LOULAN HOLDINGS LIMITED

樓 蘭 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

2003

Interim Report

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

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This report, for which the directors ("Directors") of Loulan Holdings Limited 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 Loulan Holdings Limited. 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 aspects 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") report that the condensed 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 2003 together with unaudited comparative figures for the corresponding periods in 2002 are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

		For the three months ended 30 June		For the six months ended 30 June	
		2003	2002	**2003**	2002
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	3	**21,844**	2,100	**24,541**	6,632
Cost of sales		**(19,990)**	(995)	**(21,452)**	(3,187)
Gross profit		**1,854**	1,105	**3,089**	3,445
Other revenue		**71**	2	**80**	7
Selling and distribution costs		**(788)**	(738)	**(1,223)**	(1,328)
Administrative expenses		**(2,210)**	(1,990)	**(4,480)**	(4,008)
Other operating expenses		**(6)**	(1)	**(62)**	(61)
LOSS FROM OPERATING ACTIVITIES	4	**(1,079)**	(1,622)	**(2,596)**	(1,945)
Finance costs	5	**(642)**	(803)	**(1,456)**	(1,606)
LOSS BEFORE TAX		**(1,721)**	(2,425)	**(4,052)**	(3,551)
Tax	6	**(75)**	–	**(75)**	–
LOSS BEFORE MINORITY INTERESTS		**(1,796)**	(2,425)	**(4,127)**	(3,551)
Minority interests		**–**	154	**–**	173
LOSS ATTRIBUTABLE TO SHAREHOLDERS		**(1,796)**	(2,271)	**(4,127)**	(3,378)
Loss per share – basic (RMB)	8	**(0.004)**	(0.008)	**(0.010)**	(0.011)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**As at 30 June 2003 RMB'000 (Unaudited)**	As at 31 December 2002 RMB'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	9	**38,399**	34,295
Intangible assets	10	**10,550**	4,224
Long term deposit		**–**	19,080
		48,949	57,599
CURRENT ASSETS			
Accounts receivable	11	**39,896**	7,951
Prepayments, deposits and other receivables		**15,967**	3,596
Inventories	12	**21,383**	17,656
Short term investment	13	**20,000**	20,000
Deferred tax	14	**330**	330
Pledged bank deposit	15	**11,660**	11,660
Cash and cash equivalents	15	**14,356**	4,383
		123,592	65,576
CURRENT LIABILITIES			
Bank and other loans	16	**74,592**	46,392
Accounts payable	17	**21,162**	4,056
Other payables and accruals	18	**32,141**	23,907
Tax		**849**	896
		128,744	75,251
NET CURRENT LIABILITIES		**(5,152)**	(9,675)
TOTAL ASSETS LESS CURRENT LIABILITIES		**43,797**	47,924
CAPITAL AND RESERVES			
Issued capital	19	**4,240**	4,240
Reserves		**39,557**	43,684
		43,797	47,924

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Statutory reserve fund RMB'000	Accumulated losses RMB'000	Fixed assets revaluation reserve RMB'000	Total RMB'000
2002							
At 1 January 2002 (Audited)	1	–	9,703	1,884	(9,991)	–	1,597
Loss for the six months ended 30 June 2002	–	–	–	–	(3,378)	–	(3,378)
At 30 June 2002 (Unaudited)	1	–	9,703	1,884	(13,369)	–	(1,781)
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

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (UNAUDITED)

	For the six months ended	
	30 June 2003	30 June 2002
	RMB'000	RMB'000
Net cash inflow in operating activities	**9,243**	882
Net cash inflow/(outflow) in investing activities	**2,186**	(7)
Net cash (outflow)/inflow from financing	**(1,456)**	19,260
Increase in cash and cash equivalents	**9,973**	20,135
Cash and cash equivalents at beginning of the period	**4,383**	1,369
Cash and cash equivalents at end of the period	**14,356**	21,504
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**14,356**	21,504

NOTES TO 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 Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the period ended 30 June 2003 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002 and the accounting policy for goodwill which arise from the acquisition of a subsidiary in the current interim period:

Accounting policy for Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

3. Turnover

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

	For the three months ended 30 June		**For the six months ended 30 June**	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Sale of goods	**22,125**	2,311	**25,106**	7,333
Less: Consumption tax	**(281)**	(211)	**(565)**	(701)
	21,844	2,100	**24,541**	6,632

