Annual Report 2003

LOULAN HOLDINGS LIMITED

樓蘭控股有限公司

(incorporated in the Cayman Islands with limited liability)

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The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual 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 (the "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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. WOO Hang Lung
Mr. ZHU Zheng Ming

NON-EXECUTIVE DIRECTOR

Mr. Junichi GOTO

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LO Chi Man
Mr. LAU Chi Sun Robbie

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town, Grand Cayman, British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Shuang Shui Mo District
Shanshan County
Turpan, Xinjiang, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2001-4
20th Floor
The Broadway
54-62 Lockhart Road
Wanchai
Hong Kong

COMPANY WEBSITE

http://www.xjloulan.com

COMPANY SECRETARY

Mr. SIEW Chun Fai, Edward, *CPA Australia, AHKSA*
(appointed on 4 February 2004)
Mr. CHAN Him, Alfred, *FCCA, FHKSA*
(resigned on 1 January 2004)

AUTHORISED REPRESENTATIVES

Mr. WOO Hang Lung
Mr. SIEW Chun Fai, Edward, *CPA Australia, AHKSA*
(appointed on 4 February 2004)
Mr. CHAN Him, Alfred, *FCCA, FHKSA*
(resigned on 1 January 2004)

SPONSOR

Kim Eng Capital (Hong Kong) Limited
Room 1901, 19th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

COMPLIANCE OFFICER

Mr. WOO Hang Lung

QUALIFIED ACCOUNTANT

Mr. SIEW Chun Fai, Edward, *CPA Australia, AHKSA*
(appointed on 4 February 2004)
Mr. CHAN Him, Alfred, *FCCA, FHKSA*
(resigned on 1 January 2004)

AUDIT COMMITTEE MEMBERS

Mr. LO Chi Man *(Chairman)*
Mr. LAU Chi Sun Robbie

PRINCIPAL BANKERS

Agricultural Bank of China
Shanshan County Branch

Industrial and Commercial Bank of China
Shanghai Branch

Standard Chartered Bank
Standard Chartered Bank Building

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

AUDITORS

BDO McCabe Lo & Co
Certified Public Accountants
8th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

GEM STOCK CODE

8039

CHAIRMAN'C STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2003.

BUSINESS REVIEW

During the year ended 31 December 2003, the Group recorded a loss attributable to shareholders of approximately RMB6,853,000 (2002: loss of approximately RMB13,771,000). Turnover for the year was approximately RMB183,533,000 (2002: approximately RMB13,037,000). Gearing ratio of the Group was increased from Nil as at 31 December 2002 to 2.7% as at 31 December 2003, since the Group did not have any long term debts in year 2002.

PROSPECTS

In May 2003, the Group has acquired a newly 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 year ended 31 December 2003. The Directors believe that the existing distribution network of Shanghai Shen Hong 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. Shanghai Shen Hong 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, cashflow and enlarge the Group's earning base in the future.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

Woo Hang Lung
Chairman

Hong Kong
25 March 2004

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2003, the Group's turnover amounted to approximately RMB183,533,000 (2002: RMB13,037,000). The significant increase in sales was mainly due to the consolidation of the sales of an alcoholic drinks distributor "Shanghai Shen Hong", approximately RMB172,854,000, which was successfully acquired by the Group in May 2003. The average gross profit margin of the Group decreased to 9% compared with that of 48% last year. Such decrease was attributable to the sales (94% on total sales) of the newly acquired alcoholic drinks distributor which has an average gross profit margin of 7%.

The loss attributable to shareholders of the Company for the year ended 31 December 2003 was RMB6,853,000 (2002: RMB13,771,000). The decrease in loss attributable to shareholders was mainly due to the gain on write off of bank loan of RMB5,000,000 and the contribution of profit from the newly acquired alcoholic drinks distributor as mentioned above.

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 Finance Bureau, Ministry of Finance, Ministry of Agricultural, Economy Development Planning Commission of Xinjiang province in the PRC and a third party. As at 31 December 2003, the Group had bank loans and other loans in aggregate amount of approximately RMB55,082,000 (2002: RMB41,882,000) and approximately RMB7,510,000 (2002: RMB4,510,000) respectively. The Directors are confident that, based on past experience, the respective banks, will renew upon applications by the Group the bank loans of RMB55,082,000. 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 5.1% to 5.8% per annum. The bank loans 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 the trademarks of Xinjiang Loulan with an aggregate carrying amount of RMB44,695,000.

As at 31 December 2003, the Group had net current liabilities of approximately RMB12,463,000 (2002: RMB9,675,000).

Last year, the Group had deposited RMB20,000,000 to a finance company in the PRC with a guarantee return of at least 1% per annum. Subsequent to the balance sheet date at 31 December 2003, the deposit of RMB20,000,000 and the guarantee return of RMB200,000 are received in February and March 2004.

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 and loans 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.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS/DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANY AND SIGNIFICANT INVESTMENT

During the year, the Group successfully acquired the entire equity interest of Shanghai Shen Hong Food and Wine Logistics Company Limited ("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 supermarket, 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, cashflow and enlarge the Group's earnings 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 Objective", the Company did not have any plan for material investments and acquisition of material capital assets as at 31 December 2003.

GEARING RATIO

The Group expresses its gearing ratio as a percentage of long term debts over total assets. As at 31 December 2003, the Group had a gearing ratio of 2.7% (2002: Nil) since the Group did not have any long term debts in last year. 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.

SEGMENTAL REPORTING

Over 90% of the Group's turnover were derived in the PRC and as a result, no further business or geographical segment information is presented.

EMPLOYEE INFORMATION

At 31 December 2003, the Company employed 278 employees (2002: 271). 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 RMB6,515,000 for the year ended 31 December 2003 as compared with that of approximately RMB5,324,000 for 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 the year.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

Pending Litigation

During the year, Xinjiang Loulan 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 for a total of RMB31.8 million. The directors considered that this agreement was entered into by the then general manager of Xinjiang Loulan without proper authorization from the board of directors. 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.

