Loulan Holdings Limited

樓 蘭 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8039)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

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

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

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 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 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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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

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

AUDITED RESULTS

The board of directors (the "Board") of Loulan Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 along with the comparative audited figures of the Group for the year 31 December 2004 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
TURNOVER	3	**12,377**	41,362
Cost of sales		**(11,816)**	(33,676)
GROSS PROFIT		**561**	7,686
Other revenues	3	**187**	1,972
Selling expenses		**(1,691)**	(9,440)
Administrative and general expenses		**(11,510)**	(27,765)
Goodwill written off		**0**	(8,374)
Fixed assets written off		**0**	(18)
Gain on disposal of fixed assets		**2,271**	0
Loss on disposal of fixed assets		**(70)**	(112)
Provision for diminution in value of inventories		**(633)**	(3,190)
Provision for doubtful debts		**0**	(6,781)
Reversal of provision for doubtful debts		**3,936**	0
Finance costs		**(2,165)**	(3,425)
LOSS BEFORE TAXATION	4	**(9,114)**	(49,447)
Taxation	5	**(74)**	(216)
LOSS FOR THE YEAR		**(9,188)**	(49,663)
Attributable to:			
Equity holders of the parent		**(9,188)**	(49,663)
Minority interests		**0**	0
		(9,188)	(49,663)
LOSS PER SHARE – BASIC (RMB)	6	**(0.023)**	(0.124)

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Notes	**2005** **RMB'000**	2004 RMB'000
NON-CURRENT ASSETS			
Fixed assets			
- Property, plant and equipment		**31,024**	43,570
Intangible assets		**3,309**	3,614
		34,333	47,184
CURRENT ASSETS			
Inventories		**13,530**	18,105
Trade receivables	7	**2,763**	6,504
Sundry debtors and receivables		**37,090**	33,973
Financial assets		**720**	720
Cash and bank balances		**1,468**	1,222
		55,571	60,524
DEDUCT: CURRENT LIABILITIES			
Trade payables	8	**11,189**	17,562
Sundry creditors and payables		**50,216**	43,570
Current portion of interest bearing borrowings		**44,510**	49,532
Current taxation liabilities		**998**	1,174
		106,913	111,838
NET CURRENT LIABILITIES		**(51,342)**	(51,314)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(17,009)**	(4,130)
Financed by:			
CAPITAL AND RESERVES			
Share capital		**4,240**	4,240
Reserves	9	**(22,044)**	(12,832)
		(17,804)	(8,592)
NON-CURRENT LIABILITIES			
Interest bearing borrowings		**0**	3,667
Deferred tax liabilities		**795**	795
		795	4,462
		(17,009)	(4,130)

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which also include all applicable Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on the Stock Exchange. The measurement basis used in the preparation of the financial statements is the historical cost basis.

2. SEGMENT INFORMATION

	Selling of self-manufactured wines		Distribution of wine products		Unallocated		Elimination		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**11,071**	11,682	**1,306**	31,502	**0**	0	**0**	(1,802)	**12,377**	41,362
Segment result	**(6,332)**	(14,932)	**2,049**	(26,127)	**(3,078)**	(4,551)	**412**	(412)	**(6,949)**	(46,022)
Finance costs									**(2,165)**	(3,425)
Loss before taxation									**(9,114)**	(49,447)
Taxation									**(74)**	(216)
Minority interest									**0**	0
Loss for the year									**(9,188)**	(49,663)
Other information										
Amortisation of intangible assets	**305**	305	**0**	1,305	**0**	0	**0**	0	**305**	1,610
Depreciation of owned assets	**2,632**	2,642	**339**	1,266	**30**	55	**0**	0	**3,001**	3,963
Capital expenditure	**85**	577	**0**	874	**1**	14	**0**	0	**86**	1,465
Assets	**89,641**	61,668	**46,215**	45,518	**26,719**	48,999	**(72,671)**	(48,477)	**89,904**	107,708
Liabilities	**(120,654)**	(85,129)	**(62,568)**	(71,719)	**(16,695)**	(7,518)	**92,209**	48,066	**(107,708)**	(116,300)
Net assets/(liabilities)	**(31,013)**	(23,461)	**(16,353)**	(26,201)	**10,024**	41,481	**19,538**	(411)	**(17,804)**	(8,592)

The Group's turnover was 100% (2004: 100%) derived from the People's Republic of China.

3. REVENUE AND TURNOVER

Revenues recognized during the year are as follows:

	2005 RMB'000	2004 RMB'000
Turnover		
Sales	**12,377**	41,362
Other revenues		
Interest income	**12**	26
Return on investment	**0**	200
Sundry income	**175**	1,746
	187	1,972
Total revenues	**12,564**	43,334

4. LOSS BEFORE TAXATION

The Group's loss before taxation is stated after charging:

	2005 RMB'000	2004 RMB'000
Amortisation on intangible assets	**305**	1,610
Auditors' remuneration	**381**	509
Cost of inventories sold	**11,816**	33,676
Depreciation of owned assets	**3,001**	3,963
Operating leases		
Hire of land and buildings	**683**	1,879
Staff costs (excluding directors' remuneration)	**2,855**	4,942

5. TAXATION

	2005 RMB'000	2004 RMB'000
Current tax - overseas		
Tax for the year	**74**	496
Deferred tax		
Tax income for the year	**0**	(280)
Total tax expenses	**74**	216

No provision for profits tax in the Cayman Islands or Hong Kong has been made as the Group has no income assessable to profits tax for the year ended 31 December 2005 in these jurisdictions (2004: 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.

