LOULAN HOLDINGS LIMITED

樓蘭控股有限公司

(incorporated in the Cayman Islands with limited liability)

Annual Report 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF 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.

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Corporate Information

EXECUTIVE DIRECTORS
Mr. WOO Hang Lung
Mr. ZHU Zheng Ming
(removed on 3 January 2005)

NON-EXECUTIVE DIRECTOR
Mr. Junichi GOTO

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Yue Kwai Wa, Ken
(appointed on 10 August 2004)
Mr. LAU Chi Sun, Robbie
Mr. Wang Desheng
(appointed on 27 September 2004)
Mr. LO Chi Man
(resigned on 10 August 2004)

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. Peng Zhi Heng, HKICPA, CPA Australia
(appointed on 16 December 2004)
Ms. Pong Lai Kit, Tracy, AHKSA, AIA
(resigned on 16 December 2004)
Mr. SIEW Chun Fai, Edward, CPA Australia, AHKSA
(resigned on 1 June 2004)

AUTHORISED REPRESENTATIVES
Mr. WOO Hang Lung
Mr. Peng Zhi Heng, HKICPA, CPA Australia
(appointed on 16 December 2004)
Ms. Pong Lai Kit, Tracy, AHKSA, AIA
(resigned on 16 December 2004)
Mr. SIEW Chun Fai, Edward, CPA Australia, AHKSA
(resigned on 1 June 2004)

SPONSOR
South China Capital Limited
28th Floor
Bank of China Tower
1 Garden Road
Central, Hong Kong
(terminated on 31 December 2004)

COMPLIANCE OFFICER
Mr. WOO Hang Lung

QUALIFIED ACCOUNTANT
Mr. Peng Zhi Heng, HKICPA, CPA Australia
(appointed on 16 December 2004)
Ms. Pong Lai Kit, Tracy, AHKSA, AIA
(resigned on 16 December 2004)
Mr. SIEW Chun Fai, Edward, CPA Australia, AHKSA
(resigned on 1 June 2004)

AUDIT COMMITTEE MEMBERS
Mr. Yue Kwai Wa, Ken (Chairman)
Mr. LAU Chi Sun Robbie
Mr. Wang Desheng
Mr. Lo Chi Man
(resigned on 10 August 2004)

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
WONG BROTHERS & CO
Certified Public Accountants
19th Floor
MassMutual Tower
38 Gloucester Road, Wanchai
Hong Kong

GEM STOCK CODE
8039

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 2004.

BUSINESS REVIEW

As at the year ended 31 December 2004, the Group recorded a loss attributable to shareholders of approximately RMB49,663,000 (2003: loss of approximately RMB6,853,000). Turnover for the year was approximately RMB41,362,000 (2003: approximately RMB183,533,000). Gearing ratio of the Group was increased from 2.7% as at 31 December 2003 to 3.4% as at 31 December 2004.

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.

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
9 June 2005

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 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 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.

SEGMENTAL REPORTING

One hundred percent of the Group's turnover was derived in the PRC and as a result, no further business or geographical segment information is presented.

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 High People's Court of People's Republic of China, 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 Supreme People's Court of People's Republic of China and is still pending.

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 2004 as stated in the Prospectus	**Actual business progress up to 31 December 2004**
Expansion of sales and distribution network in the PRC	a. Established 6 domestic sales offices in Nanjing, Wuhan, Changzhou, Suzhou and Ningbo in the PRC respectively	a. Established Nanjing sales office. Rescheduled the establishment of other offices to year 2005.
	b. The sales branch office in Shanghai, the PRC will serve as a regional sales office to coordinate the sales and distribution activities of the sales outlets of the eastern province of the PRC	b. Reschedule to year 2005.
	c. continue to establish sales outlet in the eastern and southern province of the PRC	c. Reschedule to year 2005.
	d. Plan to appoint 119 domestic distributors	d. Reschedule to year 2005.
	e. Continue to strength the usage of sales and distribution network established in the eastern and southern provinces of the PRC through the increase of sales and marketing services employees or, if suitable opportunities arise, through acquisition of distributors or establishing joint ventures with distributors.	e. Rescheduled the establishment to year 2005
Recruitment of employees in relation to the establishment of sales branch offices and local outlets in the PRC	f. Recruit a total of 45 full-time employees comprising 32 full-time sales employees and 13 full-time management, administration and supporting employees for branch offices and local outlets in the PRC	f. 14 Full-time sales employees were recruited and the remaining is rescheduled to year 2005 for the development and expansion of the branch offices