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 31 December 2003 as stated in the Prospectus	Actual business progress up to 31 December 2003
Expansion of sales and distribution network in the PRC	a. Establish 6 domestics sales offices in Nanjing, Wuhan, Changzhou, Suzhou, Hangzhou and Ningbo in the PRC respectively	a. Rescheduled the establishment to first 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 outlet of the eastern provinces of the PRC	b. Rescheduled to first half year of 2004
	c. Continue to establish sales outlet in the eastern and southern provinces of the PRC	c. Rescheduled to first half year of 2004
Recruitment of employees in relation to the establishment of sales branch offices and local outlets in the PRC	d. Plan to appoint 59 domestic distributors	d. Rescheduled to first half year of 2004
	e. Recruit a total of 24 full-time employees comprising 16 full-time sales employees and 8 full-time management, administration and supporting employees for branch offices and local outlets in the PRC	e. 4 Full-time sales employees were recruited and the remaining is rescheduled to year 2004 for the development and expansion of the branch offices
Marketing and promotional activities to increase sales and enhance brand name recognition	f. Continue the promotional activities from the last period	f. Continue the promotional activities from the last period
	g. Continue to participate in international and local wine competitions and exhibitions	g. Continue to participate in international and local wine competitions and exhibitions

REVIEW OF BUSINESS OBJECTIVES

	Business objectives up to 31 December 2003 as stated in the Prospectus	Actual business progress up to 31 December 2003
Overseas market expansion	h. 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	h. 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. Evaluate the PRC and overseas market expansion plan and integrate the PRC and overseas distribution business	i. Rescheduled to first half year of 2004
Installation of wine-making	j. Continue to look for opportunities to acquire suitable wineries and vineyards	j. Continue to identify suitable wineries
	k. Commence the plantation of vines	k. Reschedule to first half of year 2004
	l. 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	l. Due to reasons in (h) and (j) above, the increase in production of grapes is postponed
Import of high quality unfinished wines	m. Import of unfinished wine from overseas suppliers in the event of insufficient domestic supply of grape required for its production requirements	m. No need to import unfinish wines became of sufficient domestic supply
Increase the supply of grapes facilities	n. Install crushing machinery	n. Reschedulted the expected completion date to year 2004 due to postponenet in (l) above

REVIEW OF BUSINESS OBJECTIVES

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 year ended 31 December 2003 as follows:

	Total planned use of proceeds as set out in the Prospectus HK$'000	Amount to be used up to 31 December 2003 as disclosed in the Prospectus HK$'000	Actual amount used up to 31 December 2003 HK$'000	Notes
Market expansion and penetration				
– Expansion of the sales and distribution network in the PRC and overseas market	15,000	11,500	14,018	(a)
– Marketing and promotional activities	3,000	2,000	463	(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	28,500	14,481	

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 year 2004 due to the postponement as mentioned in (c) above.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Woo Hang Lung, aged 51, is the founder, chairman and managing director of the Group. He is primarily responsible for corporate policy formulation, business strategic planning, business development and overall management of the Group. He has 20 years of experience in economic planning and business investment and held positions varying from a manager to a factory director and worked in the Heilongjiang Provincial Forestry Bureau, the Local Products Company of the Hubei Province, the Light Industry Bureau of Wuhan, the Aeronautical Technology Import and Export Company of the PRC and the Trade and Industrial Centre of Shenzhen.

Mr. Zhu Zheng Ming, aged 46, is primarily responsible for business strategic planning (such as fund raising and acquisition) of the Group. Prior to joining the Group, Mr. Zhu had worked in different departments of the Government of Shenzhen, the PRC, for 6 years, including as general secretary of Shenzhen municipal committee office and deputy director of Shenzhen municipal economic system reform committee. Mr. Zhu received his doctoral degree in economics from the China Social Science Institute, Master degree in economics from each of Nanjing University and Shanghai Social Science Institute.

Non-executive Director

Mr. Junichi Goto, aged 49, is also the chairman and chief executive officer of Go-To-Asia Investment Limited. Mr. Goto served as the president and chief executive officer of Softbank China Venture Investments Limited from July 1999 to June 2001. Prior to that, he worked in the finance industry for over 20 years. Mr. Goto holds a Bachelor's degree in economics from the University of Tokyo in 1990.

Independent non-executive Directors

Mr. Lo Chi Man, aged 41, is a certified public accountant in Hong Kong and is the sole proprietor of Daniel C.M. Lo & Co., Certified Public Accountants. Mr. Lo is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Lo also holds a degree of Bachelor of Laws in the Peking University, the People's Republic of China.

Mr. Lau Chi Sun Robbie, aged 49, is the chief editor of Wine Now Monthly. Mr. Lau has over 20 years of experience in the media industry.

SENIOR MANAGEMENT

Mr. Zhu Nian Wu, aged 43, is the general manager of Xinjiang Loulan Wine Co. Ltd. (the "Xinjiang Loulan"). Mr. Zhu graduated from the Beijing Economic Management Institute in 1984 and Beijing Chinese Political And Legal University in 1994. Mr. Zhu has over 20 years of experience in corporate management. Mr. Zhu joined Xinjiang Loulan in October 2002.

Mr. Siew Chun Fai, Edward, aged 31, is the financial controller, qualified accountant and company secretary of the Group. Mr. Siew has more than 7 years of experience in accounting and auditing. Prior to joining the Group in February 2004, Mr. Siew was an accounting manager of an investment company. Mr. Siew previously worked with international accounting firms for five years. Mr. Siew is an associate member of the Hong Kong Society of Accountants and a Certified Practising Accountant of the CPA Australia.

Mr. Huang Jian Qing, aged 34, is the oenologist and supervisor of the fermentation workshop of the Group. Prior to joining the Group in October 1996, Mr. Huang was the general manager in technology of Qingling Wild Plants Grape Wine Factory from 1992 to 1995. Mr. Huang has developed a series of wine products of the Group and published a number of articles including "the Influences of Grape, Winemaking Process and Equipment on Quality of Wine". Mr. Huang graduated from the Northwest Agricultural University with a Bachelors' degree in vine nurturing and wine-making.

REPORT OF THE DIRECTORS

The directors present their report and audited financial statements of the Company and the Group for the year ended 31 December 2003.

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 rationalise 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").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 48.

The directors do not recommend the payment of any dividends in respect for the year.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company are set out in note 28 to the financial statements and the reserves of the Group are set out in the consolidated statements of changes in equity.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law (2000 Revision) of the Cayman Islands, amounted to RMB27,200,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers were as follows:

Purchases	
– the largest supplier	17.21%
– five largest suppliers combined	72.83%
Sales	
– the largest customer	22.50%
– five largest customers combined	55.43%

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to date of this report were:

Executive directors:	
Woo Hang Lung *(Chairman)*	
Zhu Zheng Ming	(appointed on 25 November 2003)
Gregory Marc Michel	(resigned on 30 September 2003)
Non-executive directors:	
Junichi Goto	
Chen Guoping	(resigned on 17 July 2003)
Toyokazu Shirahata	(resigned on 29 October 2003)
Lo Chi Man*	
Lau Chi Sun, Robbie*	

* *Independent non-executive directors*

In accordance with article 14(4) of the Company's articles of association, Junichi Goto will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 of the Annual Report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Mr. Woo Hang Lung has entered into a service contract with the Company for an initial term of two years commencing from 12 August 2002 which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Mr. Zhu Zheng Ming has entered into a service contract with the Company commencing from 25 November 2003 which will continued thereafter until terminated by not less than one month's notice in writing served by either party on the other without payment of compensation.

