Shanghai Shen Hong has been fixed for a repayment scheme to repay this bank loan by the end of August 2004.

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 30 June 2004 as stated in the prospectus	Actual business progress up to 30 June 2004
Expansion of sales and distribution network in the PRC	(a) Establish 6 domestic sales offices in Nanjing, Wuhan, Changzhou, Suzhou, Hangzhou and Ningbo in the PRC respectively	(a) Established Nanjing sales office. Rescheduled the establishment of other offices to second half year of 2004.
	(b) The sales branch office in Shanghai, the PRC will serve as a regional sales office to coordinate the sales and distribution activities of the sales outlets of the eastern province of the PRC	(b) Rescheduled to second half year of 2004
	(c) Continue to establish sales outlet in the eastern and southern province of the PRC	(c) Rescheduled to second half year of 2004

	Business objectives up to 30 June 2004 as stated in the prospectus	Actual business progress up to 30 June 2004
	(d) Plan to appoint 89 domestic distributors	(d) Rescheduled to second half year of 2004
	(e) Strengthen the usage of sales and distribution network established in the eastern and southern provinces of the PRC through the increase of sales and marketing services employees or, if suitable opportunities arise, through acquisition of distributors or establishing joint ventures with distributors	(e) Rescheduled to second half year of 2004
Recruitment of employees in relation to the establishment of sales branch office and local outlets in the PRC	(f) Recruit a total of 45 full-time employees comprising 32 full-time sales employees and 13 full-time management, administration and supporting employees for branch offices and local outlets in the PRC	(f) 14 full-time sales employees were recruited and the remaining is rescheduled to second half year 2004 for the development and expansion of the branch offices

	Business objectives up to 30 June 2004 as stated in the prospectus	Actual business progress up to 30 June 2004
Marketing and promotional activities to increase sales and enhance brand name recognition	(g) Continue the promotional activities through advertising, sponsoring activities, giving away free samples and website from the last period	(g) Continue the promotional activities from the last period
	(h) Continue to participate in international and local wine competitions and exhibitions	(h) Continue to participate in international and local wine competitions and exhibitions
Overseas market expansion	(i) Continue to seek suitable distribution agents, strategic alliances and merger and acquisition opportunities for the distribution of the Group's products overseas including Hong Kong	(i) Continue to seek suitable distribution agents, strategic alliances and merger and acquisition opportunities for the distribution of the Group's products overseas including Hong Kong
	(j) Evaluate the PRC and overseas market expansion plan and integrate the PRC and overseas distribution business	(j) Rescheduled to second half year of 2004

	Business objectives up to 30 June 2004 as stated in the prospectus	Actual business progress up to 30 June 2004
Increase the supply of grapes	(k) Continue to look for opportunities to acquire suitable wineries and vineyards	(k) Continue to identify suitable wineries
	(l) Commence the plantation of vines	(l) Rescheduled to second half of year 2004
	(m) Increase the production of grapes grown in its vineyard from 1,500 tons in year 2002 to 2,000 tons at the end of year 2003	(m) Due to reason of (i) and (k) above, the increase in production of grapes is postponed
Import of high quality unfinished wines	(n) Import of unfinished wine from overseas suppliers in the event of insufficient domestic supply of grape required for its production requirements	(n) No need to import unfinished wines because of sufficient domestic supply
Installation of wine-making facilities	(o) Install crushing machinery	(o) Rescheduled the expected completion date to year-end 2004 due to postponement in (m) above

USE OF PROCEEDS

The net proceeds from the initial public offering of the Company's share were about HK$37,700,000 of which HK$4,700,000 will be used as working capital. The proceeds were partially applied during the period ended 30 June 2004 as follows:

	Total planned use of proceeds as set out in the prospectus *HK$'000*	Amount to be used up to 30 June 2004 as disclosed in the prospectus *HK$'000*	Actual amount used up to 30 June 2004 *HK$'000*	*Notes*
Market expansion and penetration				
– Expansion of the sales and distribution network in the PRC and overseas market	15,000	15,000	14,151	(a)
– Marketing and promotional activities	3,000	3,000	1,935	(b)
Expansion of production capacity				
– Acquisition of vineyards and/or wineries	10,000	10,000	–	(c)
– Enhancement and installation of production facilities	5,000	5,000	–	(d)
	33,000	33,000	16,086	

Notes:

(a) The Group has acquired a distribution agent.

(b) The marketing and promotional activities were conducted by the newly acquired subsidiary company.

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

(d) The investment is rescheduled to second half year 2004 due to the postponement as mentioned in (c) above.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 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 inter ests or short positions which they are taken or deemed to have under such pr ovisions 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 *(note)*	163,125,000	–	–	–	163,125,000	40.78
Junichi Goto	6,000,000	–	–	–	6,000,000	1.5

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 30 June 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 meeting 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 to 5.68 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 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 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, 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 six months ended 30 June 2004, 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 Directors or chief executives of the Company, as at 30 June 2004, shareholders of the Company (including Directors or chief executives of the Company) who have interest 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 or Part XV of the SFO were as follows:

Name	Number of shares held	%
Woo Hang Lung *(Note 4)*	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.

(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 30 June 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 (the "Kim Eng") and the Company, the Company had 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 had finalized its replacement sponsor agreement with South China Capital Limited (the "South China") to comply with the requirements under Rule 6.63 of the GEM Listing Rules and South China has agreed to act as a replacement sponsor of the Company with effect from 24 May 2004 to 31 December 2004 for the remaining period of the minimum period as required under Rules 6.01 and 17.81 of the GEM Listing Rules in return for a sponsor fee.

As at 30 June 2004, neither the directors, employees nor their associates of South China, had any interests in any securities of the Company or any of its associated corporations.

APPOINTMENT TO INDEPENDENT NON-EXECUTIVE DIRECTOR

Pursuant to Update No. 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. The Company is locating a suitable candidate to fill the vacancy and the appointment will be made in the due course as required under the transitional provisions set out in Rule 5.08(2) of the GEM Listing Rules.

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. As required under Rule 5.28 of the GEM Listing Rules with effect from 31 March 2004, audit committee must comprise a minimum of three members of non-executive Directors. The audit committee of the Company 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 Company is locating a suitable candidate to fill the vacancy and the appointment will be made in due course as required under the transitional provisions set out in Note 2 of Rule 5.28 of the GEM Listing Rules.

The audit committee has already reviewed the Group's unaudited consolidated results for the six months ended 30 June 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 six months ended 30 June 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, 9 August 2004