	Business objectives up to 31 December 2004 as stated in the Prospectus	Actual business progress up to 31 December 2004
Marketing and promotional activities to increase sales and enhance brand name recognition	g. Continue the promotional activities through advertising, sponsoring, activities, giving away free samples and website from the last period	g. Continue the promotional activities from the last period.
	h. Continue to participate in international and local wine competitions and exhibitions	h. Continue to participate in international and local wine competitions and exhibitions
Overseas market expansion	i. Continue to seek suitable distribution agents, strategic alliances and merger and acquisition opportunities for the distribution of the Group's products overseas including Hong Kong	i. Continue to seek suitable distribution agents, strategic alliances and merger and acquisition opportunities for the distribution of the Group's products overseas including Hong Kong
	j. Continue to evaluate the PRC and overseas market expansion plan and integrate the PRC and overseas distribution business	j. Rescheduled to year 2005
Increase the supply of grapes	k. Continue to look for opportunities to acquire suitable wineries and vineyards	k. Continue to identify suitable wineries
	l. Commence the plantation of vines	l. Reschedule to year 2005
	m. Increase the production of grapes grown in its vineyard from 1,500 tons in year 2002 to 2000 tons at the end of year 2003	m. Due to reason of (i) and (k) above, the increase in production of grapes is postponed
Import of high quality unfinished wines	n. Import of unfinished wine from overseas suppliers in the event of insufficient domestic supply of grape required for its production requirements	n. No need to import unfinish wines became of sufficient domestic supply
Installation of wine-making facilities	o. Install crushing machinery	o. Due to reason of (m) reschedule to year 2005

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 2004 as follows:

	Total planned use of proceeds as set out in the Prospectus *HK$'000*	**Amount to be used up to 31 December 2004 as disclosed in the Prospectus** *HK$'000*	**Actual amount used up to 31 December 2004** *HK$'000*	*Notes*
Market expansion and penetration				
– Expansion of the sales and distribution network in the PRC and overseas market	15,000	15,000	14,151	(a)
– Marketing and promotional activities	3,000	3,000	1,935	(b)
Expansion of production capacity				
– Acquisition of vineyards and/or wineries	10,000	10,000	–	(c)
– Enhancement and installation of production facilities	5,000	5,000	187	(d)
	33,000	33,000	16,273	

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

DIRECTORS

Executive Directors

Mr. Woo Hang Lung, aged 52, 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.

Non-executive Director

Mr. Junichi Goto, aged 50, 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. Yue Kwai Wa, Ken, aged 40, was appointed by the Company on 10 August 2004. Mr. Yue is currently an independent non-executive director of Byford International Limited (stock code: 8272) and Wealthmark International (Holdings) Limited (stock code: 39), the shares of which are listed on the GEM and the Main Board of the Stock Exchange respectively. Mr. Yue is also a executive director of WinKas Company Limited, a financial and management consulting services company, Monitronic Limited and Monitronix Limited, both engage in trading of telecommunication products. Prior to that, Mr. Yue worked in Dao Heng Securities Limited in various roles including compliance and finance between 1998 and 2002, and also worked for the Regulation Division of the Stock Exchange during 1998. Between 1993 and 1997, Mr. Yue was engaged in the auditing business in an international accounting firm in Hong Kong. Mr. Yue is currently an associate member of the American Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute holding a Specialist Certificate in corporate finance.

Mr. Lau Chi Sun Robbie, aged 50, is the chief editor of Wine Now Monthly. Mr. Lau has over 20 years of experience in the media industry.

Mr. Wang Desheng, aged 62, is a professor of School of Philosophy and Sociology at Beijing Normal University since 1981, as well as a mentor of postgraduate students for Science Philosophy and News Publication.

SENIOR MANAGEMENT

Mr. Peng Zhi Heng, age 42, has 9 years of experience in auditing, accounting and financial management. Mr. Peng is a member of both the Hong Kong Institute of Certified Public Accountants and the CPA Australia.

Mr. Huang Jian Qing, aged 35, 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 Factor y 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.

The directors present their report and audited financial statements of the Company and the Group for the year ended 31 December 2004.

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 16 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 26.

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 14 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 25 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 26 to the financial statements and the reserves of the Group are set out in the consolidated statements of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2004, 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, is nil.

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	78.62%
– five largest suppliers combined	93.73%
Sales	
– the largest customer	20.25%
– five largest customers combined	48.10%

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 (removed on 3 January 2005)

Non-executive directors:
Junichi Goto
Yue Kwai Wa, Ken*
Wang Desheng*
Lau Chi Sun, Robbie*
Lo Chi Man* (resigned on 10 August 2004)

* *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 9 of the Annual Report.

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. He has been removed.

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 2004, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Company:

Name of Director	Personal interests (number of shares)	Family interests (number of shares)	Corporate interests (number of shares)	Others interests (number of shares)	Total number of shares	%
Woo Hang Lung	163,125,000	–	–	–	163,125,000	40.78
Junichi Goto	41,250,000	–	–	–	41,250,000	10.3

Note: Mr. Woo Hang Lung pledged 163 million shares to REXCAPITAL Financial Holdings Limited (the "REXCAPITAL") which is held by TKR Finance Limited (the "TKR") as to 63.8%. TKR is facing winding-up petition by Global Tech (Holdings) Limited. This winding-up petition was passed by court on 21 July 2004.

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

Save as disclosed above, as at 31 December 2004, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the 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 other wise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as disclosed in note 25 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"). 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 other wise (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.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

As at year ended 31 December 2004, none of the Directors or chief executive of the Company or any of their spouse or children under 18 year of age had exercised or was granted or holding options to acquire shares in or debentures of the Company.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 31 December 2004, 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)*	41,250,000	10.30
Nomura China Venture Investment Fund Limited *(Notes 2)*	41,250,000	10.30
China Enterprise Investment Fund *(Notes 1 and 3)*	41,250,000	10.30
Nomura Holdings, Inc. *(Notes 2)*	41,250,000	10.30
JAFCO Co., Ltd. *(Notes 2)*	41,250,000	10.30
Global Funds Trust Company *(Notes 3)*	41,250,000	10.30
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 100% 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, the 100% ownership in New Dragon (No. 7) Investments Limited as being beneficially held and control by China Enterprise Investment Fund is being held through Global Funds Trust Company, a company incorporated in the Cayman Islands as a trustee.

