



LOULAN HOLDINGS LIMITED
樓 蘭 控 股 有 限 公 司
(incorporated in the Cayman Islands with limited liability)

Interim Report 2005

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.

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement 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 2005 together with comparative unaudited figures for the corresponding periods in 2004 are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | <i>Notes</i> | For the three months ended 30 June | | For the six months ended 30 June | |
|--------------------------------------|--------------|---------------------------------------|----------------|-------------------------------------|----------------|
| | | 2005 | 2004 | 2005 | 2004 |
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover | 3 | 1,697 | 7,915 | 4,468 | 30,510 |
| Cost of sales | | (1,164) | (6,891) | (3,360) | (24,256) |
| Gross profit | | 533 | 1,024 | 1,108 | 6,254 |
| Other income | | 398 | 1,396 | 2,260 | 1,647 |
| Selling and distribution costs | | (798) | (1,055) | (1,376) | (3,501) |
| Administrative expenses | | (3,353) | (4,329) | (7,142) | (8,715) |
| Other operating expenses | | – | (98) | (124) | (423) |
| LOSS FROM OPERATING ACTIVITIES | 5 | (3,220) | (3,062) | (5,274) | (4,738) |
| Finance costs | 6 | (837) | (842) | (1,644) | (1,644) |
| LOSS BEFORE TAX | | (4,057) | (3,904) | (6,918) | (6,382) |
| Tax | 7 | – | (184) | (74) | (184) |
| LOSS ATTRIBUTABLE TO SHAREHOLDERS | | (4,057) | (4,088) | (6,992) | (6,566) |
| Loss per share – basic (RMB) | 9 | (0.010) | (0.010) | (0.017) | (0.016) |

CONDENSED CONSOLIDATED BALANCE SHEET

| | <i>Notes</i> | As at 30 June 2005 RMB'000 (Unaudited) | As at 31 December 2004 RMB'000 (Audited) |
|--|--------------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 32,670 | 43,570 |
| Intangible assets | 11 | 3,460 | 3,614 |
| | | 36,130 | 47,184 |
| CURRENT ASSETS | | | |
| Accounts receivable | 12 | 3,630 | 6,504 |
| Prepayments, deposits and other receivables | | 41,002 | 33,973 |
| Inventories | 13 | 15,087 | 18,105 |
| Other investments | 14 | 720 | 720 |
| Cash and cash equivalents | 16 | 948 | 1,222 |
| | | 61,387 | 60,524 |
| CURRENT LIABILITIES | | | |
| Bank and other loans | 17 | 44,687 | 49,532 |
| Accounts payable | 18 | 12,372 | 17,562 |
| Other payables and accruals | 19 | 54,736 | 43,570 |
| Tax | | 511 | 1,174 |
| | | 112,306 | 111,838 |
| NET CURRENT LIABILITIES | | (50,919) | (51,314) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | (14,789) | (4,130) |
| NON-CURRENT LIABILITIES | | | |
| Bank and other loans | 17 | - | 3,667 |
| Deferred tax | 15 | 795 | 795 |
| | | (15,584) | (8,592) |
| CAPITAL AND RESERVES | | | |
| Issued capital | 20 | 4,240 | 4,240 |
| Reserves | | (19,824) | (12,382) |
| | | (15,584) | (8,592) |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

| | Share | | Statutory | | Revaluation | | |
|---|-------------------|--------------------|------------------------|-----------------|-----------------------|------------|-----------------|
| | Issued Capital | premium account | Contributed surplus | reserve fund | Accumulated losses | reserve | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 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) | <u>4,240</u> | <u>35,739</u> | <u>29,703</u> | <u>1,884</u> | <u>(37,181)</u> | <u>120</u> | <u>34,505</u> |
| 2005 | | | | | | | |
| At 1 January 2005 | | | | | | | |
| (Audited) | 4,240 | 35,739 | 29,703 | 1,884 | (80,278) | 120 | (8,592) |
| Loss for the six months ended 30 June 2005 | - | - | - | - | (6,992) | - | (6,992) |
| At 30 June 2004 | | | | | | | |
| (Unaudited) | <u>4,240</u> | <u>35,739</u> | <u>29,703</u> | <u>1,884</u> | <u>(87, 270)</u> | <u>120</u> | <u>(15,584)</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| | For the | |
|--|-------------------------|----------------|
| | six months ended | |
| | 30 June | 30 June |
| | 2005 | 2004 |
| | RMB'000 | RMB'000 |
| Net cash inflow/(outflow) in operating activities | (2,233) | 4,511 |
| Net cash inflow/(outflow) in investing activities | 11,715 | (982) |
| Net cash inflow/(outflow) from financing | <u>(9,756)</u> | <u>(6,955)</u> |
| Increase/(decrease) in cash and cash equivalents | (274) | (3,426) |
| Cash and cash equivalents at beginning of the period | <u>1,222</u> | <u>12,279</u> |
| Cash and cash equivalents at end of the period | <u>948</u> | <u>8,853</u> |
| Analysis of the balances of cash and cash equivalents: | | |
| Cash and bank balances | <u>948</u> | <u>8,853</u> |