The non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

The independent non-executive directors are appointed for a period of one year which will continue thereafter until terminated by at least one month's notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 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 *(Note)*	22,500,000	–	–	–	22,500,000	5.63
Junichi Goto	6,000,000	–	–	–	6,000,000	1.5

Note: Mr. Chen Guoping resigned as a director of the Company on 17 July 2003.

REPORT OF THE DIRECTORS

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

Save as disclosed above, as at 31 December 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as disclosed in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following 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 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 (the "Prospectus") dated 31 July 2002, 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 of the Company had an interest in business, which compete or may compete with the business of the Group.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 31 December 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 of Part XV of the SFO were as follows.

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

Notes:

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

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

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

Save as disclosed, as at 31 December 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.

SPONSOR'S INTERESTS

As confirmed by the Company's sponsor as at 25 March 2004, Kim Eng Capital (Hong Kong) Limited ("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.

Pursuant to the sponsor agreement dated 31 July 2002 between Kim Eng and the Company, the Company had 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.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the four years ended 31 December 2003 and the assets, liabilities and minority interests of the Group as at 31 December 2000, 2001, 2002 and 2003, prepared on the bases set out in note below, is as follows:

RESULTS

	Year ended 31 December			
	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**183,533**	13,037	23,054	25,228
Cost of sales	**(167,398)**	(6,844)	(11,424)	(12,599)
Gross profit	**16,135**	6,193	11,630	12,629
Other income	**5,615**	45	408	1,660
Selling and distribution costs	**(8,573)**	(2,490)	(2,313)	(2,980)
Administrative expenses	**(15,961)**	(13,493)	(6,274)	(5,100)
Other operating expenses	**(103)**	(397)	(247)	(532)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(2,887)**	(10,142)	3,204	5,677
Finance costs	**(3,039)**	(3,820)	(3,710)	(3,104)
PROFIT/(LOSS) BEFORE TAX	**(5,926)**	(13,962)	(506)	2,573
Tax	**(927)**	(2)	(564)	(109)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(6,853)**	(13,964)	(1,070)	2,464
Minority interests	**–**	193	23	(246)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	**(6,853)**	(13,771)	(1,047)	2,218
Earning/(loss) per share – basic *(RMB)*	**(0.017)**	(0.041)	(0.003)	0.007

REPORT OF THE DIRECTORS

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December			
	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**197,615**	123,175	79,943	71,112
TOTAL LIABILITIES	**(156,544)**	(75,251)	(78,153)	(68,252)
MINORITY INTERESTS	**–**	–	(193)	(216)
	41,071	47,924	1,597	2,644

Note: The summary financial information for each of the two years ended 31 December 2001 has been extracted from the Prospectus. The summary of the results of the Group includes the results of the Company and its subsidiaries as if the Group structure as set out in the Prospectus had been in existence throughout the four years ended 31 December 2003.

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. During the year, the audit committee had held three meetings for reviewing and supervising the financial reporting process, the Company's financial statements, and providing advice and recommendations to the Board.

During the year, the audit committee comprised two members, Mr. Lau Chi Sun, Robbie and Mr. Lo Chi Man, both of whom are independent non-executive directors of the Company.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the directors, the Company has complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 December 2003.

AUDITORS

BDO McCabe Lo & Company were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Ernst & Young with effect from 5 February 2004. Save as aforesaid, there had been no other changes of the Company's auditors in the past three financial years.

A resolution for the appointment of BDO McCabe Lo & Company as the auditors of the Company for the coming year is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Woo Hang Lung
Chairman

Hong Kong
25 March 2004

REPORT OF THE AUDITORS

BDO

BDO McCabe Lo & Company
德豪嘉信會計師事務所
Certified Public Accountants
8th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
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To the members
Loulan Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 20 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are required to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement.

REPORT OF THE AUDITORS

However, the evidence available to us in respect of the reversal of the Group's bank loan brought forward from the previous year of RMB5 million was limited. Although the bank loan was recognised in the previous year's financial statements, management disagreed that the Group had an obligation under this bank loan and therefore wrote back the bank loan and recognised the write-back as other income in the current year's financial statements. The Group has taken legal action against the bank. However, the outcome of the legal action is still pending as at the date of this report. Our independent confirmation with the bank indicated that the bank still considered this loan to be outstanding as at 31 December 2003. Accordingly, we are unable to determine the appropriateness of this reversal. There were no other satisfactory audit procedures that we could adopt to confirm that the liability did not exist as at 31 December 2003 and that the corresponding income should be recorded.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the ability of the Company to remain as a going concern. The Group has reported a net loss for the year and at 31 December 2003 its current liabilities exceeded its current assets by RMB12,463,000. The directors have initiated a number of measures to improve the Group's financial/liquidity position. The financial statements have been prepared on the going concern basis, the validity of which depends upon future funding being available and the ability of the Group to generate profits on its operations. The financial statements do not include any adjustments that would result from a failure to obtain such funding and to generate future profits. Details of the circumstances relating to this fundamental uncertainty are described in note 2 to the financial statements. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the bank loan written off and the resultant other income recognised, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the write-off of the bank loan and the recognition of the resultant other income, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

BDO McCabe Lo & Company
Certified Public Accountants

Hong Kong
25 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Notes	**2003** **RMB'000**	2002 *RMB'000*
Turnover	5	**183,533**	13,037
Cost of sales		**(167,398)**	(6,844)
Gross profit		**16,135**	6,193
Other income	7	**5,615**	45
Selling and distribution costs		**(8,573)**	(2,490)
Administrative expenses		**(15,961)**	(13,493)
Other operating expenses		**(103)**	(397)
LOSS FROM OPERATING ACTIVITIES	8	**(2,887)**	(10,142)
Finance costs	9	**(3,039)**	(3,820)
LOSS BEFORE TAX		**(5,926)**	(13,962)
Tax	12	**(927)**	(2)
LOSS BEFORE MINORITY INTERESTS		**(6,853)**	(13,964)
Minority interests		**–**	193
LOSS ATTRIBUTABLE TO SHAREHOLDERS	13	**(6,853)**	(13,771)
Loss per share – basic *(RMB)*	14	**(0.017)**	(0.041)

