LOULAN HOLDINGS LIMITED
樓 蘭 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8039)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This announcement, for which the directors ("Directors") of Loulan Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board of Directors (the "Board") of the Loulan Holdings Limited (the "Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2004 together with comparative audited figures for the last year are as follows:

	Notes	**2004** *RMB'000*	2003 *RMB'000*
Turnover	4	**41,362**	183,533
Cost of sales		**(33,676)**	(167,398)
Gross profit		**7,686**	16,135
Other income	5	**1,946**	5,615
Selling and distribution costs		**(9,440)**	(8,573)
Administrative and other operating expenses		**(46,240)**	(16,064)
LOSS FROM OPERATING ACTIVITIES	6	**(46,048)**	(2,887)
Finance costs	7	**(3,399)**	(3,039)
LOSS BEFORE TAX		**(49,447)**	(5,926)
Tax	8	**(216)**	(927)
LOSS BEFORE MINORITY INTERESTS		**(49,663)**	(6,853)
Minority interests		**–**	–
LOSS ATTRIBUTABLE TO SHAREHOLDERS		**(49,663)**	(6,853)
Loss per share – basic (RMB)	10	**(0.124)**	(0.017)

Notes:

1. Group reorganization

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").

2. Basis of preparation and principal accounting policies

The financial statements have been prepared in accordance with the Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited.

3. Basis of presentation and fundamental uncertainties

The Group reported a net loss attributable to shareholders of RMB49,663,000 for the year ended 31 December 2004 and at that date, its current liabilities exceeded its current assets by RMB51,314,000. Nevertheless, the financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate because the Directors believe that the Group will be able to obtain funds from other banks to allow it to maintain as a going concern.

4. Turnover

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

5. Other income

	2004	2003
	RMB'000	*RMB'000*
Write off of bank loan	**–**	5,000
Return on investment	**200**	–
Others	**1,746**	615
	1,946	5,615

6. Loss from operating activities

The loss from operating activities is arrived at after charging/(crediting):

	2004	2003
	RMB'000	*RMB'000*
Cost of inventories sold	**33,676**	167,398
Depreciation of property, plant and equipment	**3,963**	3,397
Loss on disposal of property, plant and equipment	**112**	–
Amortisation of intangible assets	**1,610**	1,067
Goodwill written off	**8,374**	–
Operating lease rentals	**1,879**	1,779
Staff costs (including directors' remuneration)		
Wages and salaries	**5,721**	5,821
Pension scheme contributions	**802**	694
	6,523	6,515
Auditors' remuneration	**509**	500
Provision for obsolete and slow-moving inventories	**3,190**	917
Provision for doubtful debts	**6,781**	4,765

7. Finance costs

	2004	2003
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**3,399**	3,039

8. Tax

The amount of taxation in the profit and loss account represents:

	2004	2003
	RMB'000	*RMB'000*
Current tax		
– Hong Kong	**–**	–
– Mainland China	**496**	597
Deferred tax	**(280)**	330
	216	927

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 2004 in these jurisdictions.

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

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

	2004 *RMB'000*	2003 *RMB'000*
Loss before tax	**(49,447)**	(5,926)
Tax calculated at the applicable tax rate of 33% (2003: 33%)	**(16,318)**	(1,955)
Effect of different tax rates of companies operating in other jurisdictions	**4,428**	268
Tax effect of expenses not deductible for tax purposes	**8,831**	1,105
Reversal of deferred tax asset previously recognised	**–**	330
Deferred tax asset not recognized	**3,059**	1,179
Reversal of temporary difference	**(280)**	–
Under-provision in prior year	**496**	–
Income tax expense	**216**	927

9. Dividend

The Board does not recommend the payment of any dividends in respect of the year ended 31 December 2004 (2003: Nil).

10. Loss per share

The calculation of the loss per share for the year ended 31 December 2004 is based on the loss attributable to shareholders of approximately RMB49,663,000 (2003: RMB6,853,000) and the weighted average of 400,000,000 (2003: 400,000,000) shares in issue during the year.

No diluted loss per share for the year ended 31 December 2004 and 2003 has been presented because there were no diluting potential ordinary shares in existence during these years.