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 the applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the six months ended 30 June 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the period ended 30 June 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, 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 2005 with the corresponding period in 2004 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 | |
|---------------------|--|-----------------|---|-----------------|--|-----------------|--|-----------------|
| | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Turnover | <u>4,192</u> | <u>4,716</u> | <u>277</u> | <u>25,794</u> | - | - | <u>4,469</u> | <u>30,510</u> |
| Results | | | | | | | | |
| Segment results | <u>(3,405)</u> | <u>(606)</u> | <u>(575)</u> | <u>(1,241)</u> | <u>(1,294)</u> | <u>(2,891)</u> | <u>(5,274)</u> | <u>(4,738)</u> |
| Finance costs | | | | | | | (1,644) | (1,644) |
| Loss before tax | | | | | | | (6,918) | (6,382) |
| Tax | | | | | | | <u>(74)</u> | <u>(184)</u> |
| Loss for the period | | | | | | | <u>(6,992)</u> | <u>(6,566)</u> |

The Group's turnover was 100% (2004: 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 | |
|---|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Cost of inventories sold | 1,164 | 6,891 | 3,360 | 24,256 |
| Depreciation of property, plant and equipment | 1,016 | 1,329 | 1,548 | 2,007 |
| Amortisation of intangible assets | (10) | 403 | 154 | 806 |
| Operating lease rentals | 151 | 151 | 302 | 302 |
| Staff costs (including directors' remuneration): | | | | |
| Wages an salaries | 1,172 | 1,763 | 2,130 | 3,104 |
| Retirement scheme contributions | 390 | 591 | 487 | 691 |
| | <u>1,562</u> | <u>2,354</u> | <u>2,617</u> | <u>3,795</u> |

6. Finance costs

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|---------------------------------------|------------|-------------------------------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest on bank and other borrowings wholly repayable within five years | <u>837</u> | <u>842</u> | <u>1,644</u> | <u>1,644</u> |

7. Tax

| | For the three months ended 30 June | | For the six months ended 30 June | |
|-------------------------------|---------------------------------------|------------|-------------------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Under-provision for last year | | | | |
| – The PRC | <u>–</u> | <u>184</u> | <u>74</u> | <u>184</u> |
| | <u>–</u> | <u>184</u> | <u>74</u> | <u>184</u> |

No provision for profits tax in the Cayman Islands or Hong Kong has been made as the Group had no income assessable for profits tax for the three months and the six months respectively ended 30 June 2005 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 2005 (2004: Nil).

9. Loss per share

The calculation of the Group's basic loss per share for the three months ended 30 June 2005 was based on the unaudited net loss attributable to shareholders of approximately RMB4,057,000 (2004: RMB4,088,000) and the weighted average of 400,000,000 (2004: 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 2005 is based on the unaudited loss attributable to shareholders of RMB6,992,000 (2004: RMB6,566,000) and the weighted average of 400,000,000 (2004: 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 2005 and 2004 have not been disclosed as there were no dilutive potential shares during the periods.