CONSOLIDATED BALANCE SHEET

31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**46,411**	34,295
Intangible assets	16	**13,598**	4,224
Long term deposit	18	**–**	19,080
		60,009	57,599
CURRENT ASSETS			
Accounts receivable	19	**54,898**	7,951
Prepayments, deposits and other receivables		**16,142**	3,596
Inventories	20	**33,503**	17,656
Other investments	21	**20,784**	20,000
Deferred tax	22	**–**	330
Pledged bank deposit	23	**–**	11,660
Cash and cash equivalents	23	**12,279**	4,383
		137,606	65,576
CURRENT LIABILITIES			
Bank and other loans	24	**57,192**	46,392
Accounts payable	25	**59,876**	4,056
Other payables and accruals	26	**31,744**	23,907
Tax		**1,257**	896
		150,069	75,251
NET CURRENT LIABILITIES		**(12,463)**	(9,675)
TOTAL ASSETS LESS CURRENT LIABILITIES		**47,546**	47,924
NON-CURRENT LIABILITIES			
Bank and other loans	24	**5,400**	–
Deferred tax	22	**1,075**	–
		41,071	47,924
CAPITAL AND RESERVES			
Issued capital	27	**4,240**	4,240
Reserves		**36,831**	43,684
		41,071	47,924

WOO HANG LUNG
Director

ZHU ZHENG MING
Director

BALANCE SHEET

Year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**33,526**	3,169
Long term deposit	18	**–**	19,080
		33,526	22,249
CURRENT ASSETS			
Prepayments, deposits and other receivables		**26**	283
Pledged bank deposit	23	**–**	11,660
Cash and cash equivalents	23	**209**	2,234
		235	14,177
CURRENT LIABILITIES			
Other payables and accruals	26	**2,321**	1,644
		2,321	1,644
NET CURRENT (LIABILITY)/ASSETS		**(2,086)**	12,533
		31,440	34,782
CAPITAL AND RESERVES			
Issued capital	27	**4,240**	4,240
Reserves	28	**27,200**	30,542
		31,440	34,782

WOO HANG LUNG
Director

ZHU ZHENG MING
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

	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*
At 1 January 2002	**1**	**–**	**9,703**	**1,884**	**(9,991)**	**–**	**1,597**
Issue of shares	4,239	48,761	–	–	–	–	53,000
Capitalisation of a shareholder's loan	–	–	20,000	–	–	–	20,000
Share issue expenses	–	(13,022)	–	–	–	–	(13,022)
Surplus on revaluation	–	–	–	–	–	120	120
Net loss for the year	–	–	–	–	(13,771)	–	(13,771)
At 31 December 2002	**4,240**	**35,739**	**29,703**	**1,884**	**(23,762)**	**120**	**47,924**
Net loss for the year	–	–	–	–	(6,853)	–	(6,853)
At 31 December 2003	**4,240**	**35,739**	**29,703**	**1,884**	**(30,615)**	**120**	**41,071**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		**(5,926)**	(13,962)
Interest expenses		**3,057**	3,820
Interest income		**(18)**	(27)
Loss on disposal of property, plant and equipment		**–**	56
Depreciation of property, plant and equipment		**3,397**	2,095
Amortisation of intangible assets		**1,067**	305
Provision for obsolete and slowing moving inventories		**917**	578
Provision for doubtful debts		**4,765**	516
Provision for amount due from a related company		**–**	92
Write off of bank loan		**(5,000)**	–
Operating profit/(loss) before working capital changes		**2,259**	(6,527)
Increase in accounts receivable		**(15,609)**	(2,239)
Write-off of accounts receivable against provision for doubtful debt		**–**	(905)
(Increase)/decrease in inventories		**(13,034)**	2,068
Decrease/(increase) in prepayments, deposits and other receivables		**7,235**	(665)
Increase in other investments		**(664)**	–
Decrease in amounts due from related companies		**–**	11,017
Increase/(decrease) in accounts payable		**47,167**	(4)
Increase in other payables and accruals		**9,249**	1,337
Decrease in amount due to related company		**–**	(2,600)
Cash generated from operations		**36,603**	1,482
Taxation paid		**(218)**	–
Net cash inflow from operating activities		**36,385**	1,482
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(11,446)**	(2,276)
Acquisition of subsidiary, net of cash acquired	29	**(15,664)**	–
Interest received		**18**	27
Deposit for the potential acquisition of distribution outlets		**–**	(19,080)
Fund investment		**–**	(20,000)
Decrease/(increase) in pledged bank deposit		**11,660**	(11,660)
Net cash used in investing activities		**(15,432)**	(52,989)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	2003 RMB'000	2002 RMB'000
FINANCING ACTIVITIES		
New bank loans raised	**28,300**	10,000
Repayment of bank loans	**(38,300)**	(13,740)
Capitalisation of a shareholder's loan	**–**	20,000
Interest paid	**(3,057)**	(1,717)
Share issue expenses	**–**	(13,022)
Proceeds from issue of share capital	**–**	53,000
Net cash (used in)/generated from financing activities	**(13,057)**	54,521
INCREASE IN CASH AND CASH EQUIVALENTS	**7,896**	3,014
Cash and cash equivalents at beginning of year	**4,383**	1,369
CASH AND CASH EQUIVALENTS AT END OF YEAR	**12,279**	4,383
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**12,279**	4,383

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands with its shares listed on the Growth Enterprises Market ("GEM") of the Stock Exchange of Hong Kong Limited ("Stock exchange").

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the production, sales and distribution of alcoholic drinks.

During the year, the Group acquired the entire equity interest of a state-owned distributor of alcoholic drinks in Shanghai, the People's Republic of China (the "PRC"). It mainly provides distribution services to supermarket, restaurants, hotels and retailers in Shanghai and the Huadong area of the PRC.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN

The Group reported a net loss attributable to shareholders of RMB6,853,000 for the year ended 31 December 2003 and at that date, its current liabilities exceeded its current assets by RMB12,463,000.

Nevertheless, the financial statements have been prepared on a going concern basis, which the directors believe to be appropriate because the Group has acquired a subsidiary, an alcoholic drinks wholesaler and distributor with branches in Shanghai and the Huadong area of the PRC, which will distribute Loulan's brand of wines and other brands of beers and Chinese spirits in the area and thereby improve the Group's turnover, cashflow and enlarge the Group's earnings base in the future.

Furthermore, due to the dispute with a bank as detailed in note 31 to the financial statements, the Group suspended repayment of the related principal installments and interests which the directors believe that the Group may not be able to maintain the funding from this bank but the directors believe that the Group will be able to obtain funds from other banks to allow it to maintain as a going concern.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

In the current year, the Group has adopted, for the first time, SSAP 12 Income Taxes (Revised in August 2002). In prior years, deferred tax liabilities were provided on timing differences using the liability method. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences is recognised in the financial statements to the extent that it is probable that a liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 4(i) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in Renminbi ("RMB") and have been prepared under the historical cost convention as modified by the revaluation of land and building.

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(b) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interests in the fair values of the identifiable assets and liabilities of the subsidiary at the date of acquisition. Goodwill is amortised on a straight line basis to the income statement over its estimated useful economic life.

On disposal of an investment in subsidiary, the relevant portion of attributable goodwill, net of accumulated amortisation and any impairment losses is included in the determination of the profit or loss on disposal.