4. 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**	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost of inventories sold	**19,990**	995	**21,452**	3,187
Depreciation of fixed assets	**552**	447	**1,018**	894
Amortisation of intangible assets	**104**	85	**180**	169
Operating lease rentals in respect of agricultural land	**138**	137	**275**	275
Less: Amount capitalised	**(138)**	(137)	**(275)**	(275)
	–	–	**–**	–
Staff costs (including directors' remuneration):				
Wages and salaries	**1,437**	1,029	**2,639**	2,053
Pension scheme contributions	**153**	58	**268**	115
	1,590	1,087	**2,907**	2,168
Less: Amount capitalised	**(536)**	(103)	**(630)**	(206)
	1,054	984	**2,277**	1,962

5. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest on bank borrowings wholly repayable within five years	**642**	803	**1,456**	1,606

6. Tax

	For the three months ended 30 June		For the six months ended 30 June	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Provision for the period in respect of profits for the period				
– Hong Kong	**–**	–	**–**	–
– Mainland China	**75**	–	**75**	–
	75	–	**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 2003 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 registration, interpretations and practices at the prevailing rates of tax.

The Group's subsidiary, Xinjiang Loulan Wine Co., Ltd. ("Xinjiang Loulan"), is a foreign investment enterprise in the PRC which was entitled to an exemption from PRC income tax of 33% for two years commencing from the year ended 31 December 1999, its first profit-making year of operations after offsetting prior year losses. Thereafter, Xinjiang Loulan is entitled to a 50% relief from PRC income tax of 30% payable to the Tax Bureau of the Central Government for the following three years. Xinjiang Loulan is not entitled to any tax exemption or relief in respect of the PRC income tax of 3% payable to the Tax Bureau of the Xinjiang local government commencing from 1 January 2001.

7. Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2003 (2002: Nil).

8. Loss per share

The calculation of the Group's basic loss per share for the three months ended 30 June 2003 is based on the unaudited loss attributable to shareholders of RMB1,796,000 (2002: RMB2,271,000) and the weighted average of 400,000,000 (2002: 300,000,000) shares in issue during the period.

The calculation of the Group's basic loss per share for the six months ended 30 June 2003 is based on the unaudited loss attributable to shareholders of RMB4,127,000 (2002: RMB3,378,000) and the weighted average of 400,000,000 (2002: 300,000,000) shares in issue during the period.

Diluted loss per share amounts for the three months and six months respectively ended 30 June 2003 and 2002 have not been disclosed, as no diluting event existed during these periods.

9. Fixed assets

	Leasehold land and buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Vineyard development	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2003	21,590	13,232	1,164	2,281	7,265	45,532
Acquisition of a subsidiary	2,209	–	477	2,034	–	4,720
Additions	1	360	12	220	678	1,271
At 30 June 2003	**23,800**	**13,592**	**1,653**	**4,535**	**7,943**	**51,523**
Depreciation						
At 1 January 2003	5,565	4,772	370	530	–	11,237
Acquisition of a subsidiary	89	–	274	506	–	869
Provided for the period	461	369	63	125	–	1,018
At 30 June 2003	**6,115**	**5,141**	**707**	**1,161**	**–**	**13,124**
Net Book Value						
At 30 June 2003	17,685	8,451	946	3,374	7,943	38,399
At 31 December 2002	16,025	8,460	794	1,751	7,265	34,295

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

No interest has been capitalised in vineyard development.

Certain of the Group's fixed assets with an aggregate carrying amount of RMB19,004,000 (2002: RMB19,195,000) were pledged to secure a banking facility granted to the Group, as disclosed in note 16 of this report.

Certain Group's leasehold land and buildings with net book value amounted RMB15,583,000 as at 30 June 2003 are stated at valuation, on an open market value, by Sallmanns (Far East) Limited at 30 June 2002. Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately RMB15,466,000 as at 30 June 2003.