10. Property, plant and equipment

Group

| | Leasehold land and buildings <i>RMB'000</i> | Plant and machinery <i>RMB'000</i> | Furniture, fixtures and equipment <i>RMB'000</i> | Motor vehicles <i>RMB'000</i> | Vineyard development <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|--|---|---|-------------------------------------|---|-------------------------|
| Cost/Valuation | | | | | | |
| At 1 January 2005 | 34,314 | 12,710 | 1,937 | 5,071 | 7,265 | 61,297 |
| Additions | - | 85 | - | - | - | 85 |
| Acquired on acquisition of a subsidiary | - | - | - | - | - | - |
| Disposals | (10,000) | - | - | - | - | (10,000) |
| | <u>24,314</u> | <u>12,795</u> | <u>1,937</u> | <u>5,071</u> | <u>7,265</u> | <u>51,382</u> |
| At 30 June 2005 | <u>24,314</u> | <u>12,795</u> | <u>1,937</u> | <u>5,071</u> | <u>7,265</u> | <u>51,382</u> |
| Depreciation | | | | | | |
| At 1 January 2005 | 8,328 | 5,431 | 669 | 1,846 | 1,453 | 17,727 |
| Provided for the period | 473 | 350 | 118 | 244 | 363 | 1,548 |
| Disposals | (563) | - | - | - | - | (563) |
| | <u>8,238</u> | <u>5,781</u> | <u>787</u> | <u>2,090</u> | <u>1,816</u> | <u>18,712</u> |
| At 30 June 2005 | <u>8,238</u> | <u>5,781</u> | <u>787</u> | <u>2,090</u> | <u>1,816</u> | <u>18,712</u> |
| Net Book Value | | | | | | |
| At 30 June 2005 | <u>16,076</u> | <u>7,014</u> | <u>1,150</u> | <u>2,981</u> | <u>5,449</u> | <u>32,670</u> |
| At 31 December 2004 | <u>25,986</u> | <u>7,279</u> | <u>1,268</u> | <u>3,225</u> | <u>5,812</u> | <u>43,570</u> |

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 RMB15,544,000 (31 December 2004: RMB26,316,000) 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 RMB640,000, with the local government for the transfer of legal title.

11. Intangible assets

| | Trademarks <i>RMB'000</i> | Production technology and know-how <i>RMB'000</i> | Goodwill <i>RMB'000</i> | Total <i>RMB'000</i> |
|---------------------------------|------------------------------|---|----------------------------|-------------------------|
| Cost | | | | |
| As at 1 January 2005 | 650 | 5,456 | – | 6,106 |
| Additions | – | – | – | – |
| As at 30 June 2005 | 650 | 5,456 | – | 6,106 |
| Accumulated amortisation | | | | |
| As at 1 January 2005 | 265 | 2,227 | – | 2,492 |
| Charge for the period | 17 | 137 | – | 154 |
| As at 30 June 2005 | 282 | 2,364 | – | 2,646 |
| Net book value | | | | |
| As at 30 June 2005 | 368 | 3,092 | – | 3,460 |
| As at 31 December 2004 | 385 | 3,229 | – | 3,614 |

12. Accounts receivable

An aged analysis of accounts receivable is as follows:

| | At 30 June 2005 <i>RMB'000</i> | At 31 December 2004 <i>RMB'000</i> |
|------------------------------------|---|---|
| Current to 90 days | 1,190 | 2,156 |
| 91 to 180 days | 423 | 2,095 |
| 181 to 365 days | 3,164 | 4,799 |
| Over 365 days | 13,951 | 15,558 |
| | 18,728 | 24,608 |
| Less: Provision for doubtful debts | (15,098) | (18,104) |
| | 3,630 | 6,504 |

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13. Inventories

| | At 30 June 2005 <i>RMB'000</i> | At 31 December 2004 <i>RMB'000</i> |
|-------------------|---|---|
| Consumable stores | 3,885 | 3,154 |
| Work in progress | 5,833 | 8,162 |
| Finished goods | 5,369 | 6,789 |
| | <u>15,087</u> | <u>18,105</u> |

14. Other investments

| | At 30 June 2005 <i>RMB'000</i> | At 31 December 2004 <i>RMB'000</i> |
|--------------------------|---|---|
| Listed equity securities | 600 | 600 |
| Investment fund | | |
| Listed | 120 | 120 |
| | <u>720</u> | <u>720</u> |

15. Deferred tax

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

| | At 30 June 2005 <i>RMB'000</i> | At 31 December 2004 <i>RMB'000</i> |
|-----------------------------|---|---|
| Acquisition of a subsidiary | 795 | 795 |
| Deferred tax/(asset) | <u>795</u> | <u>795</u> |

16. Cash and cash equivalents and pledged bank deposit

| | At 30 June 2005 RMB'000 | At 31 December 2004 RMB'000 |
|---------------------------|----------------------------------|--------------------------------------|
| Cash and bank balances | 948 | 1,222 |
| Cash and cash equivalents | <u>948</u> | <u>1,222</u> |

17. Bank and other loans

| | At 30 June 2005 RMB'000 | At 31 December 2004 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Bank loans, secured | 40,077 | 48,589 |
| Other loans, unsecured | 4,610 | 4,610 |
| | <u>44,687</u> | <u>53,199</u> |
| Bank loan repayable: | | |
| Within one year or on demand | 40,077 | 44,922 |
| In the second year | - | 3,667 |
| After second years but within fifth years | - | - |
| | <u>40,077</u> | <u>48,589</u> |
| Other loans repayable: | | |
| Within one year or on demand | 4,610 | 4,610 |
| | <u>44,687</u> | 53,199 |
| Portion classified as current liabilities | <u>44,687</u> | (49,532) |
| Long term portion | <u>-</u> | <u>3,667</u> |

The Group's bank loans amounted RMB40,077,000 (31 December 2004: 48,589,000) are secured by certain categories of the Group's property, plant and equipment with an aggregate carrying amount of RMB15,544,000 (31 December 2004: RMB26,402,000).