(4) Mr. Woo Hang Lung pledged 163 million shares to REXCAPITAL Financial Holdings Limited (the "REXCAPITAL") which is held by TKR Finance Limited (the "TKR") as to 63.8%. TKR is facing winding-up petition by Global Tech (Holdings) Limited. This winding-up petition was passed by court on 21 July 2004.

Save as disclosed, as at 31 December 2004, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

SHARE OPTION SCHEME

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

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

SPONSOR'S INTERESTS

Pursuant to the sponsor agreement dated 31 July 2002 between Kim Eng Capital (Hong Kong) Limited (the "Kim Eng") and the Company, the Company had appointed Kim Eng to act as sponsor to the Company.

With Effective from 30 March 2004, as certain licensed persons of Kim Eng, who are eligible to act as principle and assistant supervisors (as defined in the GEM Listing Rules) will be de-registered as license persons of Kim Eng, Kim Eng will no longer comply with the eligibility criteria as set out in Chapter 6 of the GEM Listing Rules with effect from 30 March 2004 and have to cease its role as continuing sponsor of the Company.

The Company had finalized its replacement sponsor agreement with South China Capital Limited (the "South China") to comply with the requirements under Rule 6.63 of the GEM Listing Rules and South China had agreed to act as a replacement sponsor of the Company with effect from 24 May 2004 to 31 December 2004 for the remaining period of the minimum period as required under Rules 6A.19 of the GEM Listing Rules in return for a sponsor fee. The sponsor service of South China terminated at 31 December 2004 as according to the agreement.

As at 31 December 2004, neither the directors, employees nor their associates of South China, had any interests in any securities of the Company or any of its associated corporations.

SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the four years ended 31 December 2004 and the assets, liabilities and minority interests of the Group as at 31 December 2001, 2002, 2003 and 2004, prepared on the bases set out in note below, is as follows:

RESULTS

	Year ended 31 December			
	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**41,362**	183,533	13,037	23,054
Cost of sales	**(33,676)**	(167,398)	(6,844)	(11,424)
Gross profit	**7,686**	16,135	6,193	11,630
Other income	**1,946**	5,615	45	408
Selling and distribution costs	**(9,440)**	(8,573)	(2,490)	(2,313)
Administrative and other operating expenses	**(46,240)**	(16,064)	(13,890)	(6,521)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(46,048)**	(2,887)	(10,142)	3,204
Finance costs	**(3,399)**	(3,039)	(3,820)	(3,710)
PROFIT/(LOSS) BEFORE TAX	**(49,447)**	(5,926)	(13,962)	(506)
Tax	**(216)**	(927)	(2)	(564)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(49,663)**	(6,853)	(13,964)	(1,070)
Minority interests	**–**	–	193	23
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	**(49,663)**	(6,853)	(13,771)	(1,047)
Earning/(loss) per share – basic *(RMB)*	**(0.124)**	(0.017)	(0.041)	(0.003)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December			
	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**107,708**	197,615	123,175	79,943
TOTAL LIABILITIES	**(116,300)**	(156,544)	(75,251)	(78,153)
MINORITY INTERESTS	**–**	–	–	(193)
	(8,592)	41,071	47,924	1,597

Note: The summary financial information for the year 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 2004.

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 three members, Mr. Yue Kwai Wa, Ken (chairman), Mr. Lau Chi Sun, Robbie and Mr. Wang Desheng, all of whom are independent non-executive directors of the Company.

COMPLIANCE WITH RULES 5.34 TO 5.45 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 5.34 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.

AUDITORS

Wong Brothers & Co were appointed as auditors of the Company to fill the casual vacancy created by the resignation of BDO McCabe Lo & Company with effect from 20 April 2005. Save as aforesaid, Ernst & Young had been one of the Company's auditors in the past three financial years.

A resolution for the appointment of Wong Brothers & Co 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
9 June 2005

WONG BROTHERS & CO
CERTIFIED PUBLIC ACCOUNTANTS
(A member firm of AGN International with offices worldwide)
民信會計師事務所

Auditors' Report to the Shareholders of
LOULAN HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

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 Institute of Certified 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 misstatements. However, the evidence available to us in respect of the followings is limited:

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 alternative 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.

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 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.