10. Intangible assets

	Goodwill	Trademarks	Production technology and know-how	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at 1 January 2003	–	650	5,456	6,106
Acquisition of a subsidiary	6,506	–	–	6,506
As at 30 June 2003	**6,506**	**650**	**5,456**	**12,612**
Accumulated amortisation:				
As at 1 January 2003	–	200	1,682	1,882
Provided for the period	27	16	137	180
As at 30 June 2003	**27**	**216**	**1,819**	**2,062**
Net book value:				
As at 30 June 2003	**6,479**	**434**	**3,637**	**10,550**
As at 31 December 2002	–	450	3,774	4,224

11. Accounts receivable

The Group generally allows an average credit periods ranging from 30 to 180 days to its trade debtors. An ageing analysis of accounts receivable is as follows:

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Current to 90 days	**31,559**	3,927
91 to 180 days	**3,021**	1,095
181 to 365 days	**1,828**	1,640
Over 365 days	**9,051**	6,733
	45,459	13,395
Less: Provision for doubtful debts	**(5,563)**	(5,444)
	39,896	7,951

12. Inventories

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
At cost:		
Raw materials	**3,616**	3,021
Work in progress	**9,841**	12,953
Finished goods	**7,926**	1,682
	21,383	17,656

13. Short term investment

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Fund investment, a cost	**20,000**	20,000

The investment reaches maturity on 30 September 2003 and has a guaranteed return of 1%.

14. Deferred tax

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Deferred tax asset	**330**	330

The deferred tax asset mainly arose from tax losses brought forward by the Group.

15. Cash and cash equivalents and pledged bank deposit

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Cash and bank balances	**14,356**	4,383
Pledged bank deposit	**11,660**	11,660
	26,016	16,043
Less: Pledged bank deposit:		
Pledged as security for bank loans	**(11,660)**	(11,660)
Cash and cash equivalents	**14,356**	4,383

16. Bank and other loans

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Bank loans	**70,082**	41,882
Other loans, unsecured	**4,510**	4,510
	74,592	46,392
Bank loans repayable:		
Within one year or on demand	**70,082**	41,882
Other loans repayable:		
Within one year or on demand	**4,510**	4,510
	74,592	46,392
Portion classified as current liabilities	**(74,592)**	(46,392)
Long term portion	**–**	–

The Group's bank loans amounted RMB41,882,000 (2002: RMB41,882,000) are secured by (i) floating charges over certain categories of the Group's fixed assets with an aggregate carrying amount of RMB19,004,000 (2002: RMB19,195,000); (ii) floating charges over the right to use the trademarks of Xinjiang Loulan; and (iii) a pledged bank deposit of RMB11,660,000 (2002: RMB11,660,000).

The Group's bank loans amounted RMB28,200,000 (2002: Nil) was guaranteed by an independent third party.

As at the date of this report, the Group is still in the process of registering these fixed assets and the right to use the trademarks of Xinjiang Loulan with the local government as securities for the bank loans of RMB41,882,000 (2002: RMB41,882,000).

17. Accounts payable

An ageing analysis of accounts payable is as follows:

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Current to 90 days	**8,799**	2,571
91 to 180 days	**538**	260
181 to 365 days	**4,597**	61
Over 365 days	**7,228**	1,164
	21,162	4,056

18. Other payables and accruals

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Value-added tax payable	**5,801**	5,730
Consumption tax payable	**4,358**	5,009
Salaries and staff welfare payable	**487**	95
Accrued expenses	**12,235**	9,027
Other payables	**9,260**	4,046
	32,141	23,907

19. Share capital

	At 30 June 2003 and at 31 December 2002	
	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

20. Subsequent event

On 1 August 2003, the Group has entered into a conditional sale and purchase agreement with上海科南置業有限公司 (Shanghai Ke Nan Property Company Limited) ("Ke Nan"), an independent third party, pursuant to which the Group has conditionally agreed to purchase and Ke Nan has conditionally agreed to sell a property and the relevant land use right, in Shanghai, the PRC for a cash consideration of RMB10,000,000. The property is intended to be used as headquarters of a subsidiary of the Company in Shanghai. It is expected that 30% of the consideration amounting RMB3,000,000 will be financed by internal resources of the subsidiary. The remaining balance of RMB7,000,000 is expected to be financed by a bank mortgage loan on the property.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2003, the Group's turnover amounted to approximately RMB24,541,000 (2002: RMB6,632,000). The significant increase in sales was mainly due to the consolidation of the sales of an alcoholic drinks distributor, approximately RMB20,067,000, which was successfully acquired by the Group in May 2003. The average gross profit margin of the Group was decreased to 13% compared with that of 52% in the same period last year. Such decrease was attributable to the sales of the newly acquired alcoholic drinks distributor which has average gross profit margin of 6%. For the six months ended 30 June 2003, the Group's finance costs were approximately RMB1,456,000 (2002: RMB1,606,000). The decrease was due to the decrease of borrowing interest rate compared with that of last period.