(c) Investments in subsidiaries

A subsidiary is an enterprise controlled by the Group. An enterprise is considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

Property, plant and equipment, other than vineyard development, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhead costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of property, plant and equipment are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On the disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life less any estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the terms of the joint venture
Plant and machinery	4.5% – 33.33%
Furniture, fixtures and equipment	9% – 33.33%
Motor vehicles	9% – 20%
Vineyard development	10%

The gain or loss on disposal or retirement of an asset recognised in the account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Vineyard development represents the costs incurred in preparing agricultural land for the planting of grapes. Cost comprises the direct costs of development during the period of development. Vineyard development costs are amortised over the estimated economic life of the commercial harvesting of the grapes, which is 10 years, on a straight-line basis, as from the 6th years which the agricultural land preparation is generally completed.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible assets and amortisation

Intangible assets are recognised when it is probable that future economic benefits that are attributable to the assets will flow to the Group and that the costs of the assets can be measured reliably.

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Trademarks	Over the terms of the joint venture or 20 years, whichever is the shorter
Production technology and know-how	Over the terms of the joint venture or 20 years, whichever is the shorter
Goodwill	over 8 years

(f) Other investments

Other investments are stated at fair value and any change in fair value is recorded in the profit and loss account in the year in which the change occurs.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost which comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

In accordance with the general practice in the wine industry, wine inventories are included in current assets, although a portion of such inventories may be aged for periods longer than one year.

(h) Revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

i. from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

ii. interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

iii. rental income, on a time proportion basis over the lease terms.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Income tax

Income tax for the year comprises current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income tax is recognised in the profit and loss account except when it relates to an item directly recognised to equity in which case the tax is also directly recognised in equity.

(j) Employee benefits

(i) Retirement benefit

The Group operates a retirement, benefits scheme in Hong Kong, namely the Mandatory Provident Fund Scheme ("MPF").

Under the MPF, contributions calculated based on the employees' monthly salaries are made by the employer and the employee. The employer's contributions are charged to the consolidated income statements as they become payable.

In respect of the subsidiaries established in the People's Republic of China (the "PRC"), under the requirements of the PRC, the Group makes contributions to an insurance scheme covering retirement benefits in respect of its eligible employees. Contributions payable are charged to the profit and loss account when they fall due.

(ii) Termination benefits

Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iii) Employee entitlements

Employee entitlements to annual leave and statutory long services leave due on retirement or termination are recognized when they accrue to the employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. The estimated liability is calculated net of expected reduction from benefits available from Mandatory Provident Fund.

Employee entitlements to sick leave and other non-accumulated short-term compensated absences are not recognized until the time of leave.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lease. All other leases are classified as operating leases.

Lease payments under operating leases are charged against profits on a straight-line basis over the accounting periods covered by the lease terms.

(l) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one of more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the Company and overseas subsidiaries, are translated into RMB using the net investment method. The profit and loss accounts of the Company and overseas subsidiaries are translated to RMB at the weighted average exchange rates for the year, and their balance sheets are translated to RMB at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the Company and overseas subsidiaries are translated to RMB at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of the Company and overseas subsidiaries which arise throughout the year are translated to RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(p) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

5. TURNOVER

The Group's turnover represents the net invoiced value of goods sold, after allowances for goods returns, trade discounts, consumption tax and VAT in the PRC.

6. SEGMENT INFORMATION

	Selling of self-manufactured wines		Distribution of wine products		Unallocated		Elimination		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	10,679	13,037	172,854	–	–	–	–	–	183,533	13,037
Results										
Segment result	(690)	(1,435)	2,996	–	(5,193)	(8,707)	–	–	(2,887)	(10,142)
Finance costs									(3,039)	(3,820)
Loss before tax									(5,926)	(13,962)
Tax									(927)	(2)
Minority interest									–	193
Loss for the year									(6,853)	(13,771)
Other Information										
Amortisation of intangible assets	305	305	–	–	762	–	–	–	1,067	305
Depreciation of property, plant and equipment	2,661	2,025	666	–	70	70	–	–	3,397	2,095
Capital additions	644	2,276	25,310	–	–	–	–	–	25,954	2,276
Asset	84,669	93,686	118,821	–	75,584	58,866	(81,459)	(29,377)	197,615	123,175
Liabilities	(91,088)	(97,015)	(105,621)	–	(26,409)	(4,186)	66,574	25,950	(156,544)	(75,251)
Net assets/(liabilities)	(6,419)	(3,329)	13,200	–	49,175	54,680	(14,885)	(3,427)	41,071	47,924

The Group's turnover was 100% (2002: 90%) derived from the PRC.

7. OTHER INCOME

	2003	2002
	RMB'000	*RMB'000*
Write off of bank loan	**5,000**	–
Other	**615**	45
	5,615	45

8. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities for the year is arrived at after charging/(crediting):

	2003	2002
	RMB'000	*RMB'000*
Cost of inventories sold	**167,398**	6,844
Depreciation of property, plant and equipment	**3,397**	2,095
Loss on disposal of property, plant and equipment	**–**	56
Amortisation of intangible assets	**1,067**	305
Operating lease rentals	**1,779**	550
Staff costs (including directors' remuneration – note (10)):		
Wages and salaries	**5,821**	4,847
Retirement scheme contributions	**694**	477
	6,515	5,324
Auditors' remuneration	**500**	583
Provision for obsolete and slow moving inventories	**917**	578
Provision for amount due from a related company	**–**	92
Provision for doubtful debts	**4,765**	516

9. FINANCE COSTS

	2003	2002
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**3,039**	3,820

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. DIRECTORS' REMUNERATION

Details of remuneration paid by the Group to the directors of the Company are as follows:

	2003 *RMB'000*	2002 *RMB'000*
Executive directors:		
Fees	**–**	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**923**	1,304
Retirement scheme contributions	**13**	13
Non-executive directors:		
Fees	**–**	–
Independent non-executive directors:		
Fees	**32**	32
	968	1,349

The remuneration paid by the Group to the executive directors of the Company for the year ended 31 December 2003, analysed on an individual basis, was RMB522,000 (2002: RMB829,000), RMB382,000 (2002: RMB421,000) and RMB32,000 (2002: RMB67,000).

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 December 2003, analysed on an individual basis, was RMB16,000 (2002: RMB16,000) and RMB16,000 (2002: RMB16,000)

During the year no directors waived any emoluments and no emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group as compensation for loss of offices.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two directors during the years ended 31 December 2003 and 2002, and the information relating to their remuneration is disclosed in note 10. Details of the remuneration paid to the remaining three non-director, highest paid individuals during the years, are as follows:

	2003 *RMB'000*	2002 *RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**922**	1,194
Retirement scheme contributions	**24**	27
	946	1,221

The number of the above non-director, highest paid individuals whose remuneration fell within the designated band is as follows:

	Number of employees	
	2003	2002
Nil to RMB1,000,000	**3**	3

During the year, no emoluments have been paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of offices.