Included in bank loan above, RMB31.8 million has been overdue. The Company written back RMB5 million bank loan as it loss the law suit as detailed in note 27 to the financial statements as at 31 December 2004.

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18. Accounts payable

An aged analysis of accounts payable is as follows:

| | At 30 June 2005 <i>RMB'000</i> | At 31 December 2004 <i>RMB'000</i> |
|--------------------|---|---|
| Current to 90 days | 1,489 | 1,553 |
| 91 to 180 days | 188 | 272 |
| 181 to 365 days | 168 | 593 |
| Over 365 days | <u>10,527</u> | <u>15,144</u> |
| | <u>12,372</u> | <u>17,562</u> |

19. Other payables and accruals

| | At 30 June 2005 <i>RMB'000</i> | At 31 December 2004 <i>RMB'000</i> |
|------------------------------------|---|---|
| Value-added tax payable | 2,414 | 2,650 |
| Consumption tax payable | 3,143 | 3,385 |
| Salaries and staff welfare payable | 125 | 1,589 |
| Amount due to directors | 8,412 | 5,434 |
| Accrued expenses | 18,571 | 17,277 |
| Other payables | <u>22,071</u> | <u>13,235</u> |
| | <u>54,736</u> | <u>43,570</u> |

20. Share capital

| | At 30 June 2005 and At 31 December 2004 | |
|---|--|----------------|
| | <i>Number of shares</i> | <i>RMB'000</i> |
| Authorised ordinary shares of HK\$0.01 each | <u>10,000,000,000</u> | <u>106,000</u> |
| Issued and fully paid ordinary shares of HK\$0.01 each | <u>400,000,000</u> | <u>4,240</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2005, the Group's turnover and average gross profit margin amounted to approximately RMB4,468,000 (2004: RMB30,510,000) and 25% (2004: 21%) respectively. For the same period, the Group's selling and distribution costs and administrative expenses were approximately RMB1,376,000 (2004: RMB3,501,000) and RMB7,142,000 (2004: RMB8,715,000), respectively. The decreases in turnover was because of the wholly owned subsidiary, Shanghai Shen Hong Food and Wine Logistics Company Limited (the "Shanghai Shen Hong"), could not transform successfully from ex-state own enterprises and recorded a dramatically decrease in sales. Shanghai Shen Hong's turnover contributed to the Group drop from 94% when acquired to 18% now. Shanghai Shen Hong used to focus on low margin products, therefore, the decrease of Shanghai Shen Hong's contribution to the Group's turnover lead to the increase in gross profit. However, though the selling and distribution costs and administrative expenses also reduce, due to the rigidity nature of the expenses, they could not reduce proportionally to the sales.

The segment loss for the selling of self manufacturing wines increased approximately from RMB606,000 to RMB3,405,000 for the six months ended 30 June 2005 compared with the corresponding period in 2004. The result was mainly due to 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 half year of 2005 were not able to reflect what expected. The Company is adjusting its unit price to obtain reasonable gross profit.

The loss attributable to shareholders of the Company for the six months ended 30 June 2005 was RMB6,992,000 (2004: RMB6,566,000).

PROSPECTS

As disclosure in Note 2 of notes to financial statements in the annual report 2004, One of the subsidiary, Xinjiang Loulan is operating under imposed control by a bank due to dispute of bank loan under litigation. Under such circumstance, for the half year end 30 June 2005, the Group recorded only a minor increase of loss per share of RMB0.001 to RMB0.017 as compare to the same period of last year. Directors believe that once the bank loan restructure agreement reached, the normal operation of the Company will resume. Although Shanghai Shen Hong's turnover dropped dramatically, it had open up the market of Shanghai for the Company's own brand wine "Loulan". The Directors still believe the market penetration of the Group's in Shanghai and Huadong area of the PRC will increase the turnover of the Group. The market in Shanghai will be the foundation for the further development of the Group in the Huadong area and the PRC.