Wong Brothers & Co.,
Certified Public Accountants

Hong Kong, 9 June 2005

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Consolidated Income Statement

Year ended 31 December 2004

	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 revenue	6	**1,946**	5,615
Selling and distribution costs		**(9,440)**	(8,573)
Administrative and other operating expenses		**(46,240)**	(16,064)
Loss from operations		**(46,048)**	(2,887)
Finance costs	7	**(3,399)**	(3,039)
Loss before taxation	8	**(49,447)**	(5,926)
Taxation	11	**(216)**	(927)
Loss before minority interests		**(49,663)**	(6,853)
Minority interests		**–**	–
Loss attributable to the shareholders	12	**(49,663)**	(6,853)
Loss per share – basic *(RMB)*	13	**(0.124)**	(0.017)

Consolidated Balance Sheet

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	14	**43,570**	46,411
Intangible assets	15	**3,614**	13,598
		47,184	60,009
Current assets			
Accounts receivable	17	**6,504**	54,898
Prepayments, deposits and other receivables		**33,973**	16,142
Inventories	18	**18,105**	33,503
Other investments	19	**720**	20,784
Cash and cash equivalents	21	**1,222**	12,279
		60,524	137,606
Current liabilities			
Bank and other loans	22	**49,532**	57,192
Accounts payable	23	**17,562**	59,876
Other payables and accruals	24	**43,570**	31,744
Tax payable		**1,174**	1,257
		(111,838)	(150,069)
Net current liabilities		**(51,314)**	(12,463)
Total assets less current liabilities		**(4,130)**	47,546
Non-current liabilities			
Bank and other loans	22	**3,667**	5,400
Deferred taxation	20	**795**	1,075
		(4,462)	(6,475)
NET (LIABILITIES)/ASSETS		**(8,592)**	41,071
CAPITAL AND RESERVES			
Share capital	25	**4,240**	4,240
Reserves		**(12,832)**	36,831
		(8,592)	41,071

Approved by the board of directors on 9 June 2005

WOO HANG LUNG
Director

JUNICHI GOTO
Director

Balance Sheet

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Non-current assets			
Investments in subsidiaries	16	**3,037**	33,526
		3,037	33,526
Current assets			
Prepayments, deposits and other receivables		**26**	26
Cash and cash equivalents	21	**28**	209
		54	235
Current liabilities			
Other payables and accruals	24	**6,524**	2,321
		(6,524)	(2,321)
Net current liabilities		**(6,470)**	(2,086)
NET (LIABILITIES)/ASSETS		**(3,433)**	31,440
CAPITAL AND RESERVES			
Share capital	25	**4,240**	4,240
Reserves	26	**(7,673)**	27,200
		(3,433)	31,440

Approved by the board of directors on 9 June 2005

WOO HANG LUNG
Director

JUNICHI GOTO
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	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 2003	**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 and 1 January 2004	**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)**

Consolidated Cash Flow Statement

Year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
Cash flows from operating activities		
Loss before taxation	**(49,447)**	(5,926)
Adjustments for:		
Interest expenses	**3,425**	3,057
Interest income	**(26)**	(18)
Loss on disposal of property, plant and equipment	**112**	–
Depreciation	**3,963**	3,397
Amortisation of intangible assets	**1,610**	1,067
Provision for obsolete and slowing moving inventories	**3,190**	917
Provision for doubtful debts	**6,781**	4,765
Fixed asset written off	**18**	–
Write off of bank loan	**–**	(5,000)
Written off of goodwill	**8,374**	–
Return on investment	**(200)**	–
Operating (loss)/profit before working capital changes	**(22,200)**	2,259
Decrease/(increase) in accounts receivable	**41,613**	(15,609)
Decrease/(increase) in inventories	**12,208**	(13,034)
(Increase)/decrease in prepayments, deposits and other receivables	**(17,831)**	7,235
Decrease/(increase) in other investments	**20,064**	(664)
(Decrease)/increase in accounts payable	**(42,314)**	47,167
Increase in other payables and accruals	**11,826**	9,249
Cash generated from operations	**3,366**	36,603
Taxation paid	**(579)**	(218)
Net cash inflow in operating activities	**2,787**	36,385
Cash flows from investing activities		
Payments to acquire property, plant and equipment	**(1,465)**	(11,446)
Sales proceeds from disposal of property, plant and equipment	**213**	–
Acquisition of subsidiary, net of cash acquired	**–**	(15,664)
Interest received	**26**	18
Return on investment	**200**	–
Decrease in pledged bank deposit	**–**	11,660
Net cash outflow in investing activities	**(1,026)**	(15,432)

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Note	**2004** **RMB'000**	2003 RMB'000
Cash flows from financing activities			
New bank and other loans raised		**200**	28,300
Repayment of bank and other loans		**(9,593)**	(38,300)
Interest paid		**(3,425)**	(3,057)
Net cash outflow in financing activities		**(12,818)**	(13,057)
(Decrease)/increase in cash and cash equivalents		**(11,057)**	7,896
Cash and cash equivalents at beginning of the year		**12,279**	4,383
Cash and cash equivalents at end of the year		**1,222**	12,279
Analysis of cash and cash equivalents			
Cash and bank balances	21	**1,222**	12,279

1. PRINCIPAL ACTIVITIES

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.

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 RMB49,663,000 (2003: RMB6,853,000) for the year ended 31 December 2004. At that date, its current liabilities exceeded its current assets by RMB51,314,000 (2003: RMB12,463,000).

Last year, the financial statements were prepared on a going concern basis, which the directors believed to be appropriate because the Group had acquired a subsidiary Shanghai Shen Hong, 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, cash flows and enlarge the Group's earnings base in the future.