6. LOSS PER SHARE

The calculation of the Group's basic loss per share is based on the net loss attributable to the shareholders for the year of RMB9,188,000 (2004: RMB49,663,000) and the weighted average of 400,000,000 (2004: 400,000,000) shares in issue during the year.

Diluted loss per share for the years ended 31 December 2005 and 2004 have not been disclosed as there were no dilutive potential shares during the two years.

7. TRADE RECEIVABLES

	2005 **RMB'000**	2004 RMB'000
Trade receivables	**16,498**	24,608
Less: Provision for doubtful debts	**(13,735)**	(18,104)
	2,763	6,504

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

An aged analysis of the trade receivables is not available as sufficient information could not be obtained.

8. TRADE PAYABLES

An aged analysis of the trade payables is not available as sufficient information could not be obtained.

9. RESERVES

	Share premium RMB'000	Contribut-ed surplus RMB'000	Statutory reserve fund RMB'000	Accumu-lated losses RMB'000	Revaluat-ion reserve RMB'000	Exchange translation reserve RMB'000	Total RMB'000
At 1 January 2004	35,739	29,703	1,884	(30,615)	120	0	36,831
Net loss for the year	0	0	0	(49,663)	0	0	(49,663)
At 31 December 2004	35,739	29,703	1,884	(80,278)	120	0	(12,832)
Currency translation differences	0	0	0	0	0	(26)	(26)
Net loss for the year	0	0	0	(9,188)	0	0	(9,188)
Transfer	0	0	2	0	0	0	2
At 31 December 2005	35,739	29,703	1,886	(89,466)	120	(26)	(22,044)

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year (2004 Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2005, the Group recorded a loss attributable to shareholders of approximately RMB9,188,000 (2004: loss of RMB49,663,000). Turnover for the year was approximately RMB12,377,000 (2004: RMB41,362,000).

During the year under review, although there was a considerable growth in wine consumption in the domestic market of China, turnover of the Group's wine production operation has slightly decreased by 5% as compared with prior year as a result of price competition. The wine distribution segment operated by the subsidiary, 上海龍浩通糧油酒食品物流有限公司 ("Shanghai Shen Hong"), was minimised and decreased by 96% as compared with last financial year following the resignations and arrest of its management personnels.

FINANCE REVIEW

The Group's turnover reduced by approximately 70.1% for the year ended 31 December 2005 to RMB12,377,000 compared with the turnover in 2004 of RMB41,362,000. The significant decrease in sales was mainly due to the drastically decrease in sales of the Company's subsidiary, an alcoholic drinks distributor "Shanghai Shen Hong", which used to contribute a majority of the Group's total turnover. The average gross profit margin of the Group decreased to approximately 4.5% compared with that of 18.6% last year. Such decrease was attributable to the insufficient sales to meet the recovery of fixed costs and factory overheads.

The loss attributable to shareholders of the Company for the year ended 31 December 2005 was approximately RMB9,188,000 (2004: RMB49,663,000). The increase in loss attributable to shareholders was mainly due to the significant decrease in sales.

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 2005, the Group had outstanding bank loans and other loans in aggregate amount of approximately RMB39,900,000 (2004: RMB48,589,000) and approximately RMB4,610,000 (2004: RMB4,610,000) respectively. 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 the assets of 新疆樓蘭酒業有限公司 ("Xinjiang Loulan") including all the buildings, plant and machinery, motor vehicles, furniture, fixtures and equipment, inventories and the right to use the trademarks with an aggregate carrying amount of approximately RMB30,801,000 (2004: RMB38,577,000). Subsequent to the balance sheet date, the pledged assets of Xinjiang Loulan were put to auction by an order of the Court in order to repay the outstanding bank loans.

As at 31 December 2005, the Group had net current liabilities of approximately RMB51,342,000 (2004: RMB51,314,000) and experienced financial difficulties in meeting its normal operations.

The new management of the Group has undergone negotiations with potential business partners for the continuance of the Group's businesses and adequate funds will be available upon conclusion of final agreements.

The Group has adopted a conservative treasury policy with all liquidity 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 have been reviewed regularly.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Company did not have any plan for material investments and acquisition of material capital assets as at 31 December 2005.

CAPITAL STRUCTURE

During the year, the Company's capital has no change and only comprises of ordinary shares.