11. Segment information

	Selling of self-manufactured wines		Distribution of wine products		Unallocated		Elimination		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	**11,662**	10,679	**31,502**	172,854	**–**	–	**(1,802)**	–	**41,362**	183,533
Results										
Segment result	**(14,932)**	(690)	**(26,127)**	2,996	**(4,577)**	(5,193)	**(412)**	–	**(46,048)**	(2,887)
Finance costs									**(3,399)**	(3,039)
Loss before tax									**(49,447)**	(5,926)
Tax									**(216)**	(927)
Minority interest									**–**	–
Loss for the year									**(49,663)**	(6,853)
Other Information										
Amortisation of intangible assets	**305**	305	**1,305**	–	**–**	762	**–**	–	**1,610**	1,067
Depreciation of property, plant and equipment	**2,642**	2,661	**1,266**	666	**55**	70	**–**	–	**3,963**	3,397
Capital additions	**577**	644	**874**	25,310	**14**	–	**–**	–	**1,465**	25,954
Asset	**61,668**	84,669	**45,518**	118,821	**48,999**	75,584	**(48,477)**	(81,459)	**107,708**	197,615
Liabilities	**(85,129)**	(91,088)	**(71,719)**	(105,621)	**(7,518)**	(26,409)	**48,066**	66,574	**(116,300)**	(156,544)
Net assets/(liabilities)	**(23,461)**	(6,419)	**(26,201)**	13,200	**41,481**	49,175	**(411)**	(14,885)	**(8,592)**	41,071

The Group's turnover was 100% (2003: 100%) derived from the PRC.

12. Share capital and reserves

	Issued Capital	Share premium account	Contributed surplus	Statutory reserve fund	Accumulated losses	Revaluation reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003	4240	35,379	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
Net loss for the year	–	–	–	–	(49,663)	–	(49,663)
At 31 December 2004	4,240	35,739	29,703	1,884	(80,278)	120	(8,592)

QUALIFIED AUDITORS' REPORT

The auditors' report on the annual accounts of the Group for the year ended 31 December 2004 has been modified, excerpts of which are reproduced as follows:

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

1. We were unable to attend the year-end physical stocktaking as we were appointed auditors after the balance sheet date. We were unable to carry out auditing procedures necessary to obtain sufficient evidence regarding the existence of the closing inventories appearing in the consolidated balance sheet at RMB18,105,000. In consequence, we could only relied on the group's stock records to verify the correctness of the valuation and the quantities of the closing inventories on hand at 31 December 2004. In addition, one of the subsidiaries, Shanghai Shen Hong, failed to maintain adequate records to show the stock movements for the year. We were therefore unable to carry out auditing procedures necessary to obtain sufficient evidence regarding the valuation and the quantities of its closing inventories amounting to RMB5,930,000. Any adjustments to this figure may have a consequential significant effect on the loss for the year and net liabilities as at 31 December 2004;

2. The group's leasehold land and buildings and motor vehicles with carrying values of RMB1,782,000 and RMB601,000 respectively as at 31 December 2004 were based on their valuation at 31 December 2002. In addition, we have been provided with a valuation report at 31 March 2004 with expiry period of one year for the group's vineyard development, trademark, production technology and know-how with carrying values of RMB5,812,000, RMB385,000 and RMB3,229,000 respectively as at 31 December 2004. Since no updated professional valuation has been carried out on the carrying values of such assets, we are therefore unable to determine whether the carrying values of such assets are fairly stated, and whether any impairment loss should be provided. The directors confirm that, to the best of their knowledge, the value of these assets as stated in the financial statements represent the fair valuation as at 31 December 2004;

3. The original ownership certificates in respect of the group's leasehold land and buildings amounting to RMB15,341,000 as at 31 December 2004 were not available for our inspection. Accordingly we are unable to verify the group's title to such properties;

4. Included under current assets are other receivables totaling RMB25,650,000. We have not obtained direct confirmation of balances from these receivables. In addition, we were unable to satisfy ourselves whether these receivables can be recovered in full. Any adjustments to this figure may have a consequential significant effect on the loss for the year and net liabilities as at 31 December 2004;

5. We have not been provided with breakdowns for other creditors totaling RMB2,287,000 under other payables and accruals. Direct confirmations in respect of trade creditors to the extent of RMB5,078,000 have also not been obtained. There were no practical alternative audit procedures that we could adopt to satisfy ourselves as to the truth and correctness of such balances;

6. The auditor's report on the financial statements for the year ended 31 December 2003 was qualified in that no opinion could be expressed in respect of the appropriateness of the write back of bank loan in the amount of RMB5 million as other income (note 27). Since the litigation in respect of this bank loan is still pending, any adjustments to the amount may have a consequential effect on the loss for the year and net liabilities as at 31 December 2004;