Based on the 3rd quarterly report, such subsidiary contributed approximately 78% of the total turnover of the Group for the nine months' period ended 30 September 2004.

Unfortunately, the general manager and vice-general manager both resigned from the subsidiary for personal reasons in October 2004. From the beginning of December 2004, the subsidiary also lost contact with one of the executive directors, Mr. Zhu Zheng Ming, who used to monitor the daily operations of the subsidiary. On 29 December 2004, Mr. Zhu was reported by the subsidiary to the police in Shanghai in respect of his alleged misappropriation of company's fund of approximately RMB1,300,000. Mr. Zhu was subsequently arrested by Shanghai police for further investigation.

As a result of their resignation, a dramatic decrease in sales of the subsidiary for the fourth quarter of 2004 was recorded. There were difficulties in the daily operations and the subsidiary is not able to generate profits in the foreseeable future for the repayment of bank loans and other creditors.

The bank loans of RMB21,707,000 as at 31 December 2004 were overdue. Such bank loans were secured by the subsidiary's leasehold land and buildings amounting to RMB9,950,000 and guarantees from third parties. Subsequent to the year end, the subsidiary was forced to dispose of the secured leasehold land and buildings to repay partially the bank loans. The subsidiary also has to pay back the guarantor a sum of RMB2,125,000 being bank loans paid on its behalf.

Furthermore, due to the dispute with a bank as detailed in note 27 "pending litigation" to the financial statements, another subsidiary, Xinjiang Loulan, suspended repayment of the principal installments amounting to RMB31,882,000 (of which RMB5 million had been written off in 2003 as other income) and the related interest expenses. The bank then imposed control on the movements of its bank accounts with Xinjiang Loulan. Xinjiang Loulan is still in the process of registering the floating charges on its fixed assets and inventories amounting to RMB28,820,000 (as at 31 December 2004) and the right to use the trademarks of Xinjiang Loulan (RMB385,000 as at 31 December 2004) with the local government as securities for such bank loans.

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

Other than the bank loans mentioned above, there were other loans from local government amounting to RMB4,610,000 outstanding as at 31 December 2004. Such loans are interest free, unsecured and without fixed terms of repayment.

In addition, the Urumqi branch of Xinjiang Loulan had been investigated by its local tax authority in the suspicion of understatement of tax. In accordance with a court decision, the branch has to pay back VAT of RMB769,000, profit tax of RMB837,000 and a penalty of RMB2,723,000 totalling RMB4,329,000 to its local tax authority in respect of the years of assessment 1998-2000.

Both above-mentioned subsidiaries are subject to several lawsuit cases initiated by their suppliers, bank loan guarantors and staff. The compensation in respect of these cases is finalized at RMB5,036,000 approximately as at 31 December 2004.

As a result, the operations of Xinjiang Loulan and Shanghai Shen Hong, the only two major subsidiaries of the Group have been affected on the going concern basis. The financial statements have been prepared on the going concern basis, the validity of which depends upon future funding being available from its financiers. The application of the going concern basis is on the understanding that the present financial support provided by the Company's financiers shall continue in the foreseeable future. Should the Company be unable to continue its operations due to withdrawal of such financial support, adjustments would have to be made to restate the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify fixed assets and long term liabilities as current assets and current liabilities.

3. PRINCIPAL 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 buildings and certain fixed assets.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Listing Rules of GEM of the Stock Exchange.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group is assessing the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation

i. The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 December each year. All significant transactions and balances between the Company and its subsidiaries are eliminated on consolidation.

ii. The results of subsidiaries acquired or disposed during the year are consolidated from the effective dates of acquisition or up to the effective dates of disposal.

iii. Minority interests represent the interest of outside members in the operating results and net assets of subsidiaries.

iv. 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.

(b) Investments in subsidiaries

A subsidiary is a company in which the company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors. Investments in subsidiaries are carried at cost less impairment loss where appropriate in the Company's balance sheet.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less aggregate depreciation and impairment losses where appropriate. The costs of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 the assets. When assets are sold or retired, their cost and aggregate depreciation/impairment losses are eliminated from the financial statements and any gain or loss resulting from their disposal is included in the income statement.

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 income statement. Any subsequent revaluation surplus is credited to the income statement 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

Depreciation is provided to write off the cost of each property, plant and equipment over its expected useful life less any estimated residual value on a straight line basis at the following annual rates:-

Leasehold land and buildings	Over the terms of the joint venture or 4.5% – 12%
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 income statement 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.

(d) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the tangible assets, other than inventories and financial assets (excluding investments in subsidiaries), may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exits, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its net selling price and value in use. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

An impairment loss is reversed if there has been a change in the estimates resulting in an increase of the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

3. PRINCIPAL 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 the estimated economic life or 8 years, whichever is the shorter

(f) Other investments

Investments other than subsidiaries held for long term purposes are shown as other investments which are stated at fair value where the directors consider appropriate and any change in fair value is recorded in the income statement in the year in which the change occurs.

(g) Inventories

Inventories are valued 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 all direct estimated costs to be incurred in selling.

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 recognition

Sales of goods are recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer, and the Group retains no more effective control over the goods.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Income tax

Tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and 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.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognised for taxable temporary differences arising on investments in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. It is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with 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 income statement when they fall due.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(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.