12. TAX

	2003 *RMB'000*	2002 *RMB'000*
Current tax		
– Hong Kong	**–**	–
– Mainland China	**597**	2
Deferred tax	**330**	–
	927	2

No provision for profits tax in the Cayman Islands or Hong Kong has been made as the Group had no income assessable to profits tax for the year ended 31 December 2003 in these jurisdictions.

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

The Group's two subsidiaries in the Mainland China, Xinjiang Loulan and Shanghai Shen Hong as referred to in note 17 to the financial statements, are foreign investment enterprises in the PRC which are subject to Enterprise Income Tax ("EIT"). However, Xinjiang Loulan is exempted from EIT of 33% for two years commencing from the year ended 31 December 1999, its first profit-making year of operation after offsetting prior year losses. Thereafter, Xinjiang Loulan is entitled to a 50% relief from EIT of 30% for the following three years. There is no tax exemption for Shanghai Shen Hong which is now subject to EIT at 33%.

12. TAX (CONTINUED)

The tax expense for the year can be reconciled to the loss per the consolidated profit and loss account as follows:

	2003 *RMB'000*	2002 *RMB'000*
Loss before tax	**(5,926)**	(13,962)
Tax calculated at the applicable tax rate of 33% (2002: 33%)	**(1,955)**	(4,607)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**268**	374
Tax effect of expenses not deductible for tax purposes	**1,105**	2,080
Reversal of deferred tax asset previously recognised	**330**	–
Deferred tax asset not recognised	**1,179**	2,155
Income tax expense	**927**	2

13. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the year ended 31 December 2003 includes a net loss of RMB3,342,000 (2002: RMB6,298,000) which has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of the Group's basic loss per share is based on the net loss attributable to shareholders for the year of RMB6,853,000 (2002: RMB13,771,000) and the weighted average of 400,000,000 (2002: 339,452,000) shares deemed to have been in issue during the year.

Diluted loss per share for the years ended 31 December 2003 and 2002 have not been disclosed as there were no dilutive potential shares during the two years ended 31 December 2003.

15. 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 2003	21,590	13,232	1,164	2,281	7,265	45,532
Additions	10,515	405	152	374	–	11,446
Acquired on acquisition of a subsidiary	2,209	38	180	1,640	–	4,067
Disposals	–	(5)	(50)	–	–	(55)
At 31 December 2003	34,314	13,670	1,446	4,295	7,265	60,990
Depreciation:						
At 1 January 2003	5,565	4,772	370	530	–	11,237
Provided for the year	1,198	747	111	614	727	3,397
Disposals	–	(5)	(50)	–	–	(55)
At 31 December 2003	6,763	5,514	431	1,144	727	14,579
Net book value:						
At 31 December 2003	27,551	8,156	1,015	3,151	6,538	46,411
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.

Certain of the Group's property, plant and equipment with an aggregate carrying amount of RMB28,462,000 (2002: RMB19,195,000) were pledged to secure banking facilities granted to the Group, as disclosed in note 24.

The Group is still in the process of registering a property, with a net book value of RMB695,000, with the local government for the transfer of legal title.

At 31 December, 2003, had the revalued land and buildings of the Group been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately RMB15,877,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTANGIBLE ASSETS

Group

	Trademarks RMB'000	Production technology and know-how RMB'000	Goodwill RMB'000	Total RMB'000
Cost:				
As at 1 January 2003	650	5,456	–	6,106
Additions	–	–	10,441	10,441
As at 31 December 2003	650	5,456	10,441	16,547
Accumulated amortisation:				
As at 1 January 2003	200	1,682	–	1,882
Charge for the year	32	273	762	1,067
As at 31 December 2003	232	1,955	762	2,949
Net book value:				
As at 31 December 2003	418	3,501	9,679	13,598
As at 31 December 2002	450	3,774	–	4,224

The trademarks with an aggregate carrying amount of RMB418,000 (2002: RMB450,000) were pledged to secure a banking facility granted to the Group.

The goodwill arose from the acquisition of a subsidiary in Shanghai, the PRC.

17. INTERESTS IN SUBSIDIARIES

	Company 2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	**1,762**	1,762
Due from subsidiaries	**35,131**	4,774
Due to a subsidiary	**(3,367)**	(3,367)
	33,526	3,169

The balances due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follow:

Name	Place of incorporation/ registration	Nominal value of issued and fully paid share capital/ registered capital	Percentage of attributable equity interest Direct	Indirect	Principal activities	Place of operation
Powerful Kingdom Inc.	British Virgin Islands	USD800	100	–	Investment holding	Hong Kong
Xinjiang Loulan Wine Co., Ltd ("Xinjiang Loulan")* 新疆樓蘭酒業有限公司	Mainland China	RMB10,000,000	–	90	Selling, distribution and production of wines	Mainland China
Crownhead Limited	Hong Kong	HK$2	–	100	Provision of management services	Hong Kong
Vison Spirst Investment Limited	British Virgin Islands	USD1	100	–	Investment holding	Hong Kong
上海申紅粮油酒食品物流有限公司 ("Shanghai Shen Hong")	Mainland China	RMB3,000,000	–	100	Distribution of wines	Mainland China

* Xinjiang Loulan Wine Co., Ltd is a Sino-foreign equity joint venture established in the PRC

18. LONG TERM DEPOSIT

	Group and Company 2003 RMB'000	2002 RMB'000
Long term deposit	–	19,080

The deposits had been used to acquire a subsidiary in Shanghai, the PRC. Details had been disclosed in the circular dated 24 April 2003.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

19. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable as at the balance sheet date is as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Current to 90 days	**52,029**	3,927
91 to 180 days	**2,015**	1,095
181 to 365 days	**2,711**	1,640
Over 365 days	**9,466**	6,733
	66,221	13,395
Less: Provision for doubtful debts	**(11,323)**	(5,444)
	54,898	7,951

The Group generally allows average credit periods ranging from 30 to 180 days to its trade debtors.

20. INVENTORIES

	Group	
	2003	2002
	RMB'000	*RMB'000*
Consumable stores	**4,251**	3,021
Work in progress	**10,168**	12,953
Finished goods	**19,084**	1,682
	33,503	17,656

No inventories were carried at net realisable value at 31 December 2003.

21. OTHER INVESTMENTS

		Group	
		2003	2002
		RMB'000	*RMB'000*
Listed equity securities		**664**	–
Investment fund			
Listed		**120**	–
Unlisted	(a)	**20,000**	20,000
Total:			
Listed in the PRC		**784**	–
Unlisted		**20,000**	20,000
		20,784	20,000
Market value of listed securities		**784**	–

(a) The investment fund earns a guaranteed return of 1% per annum and is due on 30 September 2003. The investment fund together with the return has been received after the year end.