The loss attributable to shareholders of the Company for the three months ended 30 June 2003 and 30 June 2002 was approximately RMB1.8 million and RMB2.3 million respectively. The decrease in loss attributable to shareholders was mainly due to the contribution of profit from the newly acquired alcoholic drinks distributor as mentioned above.

PROSPECTS

During this period, the Group successfully acquired the entire equity interest of a state-owned distributor of alcoholic drinks in Shanghai, the PRC. The Directors believe that the existing distribution network of this distributor will assist the development of the Group, in particular, in market expansion of the Group's penetration in Shanghai and the Huadong area of the PRC. The market in Shanghai will be the foundation for further development of the Group in the Huadong area of the PRC. This distributor will also add to the Group, the wholesale business of many brands, including but not limited to the Loulan brand of wines, beers and Chinese spirits to the Group and thereby improve the Group's turnover and enlarge the Group's earning base in the future.

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

The Group generally finances its operations with cash generated from its operations and banking facilities provided by its bankers in the PRC and other loans. Other loans mainly comprise loans from 財政局、財政廳、農業廳、經計委 of the Xinjiang province in the PRC. As at 30 June 2003, the Group had bank loans and other loans in aggregate amount of approximately RMB70.1 million and approximately RMB4.5 million respectively. The Directors are confident that, based on past experience, the respective banks, will renew upon applications by the Group the bank loans of RMB70.1 million. The above were all the borrowing facilities available to the Group and were fully utilised. The Group's bank loans bear interest at fixed rates at a range from 4.9% to 5.3% per annum. The bank loans amounted RMB41,882,000 are secured by floating charges over all the buildings, plant and machinery, motor vehicles and the furniture and fixtures of Xinjiang Loulan, the right to use the trademarks of Xinjiang Loulan and the bank balance of HK$11 million given by the Company. The bank loans amounted RMB28,200,000 are guaranteed by an independent third party.

As at 30 June 2003, the Group's total cash and bank balances was approximately RMB26 million, increased by approximately RMB10 million compared with that at 31 December 2002. As at 30 June 2003, the Group had net current liabilities of approximately RMB5.2 million (31 December 2002: RMB9.7 million), which was decreased by 46% compared with that at 31 December 2002. The improvement of financial position was mainly due to the consolidation of assets and liabilities of a newly acquired alcoholic drinks distributor.

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 the period, the Group successfully acquired the entire equity interest of a state-owned distributor of alcoholic drinks in Shanghai, the PRC, for an aggregate consideration of 15,000,000.

It 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 of many brands, including but not limited to the Loulan brand, of wines, beers and Chinese spirits to the Group and thereby improve the Group's turnover and enlarge the Group's earning base in the future.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Other than those disclosed in the Subsequent event in note 20 to the condensed consolidated financial statements of this report and 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 2003.

GEARING RATIO

The Group's gearing ratio, based on total borrowings to shareholders' equity was 1.7 as at 30 June 2003 (31 December 2002: 1). The increase in the gearing ratio from 1 as at 31 December 2002 to 1.7 as at 30 June 2003 was due to the consolidation of bank loans borrowed by the alcoholic drinks distributor acquired by the Group during the period.

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.

SEGMENTAL REPORTING

During the three months and six months respectively ended 30 June 2003 and 30 June 2002, the Group was principally engaged in the production and sale of alcoholic drinks in the PRC. Over 90% of the Group's revenue was derived from customers based in the PRC and over 90% of the Group's assets are located in the PRC. Accordingly, the Directors consider that no further business or geographical segment information is presented.

EMPLOYEE INFORMATION

At 30 June 2003, the Group employed 297 employees (2002: 281). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include medical insurance and pensions fund. Staff costs were approximately RMB2,907,000 for the six months ended 30 June 2003 as compared with that of approximately RMB2,168,000 for the corresponding period of the preceding financial year. The increase was mainly due to (i) the inclusion of staff costs contributed by an alcoholic drinks distributor which was acquired by the Group during the period and (ii) increase of one staff in management level.

CONTINGENT LIABILITIES

As at 30 June 2003, the Directors are not aware of any material contingent liabilities.