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

As at 30 June 2005, the Group had bank loans and other loans in aggregate amount of approximately RMB40,077,000 (31 December 2004: RMB48,589,000) and approximately RMB4,610,000 (31 December 2004: RMB4,610,000) respectively. The bank loans amounted to RMB40,077,000 are secured by 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 RMB26,129,000. 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 2005, the Group's total cash and bank balances was approximately RMB948,000 (31 December 2004: RMB1,222,000). As at 30 June 2005, the Group had net current liabilities of approximately RMB50,919,000 (31 December 2004: RMB51,314,000).

Taking into consideration the aforesaid bank loans restructure 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.

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 2005.

GEARING RATIO

The Group expresses its gearing ratio as a percentage of long term debts over total assets. As at 30 June 2005, the Group had a gearing ratio of 0% (31 December 2004: 3.4%). 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 2005, the Group employed 231 employees (2004: 309). 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 RMB2,617,000 for the six months ended 30 June 2005 as compared with that of approximately RMB3,795,000 for the corresponding period of the preceding financial year.

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 2005 as stated in the prospectus | Actual business progress up to 30 June 2005 |
|--|--|---|
| Expansion of sales and distribution network in the PRC | (a) Established 6 domestic sales offices in Nanjing, Wuhan, Changzhou, Suzhou and Ningbo in the PRC respectively | (a) Established Nanjing sales office. Rescheduled the establishment of other offices to second half year of 2005. |
| | (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 2005 |
| | (c) continue to establish sales outlet in the eastern and southern province of the PRC | (c) Rescheduled to second half year of 2005 |
| | (d) Plan to appoint 119 domestic distributors | (d) Rescheduled to second half year of 2005 |

Business objectives up to 30 June 2005 as stated in the prospectus

Actual business progress up to 30 June 2005

| | | |
|--|--|--|
| | <p>(e) Continue to 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.</p> | <p>(e) Rescheduled to second half year of 2005</p> |
| <p>Recruitment of employees in relation to the establishment of sales branch office and local outlets in the PRC</p> | <p>(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</p> | <p>(f) 14 full-time sales employees were recruited and the remaining is rescheduled to second half year 2005 for the development and expansion of the branch offices</p> |
| <p>Marketing and promotional activities to increase sales and enhance brand name recognition</p> | <p>(g) Continue the promotional activities through advertising, sponsoring, activities, giving away free samples and website from the last period</p> | <p>(g) Continue the promotional activities from the last period</p> |

| | Business objectives up to 30 June 2005 as stated in the prospectus | Actual business progress up to 30 June 2005 |
|-------------------------------|---|---|
| | (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) Continue to evaluate the PRC and overseas market expansion plan and integrate the PRC and overseas distribution business | (j) Rescheduled to second half year of 2005 |
| 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 2005 |

| | Business objectives up to 30 June 2005 as stated in the prospectus | Actual business progress up to 30 June 2005 |
|---|--|--|
| | (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 2005 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 2005 as follows:

| | Total planned use of proceeds as set out in the prospectus HK\$'000 | Amount to be used up to 30 June 2005 as disclosed in the prospectus HK\$'000 | Actual amount used up to 30 June 2005 HK\$'000 | <i>Notes</i> |
|--|--|---|---|--------------|
| 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 | 187 | (d) |
| | <u>33,000</u> | <u>33,000</u> | <u>16,273</u> | |

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 2005 due to the postponement as mentioned in (c) above.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 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 <i>(note)</i> | 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 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 30 June 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 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 2005, 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 (<i>Note 4</i>) | 163,125,000 | 40.78 |
| New Dragon (No.7) Investments Limited (<i>Notes 1 and 3</i>) | 41,250,000 | 10.3 |
| Nomura China Venture Investment Fund Limited (<i>Notes 1 and 2</i>) | 41,250,000 | 10.3 |
| China Enterprise Investment Fund (<i>Notes 1 and 3</i>) | 41,250,000 | 10.3 |
| Nomura Holdings, Inc. (<i>Notes 1 and 2</i>) | 41,250,000 | 10.3 |
| JAFCO Co., Ltd. (<i>Notes 1 and 2</i>) | 41,250,000 | 10.3 |
| Global Funds Trust Company (<i>Notes 1 and 3</i>) | 41,250,000 | 10.3 |
| 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 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 comprised three members, Mr. Yue Kwai Wa, Ken (chairman), Mr. Lau Chi Sun, Robbie and Mr. Wang Desheng, all of whom are independent non-executive directors of the Company.

The audit committee has already reviewed the Group’s unaudited consolidated results for the six months ended 30 June 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 six months ended 30 June 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, 9 August 2005