22. DEFERRED TAX

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

	Group	
	2003	2002
	RMB'000	*RMB'000*
Tax losses	**–**	(330)
Acquisition of a subsidiary	**1,075**	–
Deferred tax liability/(asset)	**1,075**	(330)

Movements of deferred tax (asset)/liability during the year are as follows:

	Property, plant and equipment RMB'000	**Tax loss** RMB'000	**Total** RMB'000
At 1 January 2002	–	–	–
Tax loss recognised	–	(330)	(330)
At 31 December 2002	–	(330)	(330)
Reversal of tax loss previously recognised	–	330	330
Acquisition of a subsidiary	1,075	–	1,075
At 31 December 2003	1,075	–	1,075

NOTES TO FINANCIAL STATEMENTS

31 December 2003

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSIT

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**12,279**	4,383	**209**	2,234
Pledged bank deposit	**–**	11,660	**–**	11,660
	12,279	16,043	**209**	13,894
Less: Pledged bank deposit: Pledged as security for bank loans	**–**	(11,660)	**–**	(11,660)
Cash and cash equivalents	**12,279**	4,383	**209**	2,234

24. BANK AND OTHER LOANS

	Group	
	2003	2002
	RMB'000	*RMB'000*
Bank loans, secured	**55,082**	41,882
Other loans, unsecured	**7,510**	4,510
	62,592	46,392
Bank loans repayable:		
Within one year or on demand	**49,682**	41,882
In the second year	**2,400**	–
After second years but within fifth years	**3,000**	–
	55,082	41,882
Other loans repayable:		
Within one year or on demand	**7,510**	4,510
	62,592	46,392
Portion classified as current liabilities	**(57,192)**	(46,392)
Long term portion	**5,400**	–

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, the Group had suspended repayment of both the principal installments and interests due.

24. BANK AND OTHER LOANS (CONTINUED)

The Group's bank loans are secured by:

(i) fixed and floating charges over certain categories of the Group's property, plant and equipment with an aggregate carrying amount as follows:

	Group 2003 RMB'000	2002 RMB'000
Buildings	**18,084***	8,389
Plant and machinery	**8,095**	8,460
Motor vehicles	**1,678**	1,728
Furniture, fixtures and equipment	**684**	618
Inventories	**16,154**	17,879
	44,695	37,074

* included a property with net book value of RMB9,925,000 under fixed charge.

(ii) floating charges over the right to use the trademarks of Xinjiang Loulan

As at the date of this report, the Group is still in the process of registering the charge on these fixed assets and the right to use the trademarks of Xinjiang Loulan with the local government as securities for the bank loan.

25. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the balance sheet date is as follows:

	Group 2003 RMB'000	2002 RMB'000
Current to 90 days	**48,479**	2,571
91 to 180 days	**696**	260
181 to 365 days	**754**	61
Over 365 days	**9,947**	1,164
	59,876	4,056

NOTES TO FINANCIAL STATEMENTS

31 December 2003

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Value-added tax payable	**3,823**	5,730	**–**	–
Consumption tax payable	**4,328**	5,009	**–**	–
Salaries and staff welfare payable	**213**	95	**27**	–
Amount due to directors	**1,897**	–	**1,228**	–
Accrued expenses	**11,640**	9,027	**1,060**	1,644
Other payables	**9,843**	4,046	**6**	–
	31,744	23,907	**2,321**	1,644

27. SHARE CAPITAL

	Group and Company	
	2003	2002
	RMB'000	*RMB'000*
Authorised		
10,000,000,000 ordinary shares of HK$0.01 each	**106,000**	106,000
Issued and fully paid		
400,000,000 ordinary shares of HK$0.01 each	**4,240**	4,240

(i) As at the date of incorporation of the Company, its initial authorised share capital was HK$390,000 (RMB413,000) divided into 7,800,000 ordinary shares of HK$0.05 each in the capital of the Company, one of which was allotted and issued nil paid on 6 September 2001.

(ii) Pursuant to the written resolutions dated 5 October 2001, each of the issued and unissued ordinary shares of HK$0.05 each in the capital of the Company was subdivided into 5 ordinary shares of HK$0.01 each in the capital of the Company. As a result of the subdivision, the authorised share capital of the Company was HK$390,000 (RMB413,000) divided into 39,000,000 shares of HK$0.01 each.

(iii) On 24 July 2002, written resolutions were passed pursuant to which the authorised share capital of the Company was increased from HK$390,000 (RMB413,000) to HK$100,000,000 (RMB105,587,000) by the creation of an additional 9,961,000,000 shares.

(iv) As consideration for the acquisition by the Company of the entire issued share capital of Powerful Kingdom Inc., the Company allotted and issued an aggregate of 99,995 shares credited as fully paid to the original shareholders of Powerful Kingdom Inc.

(v) On 24 July 2002, resolutions of the sole shareholders of the Company were passed pursuant to which, inter alia:

Conditional on the share premium account of the Company being credited as a result of the new issue of shares, the directors were authorised to capitalise HK$2,999,000 (RMB3,179,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par an aggregate of 299,900,000 shares for allotment and issue to the holders of shares on the register of members of the Company at the close of business on 24 July 2002.

(vi) On 12 August 2002, the Company issued 100,000,000 new shares of HK$0.01 each to the public at an issue price of HK$0.5 each, for a total cash consideration of HK$50,000,000 (RMB53,000,000), before issue expenses.

27. SHARE CAPITAL (CONTINUED)

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, employees, suppliers, customers, advisors and shareholders of the Group. The Scheme became effective on 24 July 2002 ("Adoption Date") and, unless otherwise cancelled or amended, will remain in force for the period of 10 years started from the Adoption Date.

HK$1.00 is payable by each Eligible Person to the Company on acceptance of the offer of an option.

The subscription price for any share of the Company issuable under the Scheme is, subject to any adjustments made to the terms of the Scheme, be a price determined by the Board and notified to each Person and will be not less than the greater of (i) the nominal value of a share; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day; or (iii) an amount equal to the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. No options may be granted under any scheme of the Company (including the Scheme) if this will result in the 30% limit being exceeded.

The total number of shares of the Company available for issue under options which may be granted under the Scheme and any other share option schemes must not, in aggregate, exceed 40,000,000 shares, representing 10% of the issued share capital of the Company as at 31 December 2002, unless shareholders' approval has been obtained.

No share options have been granted under the Scheme as at the date of this report.