REVIEW OF BUSINESS OBJECTIVE

Comparison of business objectives with actual business progress

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus of the Company dated 31 July 2002.

	Business objectives for the period from 1 January 2003 to 30 June 2003 as stated in the Prospectus	Actual business progress for the period from 1 January 2003 to 30 June 2003
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) The Group considered that the acquisition of a major alcoholic drinks distributor in Shanghai which has sub-distributors network covered areas of Suzhou, Zhejiang, Hangzhou, Ningbo, etc., the PRC has served this plan
	(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 provinces of the PRC	(b) same as (a) above

	Business objectives for the period from 1 January 2003 to 30 June 2003 as stated in the Prospectus	Actual business progress for the period from 1 January 2003 to 30 June 2003
Recruitment of employees in relation to the establishment of sales branch office and local outlets in the PRC	(c) Plan to appoint 20 domestic distributors	(c) same as (a) above
	(d) Recruit a total of 25 full-time employees comprising 16 full-time sales employees and 9 full-time management, administration and supporting employees for branch offices and local outlets in the PRC	(d) The Group considered that staff of the subsidiary mentioned in (a) above has served this plan
Marketing and promotional activities to increase sales and enhance brand name recognition	(e) Continue the promotional activities from the last period	(e) Advertising has been done
	(f) Participate in international and local wine competitions and exhibitions	(f) Exhibitions have been participated and participation in competitions will be postponed to second half year of 2003
Overseas market expansion	(g) Seek suitable distribution agents, strategic alliances and merger and acquisition opportunities for the distribution of the Group's products overseas including Hong Kong	(g) Due to the economic downturn of the overseas and Hong Kong markets, the plan has been postponed and the Group will continue to identify suitable distribution agents, strategic alliances and merger and acquisition opportunities

	Business objectives for the period from 1 January 2003 to 30 June 2003 as stated in the Prospectus	Actual business progress for the period from 1 January 2003 to 30 June 2003
Increase the supply of grapes	(h) Continue to look for opportunities to acquire suitable wineries	(h) Continue to identify suitable wineries
	(i) Hire consulting firms to assist in look for opportunities to acquire suitable vineyards in Xinjiang, the PRC and wineries	(i) Continue to identify suitable vineyards
	(j) Increase the production of grapes grown in its vineyard from 500 tons in year 2001 to 1,500 tons at the end of year 2002	(j) Rescheduled to the end of year 2003 as harvesting period of grape is from September to early October
	(k) Commence the plantation of vines	(k) Plantation has been commenced
Import of high quality unfinished wines	(l) Import of unfinished wine from overseas suppliers in the event of insufficient domestic supply of grape required for its production requirements	(l) Continue to identify suitable unfinished wine from overseas suppliers
Installation of wine-making facilities	(m) Install one bottling line to bottle, cork and label the finished products of 375ml packaging and acquire fermentation tanks, pneumatic press, piston with pump, centrifugalor, diatomaceous earth filter, sheet filter, pasteurization unit type and cooling machine, and crushing machinery	(m) Rescheduled to year 2004 due to the postponement of expansion of sales and distribution network from 2002 to the first half year of 2003 and the postponement of overseas market expansion

Use of proceeds

The net proceeds from the initial public offering of the Company's shares were about HK$37.7 million of which HK$4.7 million will be used as working capital. The proceeds were partially applied during the period ended 30 June 2003 as follows:

	Total planned use of proceeds as set out in the Prospectus	**Amount to be used up to 30 June 2003 as disclosed in the Prospectus**	**Actual amount used up to 30 June 2003**	
	HK$'000	HK$'000	HK$'000	Notes
Market expansion and penetration				
Expansion of the sales and distribution network in the PRC and overseas market	15,000	8,000	8,000	(a)
Marketing and promotional activities	3,000	1,000	237	(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	24,000	8,237	

Notes:

(a) During the period, the Group has acquired a major alcoholic drinks distributor in Shanghai, the PRC.

(b) The difference is rescheduled to be incurred in the second half year of 2003.

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

(d) The investment is rescheduled to year 2004 due to the postponement of expansion of sales and distribution network from 2002 to the first half year of 2003 and the postponement of overseas market expansion.

DISCLOSURE OF INTERESTS

As at 30 June 2003, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Company:

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

Some Directors are holding shares in a subsidiary of the Company which is incorporated in Hong Kong in a non-beneficial interest to meet minimum shareholder requirement.