7. In addition, accumulated losses of RMB30,615,000 in the current year's financial statements are derived from financial statements for the year ended 31 December 2003. We have not been provided with sufficient evidence for prior year adjustments which were not audited by us. There were no practical alter native audit procedures that we could adopt to verify the correctness of such amount. Any adjustments to the amount may have a consequential effect on the loss for the year and net liabilities as at 31 December 2004.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the dependence of the group on the continuing financial support of the company's financiers. The financial statements have been prepared on a going concern basis and do not include any adjustments that would result from the withdrawal of financial support from the company's financiers. 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: Disclaimer on view given by financial statements

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 December 2004 or of the loss and cash flows of the group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Listing Rules of GEM of the Stock Exchange.

In respect alone of the limitation on our work relating to the above matters, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit and we were unable to determine whether proper books of account had been kept.

FINANCIAL REVIEW

The Group's turnover reduced by 77.5% for the year ended 31 December 2004 to RMB41,362,000 compared to the turnover in 2003 of RMB183,533,000. The significant decrease in sales was mainly due to the drastically decrease in sales of an alcoholic drinks distributor "Shanghai Shen Hong" which represents over 76% of the total turnover. The average gross profit margin of the Group increased to 18% compared with that of 9% last year. Such increase was attributable to the decrease sales (76% current compare with 94% on total sales last year) of "Shanghai Shen Hong" which contribute a lower margin of gross profit.

The loss attributable to shareholders of the Company for the year ended 31 December 2004 was RMB49,663,000 (2003: RMB6,853,000). The increase in loss attributable to shareholders was mainly due to the significant decrease in sales and the increase in administrative and other operating expenses by 188% as compared to that of last year.

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 2004, the Group had outstanding bank loans and other loans in aggregate amount of approximately RMB48,589,000 (2003: RMB55,082,000) and approximately RMB4,610,000 (2003: RMB7,510,000) respectively. The Directors are confident that, based on past experience, the respective banks, will renew upon applications by the Group the bank loans of RMB48,589,000. 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 RMB38,577,000.

As at 31 December 2004, the Group had net current liabilities of approximately RMB51,314,000 (2003: RMB12,463,000).

Taking into consideration the aforesaid bank loans renewal and the continue financial support of major shareholders available to the Group, it is believed that the Group should have adequate financial resources to meet its operation, development requirements and investments in the coming year.

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.

FUTURE PLAN FOR MATERIAL INVESTMENT

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 2004.

GEARING RATIO

The Group expresses its gearing ratio as a percentage of long term debts over total assets. As at 31 December 2004, the Group had a gearing ratio of 3.4% (2003: 2.7%). The Group generally finances its operations with equity funding, bank and other borrowings.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs cost in Renminbi. The directors consider that the impact of foreign exchange exposure of the Group is minimal.

EMPLOYEE INFORMATION

At 31 December 2004, the Company employed 238 employees (2003: 278). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include medical insurance and pension fund. Staff cost was approximately RMB6,523,000 for the year ended 31 December 2004 as compared with that of approximately RMB6,515,000 for the preceding financial year.

CONTINGENT LIABILITIES

Pending Litigation

Last 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. In its judgment in 8 October 2004, the People's High Court of Xinjiang accepted that the Company has no responsibility for RMB5 million together with the interest of RMB1.2 million, but reject remain litigation. Both the Bank and the Company disagree with the judgment. The case was brought to the People's Highest Court of China and is still pending.

PROSPECTS

The wine product produced under the Company's own brand name, Loulan, has won many domestic and international awards. It is also awarded as the "Name Brand and High Quality" product by the Xingjiang province. Such high quality wine that is made directly from the make of original juice of grape is rare in the mainland China. As China is going to issue standards for the wine industry. The Board is confident that it will strengthen the market share of high quality wines such as "Loulan" and drive out those fake and poor quality wines which are now dominating the market.

BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, the Company has complied with the code of best practice as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 December 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2004.

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.

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

The Board comprises of:
Woo Hang Lung *(Executive director)*
Junichi Goto *(Non-executive director)*
Yue Kwai Wa, Ken *(Independent non-executive director)*
Lau Chi Sun, Robbie *(Independent non-executive director)*
Wang Desheng *(Independent non-executive director)*

Hong Kong, 9 June 2005

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page of at least for 7 days from the date of its publication.