28. RESERVES

The amounts of the Group's reserves and the movements therein for current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

Xinjiang Loulan and Shanghai Shen Hong are required to follow the laws and regulations of the PRC and its articles of association. Under these requirements, the amount of the appropriation to the statutory reserve fund is determined by the board of directors in accordance with the relevant laws and regulations of the PRC. The statutory reserve fund may only be used, upon approval by the relevant authority, to offset accumulated losses or to increase capital.

If the reserve fund is not sufficient to compensate for its losses in prior years, its current year's net profit is used to make good the losses before allocations are set aside for the reserve fund.

The Group's contributed surplus arose as a result of the Group Reorganisation on the basis that the Company had become the holding company of the Group on 24 July 2002, and it represents the excess of the par value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

28. RESERVES (CONTINUED)

Movements in the reserves of the Company during the year were as follows:

Company

	Share premium account RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
Issue of shares	48,761	–	–	48,761
Share issue expenses	(13,022)	–	–	(13,022)
Net loss for the year	–	–	(6,298)	(6,298)
At 31 December 2002	35,739	1,760	(6,957)	30,542
Net loss for the year	–	–	(3,342)	(3,342)
At 31 December 2003	35,739	1,760	(10,299)	27,200

29. ACQUISITION OF SUBSIDIARY

In May 2003, the Group acquired 100 per cent equity interest of Shanghai Shen Hong for a cash consideration of RMB19,753,000.

Net assets acquired:

	31 May 2003
Property, plant and equipment	4,067
Other investment	471
Accounts receivable	36,101
Prepayments, deposits and other receivables	733
Inventories	3,617
Deferred tax	(1,075)
Cash and cash equivalents	4,089
Short term loans	(28,200)
Accounts payable	(8,653)
Other payables and accruals	(1,857)
Tax	19
	9,312
Goodwill	10,441
– purchase consideration	15,000
– direct costs	4,753
Total consideration	19,753
Satisfied by cash	19,753
Net cash outflow arising on acquisition:	
Cash consideration	(19,753)
Cash and bank balances acquired	4,089
	(15,664)

NOTES TO FINANCIAL STATEMENTS

31 December 2003

30. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its vineyard and office premises under operating lease arrangements.

As at 31 December, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2003	2002
	RMB'000	*RMB'000*
Land and building expiring:		
Within one year	**1,305**	1,111
In the second to fifth years, inclusive	**3,281**	2,733
Over five years	**18,422**	18,275
	23,008	22,119

31. PENDING LITIGATION

During the year, Xinjiang Loulan 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 for a total of RMB31.8 million. The directors considered that this agreement was entered into by the then general manager without proper authorization from the board of directors. 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 the principal installments and interests.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2004.

FINANCIAL SUMMARY

As at 31 December 2003

RESULTS

	Year ended 31 December			
	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**183,533**	13,037	23,054	25,228
Cost of sales	**(167,398)**	(6,844)	(11,424)	(12,599)
Gross profit	**16,135**	6,193	11,630	12,629
Other income	**5,615**	45	408	1,660
Selling and distribution costs	**(8,573)**	(2,490)	(2,313)	(2,980)
Administrative expenses	**(15,961)**	(13,493)	(6,274)	(5,100)
Other operating expenses	**(103)**	(397)	(247)	(532)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(2,887)**	(10,142)	3,204	5,677
Finance costs	**(3,039)**	(3,820)	(3,710)	(3,104)
PROFIT/(LOSS) BEFORE TAX	**(5,926)**	(13,962)	(506)	2,573
Tax	**(927)**	(2)	(564)	(109)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(6,853)**	(13,964)	(1,070)	2,464
Minority interests	**–**	193	23	(246)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	**(6,853)**	(13,771)	(1,047)	2,218
Earning/(loss) per share – basic (RMB)	**(0.017)**	(0.041)	(0.003)	0.007

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December			
	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**197,615**	123,175	79,943	71,112
TOTAL LIABILITIES	**(156,544)**	(75,251)	(78,153)	(68,252)
MINORITY INTERESTS	**–**	–	(193)	(216)
	41,071	47,924	1,597	2,644

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Loulan Holdings Limited (the "Company") will be held at 11:00 a.m. on 26 April 2004 at The Empire Hotel, PM Floor, 33 Hennessy Road, Wanchai, Hong Kong to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors (the "Directors") of the Company and auditors for the year ended 31 December 2003;

2. to re-elect Directors and to authorise the board of Directors to fix the Directors' remuneration;

3. to re-appoint auditors and to authorise the board of Directors to fix their remuneration;

and, as special business, to consider and, if thought fit, passing the following resolutions (the "Resolution(s)") as ordinary and/or special Resolutions respectively, with or without modifications:

ORDINARY RESOLUTIONS

4. **"THAT:**

(a) subject to paragraph (c) below, pursuant to the Rules (the "GEM Listing Rules") Governing the Listing of Securities on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors during the Relevant Period (as herein defined) of all the powers of the Company to allot, issue and deal with unissued shares (each a "Share") of HK$0.01 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as herein defined); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(bb) (if the Directors are so authorised by a separate ordinary Resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of that Resolution),

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law of Cayman Islands (the "Companies Law"), or any other applicable law of Cayman Islands to be held; and

(iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution;

"Rights Issue" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

5. **"THAT:**

(a) the exercise by the Directors during the Relevant Period (as herein defined) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the GEM Listing Rules and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(c) for the purposes of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law, or any other applicable law of Cayman Islands to be held; and

(iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution."

6. **"THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution.**"**

SPECIAL RESOLUTION

7. "**THAT** the existing articles of association of the Company be and are hereby amended in the following manner:

(A) By inserting the following new definition of "associate" in Article 2:

"associate" the meaning attributed to it in the rules of the Designated Stock Exchange."

(B) (i) By re-numbering existing Article 76 as Article 76(1);

(ii) By inserting the following as new Article 76(2):

"76(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted."

(C) By deleting the words "not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting" in the last sentence of Article 88 and replacing therewith the following proviso:

"provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting."

NOTICE OF ANNUAL GENERAL MEETING

(D) By deleting the existing Article 103 in its entirety and replacing therewith the following new Article 103:

"103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or

(vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

NOTICE OF ANNUAL GENERAL MEETING

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board."

By order of the board of Directors
Woo Hang Lung
Chairman

Hong Kong, 25 March 2004

NOTICE OF ANNUAL GENERAL MEETING

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong:
Rooms 2001-4
20th Floor
The Broadway
54-62 Lockhart Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy for use at the annual general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the principal place of business of the Company in Hong Kong at Rooms 2001-4, 20th Floor, The Broadway, 54-62 Lockhart Road, Wanchai, Hong Kong. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.

3. In relation to proposed Resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of Shares under the GEM Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders of the Company.

4. In relation to proposed Resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholder of the Company. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed Resolution as required by the GEM Listing Rules is set out a separate document to be despatched to the shareholders of the Company with the annual report for the year.