(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 leases. 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) 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Foreign currencies translations

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 income statement.

On consolidation, the financial statements of the Company and overseas subsidiaries, are translated into RMB using the net investment method. The income statement 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.

(n) 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.

(o) 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 to use.

4. 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.

5. 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 taxation									**(49,447)**	(5,926)
Taxation									**(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.

6. OTHER REVENUE

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

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. LOSS BEFORE TAXATION

The Group's loss before taxation for the year is arrived at after charging/(crediting):

	2004	2003
	RMB'000	*RMB'000*
Cost of inventories sold	**33,676**	167,398
Depreciation	**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 – note (9)):		
Wages and salaries	**5,721**	5,821
Retirement 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

9. DIRECTORS' REMUNERATION

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

	2004	2003
	RMB'000	*RMB'000*
Executive directors:		
Fees	**–**	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**1,444**	923
Retirement scheme contributions	**13**	13
Non-executive directors:		
Fees	**–**	–
Independent non-executive directors:		
Fees	**124**	32
	1,581	968

The remuneration paid by the Group to the executive directors of the Company for the year ended 31 December 2004, analysed on an individual basis, was RMB1,193,000 (2003: RMB522,000), RMB264,000 (2003: RMB382,000) and RMB Nil (2003: RMB32,000).

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 December 2004, analysed on an individual basis, was RMB48,000 (2003: RMB16,000) and RMB48,000 (2003: RMB16,000), RMB16,000 (2003: Nil) and RMB12,000 (2003: Nil).

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.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two directors during the years ended 31 December 2004 and 2003, and the information relating to their remuneration is disclosed in note 9. Details of the remuneration paid to the remaining three non-director, highest paid individuals during the years, are as follows:

	2004	2003
	RMB'000	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**1,937**	922
Retirement scheme contributions	**71**	24
	2,008	946

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

	Number of employees	
	2004	2003
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.

11. TAXATION

	2004	2003
	RMB'000	*RMB'000*
Current tax		
– Hong Kong	**–**	–
– Mainland China	**496**	597
Deferred tax *(note 20)*	**(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 (2003: Nil).

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

11. TAXATION (CONTINUED)

The Group's two subsidiaries in the Mainland China, Xinjiang Loulan and Shanghai Shen Hong as referred to in note 16 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%.

Reconciliation between accounting loss and income tax expenses at applicable tax rates is as follows:

	2004	2003
	RMB'000	*RMB'000*
Loss before taxation	**(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 subsidiaries 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 recognized	**–**	330
Deferred tax asset not recognized	**3,059**	1,179
Reversal of temporary difference	**(280)**	–
Under-provision in prior years	**496**	–
Income tax expense	**216**	927

12. LOSS ATTRIBUTABLE TO THE SHAREHOLDERS

The loss attributable to shareholders for the year ended 31 December 2004 includes a net loss of RMB34,873,000 (2003: RMB3,342,000) which has been dealt with in the financial statements of the Company.

13. 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 RMB49,663,000 (2003: RMB6,853,000) and the weighted average of 400,000,000 (2003: 400,000,000) shares deemed to have been in issue during the year.

Diluted loss per share for the years ended 31 December 2004 and 2003 have not been disclosed as there were no dilutive potential shares during the two years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Vineyard development RMB'000	Total RMB'000
Cost/Valuation:						
At 1 January 2004	34,314	13,670	1,446	4,295	7,265	60,990
Additions	–	198	491	776	–	1,465
Written off	–	(30)	–	–	–	(30)
Disposals	–	(1,128)	–	–	–	(1,128)
At 31 December 2004	34,314	12,710	1,937	5,071	7,265	61,297
Depreciation:						
At 1 January 2004	6,763	5,514	431	1,144	727	14,579
Provided for the year	1,565	732	238	702	726	3,963
Written off	–	(12)	–	–	–	(12)
Disposals	–	(803)	–	–	–	(803)
At 31 December 2004	(8,328)	(5,431)	(669)	(1,846)	(1,453)	(17,727)
Net book value:						
At 31 December 2004	25,986	7,279	1,268	3,225	5,812	43,570
At 31 December 2003	27,551	8,156	1,015	3,151	6,538	46,411

The Group's leasehold land and buildings are situated in the PRC and held under long (RMB9,950,000) and medium (RMB16,036,000) term leases.

Certain of the Group's property, plant and equipment with an aggregate carrying amount of RMB26,316,000 (2003: RMB28,462,000) were pledged to secure banking facilities granted to the Group, as disclosed in note 22.

The Group is still in the process of registering a property, with a net book value of RMB658,000 (2003: RMB695,000) with the local government for the transfer of legal title.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At the balance sheet date, the cost and valuation of property, plant and equipment are as follows:-

	2004	2003
	RMB'000	*RMB'000*
At valuation – 31 December 2002		
Furniture, fixtures and equipment	**46**	46
Leasehold land and buildings	**14,162**	14,162
Motor vehicles	**1,002**	1,002
	15,210	15,210
At cost		
Leasehold land and buildings	**20,152**	20,152
Plant and machinery	**12,710**	13,670
Furniture, fixtures and equipment	**1,891**	1,400
Motor vehicles	**4,069**	3,293
Vineyard development	**7,265**	7,265
	46,087	45,780
Total	**61,297**	60,990

At 31 December 2004, had the revalued leasehold land and buildings of the Group been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately RMB7,162,000 (2003: RMB7,717,000).