Save as disclosed above, as at 30 June 2003, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO) or which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred in Rule 5.40 to 5.58 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2003, the following director of the Company ("Director") is considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in GEM Listing Rules, as set out below.

Mr. Woo Hang Lung owns controlling interest or investment interest in Golden Sun Winery (Turpan) Limited ("Gao Chang"). Gao Chang is principally engaged in the processing and bottling of non-premium grape wine and the sale and distribution of such grape wine products in the PRC. Currently, Gao Chang has several grape wine products for sale in the PRC market, some of which are sold under the brand name of "Gao Chang (高昌)". Gao Chang's products are principally of low price range and are primarily targeted at the low-end markets, particularly the rural cities in the northwestern provinces of the PRC. Gao Chang's products have not participated in any wine competition so far.

Each of Mr. Woo Hang Lung and Gao Chang has given an undertaking in favour of the Group pursuant to which he/it has undertaken not to carry on or be engaged, concerned or interested, whether directly or indirectly, whether as a partner, agent or otherwise (other than as a shareholder of the Company and Director in the case of Mr. Woo Hang Lung) in the business of the Group as more particularly set out in the Prospectus, or any business which may compete, whether directly or indirectly, with any business carried on by any member of the Group in Hong Kong and the PRC.

Details of the undertaking are set out in the sub-section headed "Non-competition undertaking" in the section headed "Business" to the Prospectus.

Save as disclosed above, none of the Directors had an interest in a business, which compete or may compete with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES IN THE COMPANY

During the six months ended 30 June 2003, 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 30 June 2003, 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 or Part XV of the SFO were as follows:

Name	Number of shares held	%
Woo Hang Lung	163,125,000	40.78
New Dragon (No.7) Investments Limited (Notes 1 and 3)	82,500,000	20.63
Nomura China Venture Investment Fund Limited (Notes 1 and 2)	82,500,000	20.63
China Enterprise Investment Fund (Notes 1 and 3)	82,500,000	20.63
Nomura Holdings, Inc. (Notes 1 and 2)	82,500,000	20.63
JAFCO Co., Ltd. (Notes 1 and 2)	82,500,000	20.63
Global Funds Trust Company (Notes 1 and 3)	82,500,000	20.63
Chen Guoping	22,500,000	5.63

Notes:

(1) So far as the Directors are aware, New Dragon (No. 7) Investments Limited is beneficially owned and controlled as to 50% by Nomura China Venture Investment Fund Limited and as to 50% by China Enterprise Investment Fund.

(2) So far as the Directors are aware, Nomura China Venture Investment Fund Limited is beneficially owned as to 60% by Nomura Holdings, Inc. and as to 40% by JAFCO Co., Ltd.

(3) So far as the Directors are aware, (a) New Dragon (No. 7) Investments Limited is beneficially owned and controlled as to 50% by Nomura China Venture Investment Fund Limited and as to 50% by China Enterprise Investment Fund, and (b) the 50% ownership in New Dragon (No.7) Investments Limited as being beneficially held and controlled by China Enterprise Investment Fund is being held through Global Funds Trust Company, a company incorporated in the Cayman Islands as a trustee.

Save as disclosed, as at 30 June 2003, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme for the benefit of the Directors, employees, suppliers, customers, advisors and shareholders of the Group and other persons who have contributed or may contribute to the success of the Group.

As at the date of this report, no option has been granted or agreed to be granted to any Directors or employees of the Company or its subsidiaries or any other persons under the share option scheme.

INTERESTS OF SPONSOR

Pursuant to the sponsor agreement dated 31 July 2002 between Kim Eng Capital (Hong Kong) Limited ("Kim Eng") and the Company, the Company has appointed Kim Eng and Kim Eng has agreed to act as a sponsor to the Company for a fee for the period up to 31 December 2004 or until the sponsor agreement is otherwise terminated upon the terms and conditions set out therein.

Kim Eng, to their best knowledge, neither Kim Eng nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30 June 2003.

BOARD PRACTICES AND PROCEDURES

The Directors considered that the Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive Directors, namely Mr. Lau Chi Sun, Robbie and Mr. Lo Chi Man who is the Chairman of such committee.

The audit committee has already reviewed the Group's unaudited condensed consolidated results for the six months ended 30 June 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2003.

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

Hong Kong, 8 August 2003