15. INTANGIBLE ASSETS

Group

	Trademarks	Production technology and know-how	Goodwill	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
As at 1 January 2004	650	5,456	10,441	16,547
Written off	–	–	(10,441)	(10,441)
As at 31 December 2004	650	5,456	–	6,106
Accumulated amortisation:				
As at 1 January 2004	232	1,955	762	2,949
Charge for the year	33	272	1,305	1,610
Written off	–	–	(2,067)	(2,067)
As at 31 December 2004	(265)	(2,227)	–	(2,492)
Net book value:				
As at 31 December 2004	385	3,229	–	3,614
As at 31 December 2003	418	3,501	9,679	13,598

The trademarks with an aggregate carrying amount of RMB385,000 (2003: RMB418,000) were pledged to secure a banking facility granted to the Group *(note 22)*.

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

16. INVESTMENTS IN SUBSIDIARIES

	Company 2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	**1,762**	1,762
Due from subsidiaries	**36,224**	35,131
Due to a subsidiary	**(3,049)**	(3,367)
Provision for impairment loss	**(31,900)**	–
	3,037	33,526

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

Particulars of the Company's subsidiaries at the balance sheet date were 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	Dormant	Hong Kong
Vision Spirit Investment Limited	British Virgin Islands	USD1	100	–	Investment holding	Hong Kong
上海龍浩通糧油酒食品物流有限公司 (Formerly known as 上海申虹糧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

17. ACCOUNTS RECEIVABLE

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

	Group	
	2004	2003
	RMB'000	*RMB'000*
Current to 90 days	**2,156**	52,029
91 to 180 days	**2,095**	2,015
181 to 365 days	**4,799**	2,711
Over 365 days	**15,558**	9,466
	24,608	66,221
Less: Provision for doubtful debts	**(18,104)**	(11,323)
	6,504	54,898

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

18. INVENTORIES

	Group	
	2004	2003
	RMB'000	*RMB'000*
Consumable stores	**3,154**	4,251
Work in progress	**8,162**	10,168
Finished goods	**6,789**	19,084
	18,105	33,503

No inventories were carried at net realisable value at 31 December 2004 (2003: Nil).

19. OTHER INVESTMENTS

		Group	
		2004	2003
		RMB'000	*RMB'000*
Listed equity securities	(a)	**600**	664
Investment fund			
Listed		**120**	120
Unlisted		**–**	20,000
Total:			
Listed in the PRC		**720**	784
Unlisted		**–**	20,000
		720	20,784
Market value of listed securities		**720**	784

(a) The listed equity securities had been pledged to a creditor.

20. DEFERRED TAXATION

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

	Group	
	2004	2003
	RMB'000	*RMB'000*
Acquisition of a subsidiary	**795**	1,075
Deferred tax liability	**795**	1,075

20. DEFERRED TAXATION (CONTINUED)

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 2003	–	(330)	(330)
Reversal of tax loss previously recognized	–	330	330
Acquisition of a subsidiary	1,075	–	1,075
At 31 December 2003 and 1 January 2004	1,075	–	1,075
Transfer to income statement *(note 11)*	(280)	–	(280)
At 31 December 2004	795	–	795

At 31 December 2004, the Group had unused tax losses of RMB13,664,000 (2003: RMB4,392,000) available for offset against future profits. No deferred tax asset in respect of these losses amounting to RMB4,509,000 (2003: RMB1,449,000) has been recognised due to the unpredictability of future profit streams.

21. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2004 *RMB'000*	2003 *RMB'000*	**2004** *RMB'000*	2003 *RMB'000*
Cash and bank balances	**1,222**	12,279	**28**	209
Cash and cash equivalents	**1,222**	12,279	**28**	209

22. BANK AND OTHER LOANS

	Group	
	2004	2003
	RMB'000	*RMB'000*
Bank loans, secured	**48,589**	55,082
Other loans, unsecured	**4,610**	7,510
	53,199	62,592
Bank loans repayable:		
Within one year or on demand	**44,922**	49,682
In the second year	**3,667**	2,400
After second years but within fifth years	**–**	3,000
	48,589	55,082
Other loans repayable:		
Within one year or on demand	**4,610**	7,510
	53,199	62,592
Portion classified as current liabilities	**(49,532)**	(57,192)
Long term portion	**3,667**	5,400

Included in bank loans above, RMB43.2 million has been overdued. It is partly due to the dispute with a bank as detailed in note 27 to the financial statements, the Group had suspended repayment of both the related principal installments and interests. For the rest of loan overdue, arrangement for repayment has been made with bank (note 29).

22. 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	
	2004	2003
	RMB'000	*RMB'000*
Buildings	**17,064***	18,084*
Plant and machinery	**7,252**	8,095
Motor vehicles	**1,465**	1,678
Furniture, fixtures and equipment	**621**	684
Inventories	**12,175**	16,154
	38,577	44,695

* included a property with net book value of RMB9,475,000 (2003: RMB9,925,000) under fixed charge.

(ii) floating charges over the right to use the trademarks of Xinjiang Loulan *(note 15)*.

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

23. ACCOUNTS PAYABLE

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

	Group	
	2004	2003
	RMB'000	*RMB'000*
Current to 90 days	**1,553**	48,479
91 to 180 days	**272**	696
181 to 365 days	**593**	754
Over 365 days	**15,144**	9,947
	17,562	59,876

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Value-added tax payable	**2,650**	3,823	**–**	–
Consumption tax payable	**3,385**	4,328	**–**	–
Salaries and staff welfare payable	**1,589**	213	**516**	27
Amount due to a director*	**5,434**	1,897	**4,736**	1,228
Accrued expenses	**17,277**	11,640	**1,272**	1,060
Other payables	**13,235**	9,843	**–**	6
	43,570	31,744	**6,524**	2,321

* Amount due to a director is unsecured, interest free and has no fixed terms of repayment.

25. SHARE CAPITAL

	Group and Company	
	2004	2003
	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

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.

25. SHARE CAPITAL (CONTINUED)

Share option scheme (continued)

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.

26. 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 24 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.

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*
At 1 January 2003	35,739	1,760	(6,957)	30,542
Net loss for the year	–	–	(3,342)	(3,342)
At 31 December 2003 and 1 January 2004	35,739	1,760	(10,299)	27,200
Net loss for the year	–	–	(34,873)	(34,873)
At 31 December 2004	35,739	1,760	(45,172)	(7,673)

27. PENDING LITIGATION

The lawsuit case initiated by the subsidiary Xinjiang Loulan in 2003 in respect of the dispute of the bank loan agreement entered with a bank was finalized on 8 October 2004. Xinjiang Loulan has to settle the repayment of related principal installments and interests amounting to RMB26,882,000 and RMB2,601,662 respectively. However, in accordance with the supplementary appeal submitted by the bank to the Supreme People's Court of the People's Republic of China on 25 October 2004, Xinjiang Loulan is requested to repay the related principal installments amounting to RMB31,882,000 (of which RMB5 million had been written off in 2003 as other income), the interests of RMB6,963,000 up to 20 September 2004 and the related interests incurred after that date. The litigation is still pending as at the date of this report and will be crystallized in 2005. Full provision (except for RMB5 million) for the amount is made in the financial statements.

28. OPERATING LEASE ARRANGEMENTS

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

As at 31 December 2004, the Group had total future minimum leases payments under non-cancellable operating leases falling due as follows:-

	2004	2003
	RMB'000	*RMB'000*
Land and buildings expiring:		
Within one year	**1,385**	1,305
In the second to fifth years, inclusive	**3,258**	3,281
Over five years	**18,278**	18,422
	22,921	23,008

29. POST BALANCE SHEET EVENTS

Subsequent to balance sheet date, the subsidiary, Shanghai Shen Hong, disposed of its leasehold land and buildings with carrying value of RMB9,950,000 at a consideration of RMB11,800,000 for the repayment of bank loans *(note 22)*.

Financial Summary

As at 31 December 2004

RESULTS

	Year ended 31 December				
	2004	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**41,362**	183,533	13,037	23,054	25,228
Cost of sales	**(33,676)**	(167,398)	(6,844)	(11,424)	(12,599)
Gross profit	**7,686**	16,135	6,193	11,630	12,629
Other revenue	**1,946**	5,615	45	408	1,660
Selling and distribution costs	**(9,440)**	(8,573)	(2,490)	(2,313)	(2,980)
Administrative and other operating expenses	**(46,240)**	(16,064)	(13,890)	(6,521)	(5,632)
Profit/(loss) from operations	**(46,048)**	(2,887)	(10,142)	3,204	5,677
Finance costs	**(3,399)**	(3,039)	(3,820)	(3,710)	(3,104)
Profit/(loss) before taxation	**(49,447)**	(5,926)	(13,962)	(506)	2,573
Taxation	**(216)**	(927)	(2)	(564)	(109)
Profit/(loss) before minority interests	**(49,663)**	(6,853)	(13,964)	(1,070)	2,464
Minority interests	**–**	–	193	23	(246)
Net profit/(loss) attributable to the shareholders	**(49,663)**	(6,853)	(13,771)	(1,047)	2,218
Earning/(loss) per share – basic *(RMB)*	**(0.124)**	(0.017)	(0.041)	(0.003)	0.007

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2004	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**107,708**	197,615	123,175	79,943	71,112
TOTAL LIABILITIES	**(116,300)**	(156,544)	(75,251)	(78,153)	(68,252)
MINORITY INTERESTS	**–**	–	–	(193)	(216)
	(8,592)	41,071	47,924	1,597	2,644

NOTICE IS HEREBY GIVEN that the annual general meeting of Loulan Holdings Limited (the "Company") will be held at 11:00 a.m. on 30 June 2005 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 2004;

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 other wise) 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 (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

(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** pursuant to the Article 86(5) of the articles of association of the Company, remove Mr. Zhu Zheng Ming from his position as executive director.

By order of the board of Directors
Woo Hang Lung
Chairman

Hong Kong, 9 June 2005

Registered office:
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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.