GEARING RATIO

The Group's gearing ratio as at 31 December 2005 calculated as a percentage of total liabilities over total assets is 120% (2004: 108%). The Group generally finances its operations with equity funding, bank and other borrowings.

FOREIGN EXCHANGE EXPOSURE

The Group mainly generates revenue and incurs costs in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

COMMITMENTS

As at 31 December 2005, the Group has commitment on operating lease arrangements in respect of office premises amounted to RMB8,000 (2004: RMB22,921,000).

CONTINGENT LIABILITIES

At the balance sheet date, the Group does not have any material contingent liabilities (2004: Nil).

PENDING LITIGATION

The lawsuit case initiated by 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 RMB2,602,000 respectively. However, in accordance with the supplementary appeal submitted by the bank to the Supreme People's Court of the PRC on 25 October 2004, Xinjiang Loulan is requested to repay the related principal installments amounting to RMB31,882,000 (of which RMB5,000,000 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 full provision (except for RMB5,000,000) for the amount is made in the financial statements.

EMPLOYEE INFORMATION

At 31 December 2005, the Group employed approximately 120 employees (2004: 238). 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 RMB3,710,000 for the year ended 31 December 2005 (2004: RMB6,523,000).

PROSPECTS

Despite of the recent discontinuance of wine distribution operation of Shanghai Shen Hong and the assets of the Group's major subsidiary, Xinjiang Loulan, were put to auction by an order of the Court in order to satisfy claims made from a banker and the consequence of suspension in its wine production, all these issues brought a serious impact to the Group, the Board, followed with its recent changes, has actively entered into negotiations with potential business partners for the continuance of its wine distribution and trading businesses. The new management of the Company is confident that with its best endeavour, the Group's operations will be resumed.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in the Company's shares:

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	6,000,000	–	–	–	6,000,000	1.5

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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.

Save as disclosed above, 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 minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly in any contract of significance to the business of the Group to which the Company or its subsidiaries were a party during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the Company's shares:

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 (Note 2)	41,250,000	10.30
China Enterprise Investment Fund (Notes 1 and 3)	41,250,000	10.30
Nomura Holdings, Inc. (Note 2)	41,250,000	10.30
JAFCO Co., Ltd. (Note 2)	41,250,000	10.30
Global Funds Trust Company (Note 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 above, as at 31 December 2005, no person, other than the Directors whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 2005.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date, 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has only complied with certain of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year. Details of deviations from the code provisions are as followings:

Directors' securities transactions

Having made specific enquiry to all Directors, as most of the Directors have resigned from their posts and could not be contacted, the Company is unable to confirm that all the Directors have complied with the required standard of dealings and its code of conduct regarding directors' securities transactions throughout the year ended 31 December 2005.

Chairman and chief executive officer

The Company's chairman and chief executive officer is Mr. Woo Hang Lung. The Company has not yet segregated the duties in order to preserve independence and to have a balanced judgement of views but will take appropriate actions to complete the separation as soon as possible.

Appointment, re-election and retirement by rotation of the Directors

The Company's non-executive director was not appointed for a specific term and not all the directors are subject to retirement by rotation at least once every three years. The Company will amend its articles of association to meet with requirements as soon as practicable.

The Company has not established a nomination committee and will take appropriate actions as soon as practicable.

Remuneration of Directors

The Company has not established a remuneration committee and will take appropriate actions as soon as practicable.

Internal control

Due to insufficiency in qualified human resources, the Group has not carried out an annual review of the effectiveness of the system of internal control and will implement its system to include such functions.

QUALIFICATIONS OF INDEPENDENT AUDITORS' REPORT

The auditors of the Company has audited the financial statements for the year ended 31 December 2005 and issued an independent auditors' report with a disclaimer opinion on the financial statements on the following basis:

Basis for disclaimer of opinion

1. The original ownership certificates in respect of the Group's leasehold land and buildings amounting to RMB15,335,000 as at 31 December 2005 were not available for our inspection. Accordingly we are unable to verify the Group's title to such properties.

2. We were not provided with sufficient supporting documents to verify the assets, liabilities and profit of a wholly owned subsidiary, 上海龍浩通糧油酒食品物流有限公司 ("Shanghai Shen Hong"). There were no practical alternative audit procedures that we could have adopted to verify the truth and fairness of the results of the subsidiary. Net liabilities of Shanghai Shen Hong was RMB21,832,000 as at 31 December 2005 and turnover, cost of sales and profit for the year were RMB1,306,000, RMB1,691,000 and RMB1,612,000, respectively.

3. We were unable to attend the year-end physical stocktaking as we were appointed as auditors after the balance sheet date. We were unable to carry out auditing procedures we considered necessary to ascertain the existence and valuation of the closing inventories with a carrying value of RMB13,530,000 in the consolidated balance sheet. Any adjustments to this figure may have a significant consequential effect on cost of sales and the loss for the year and net liabilities as at 31 December 2005.

4. We have not been provided with sufficient evidence to verify the existence and valuation of trade receivables of RMB2,763,000. Direct confirmations in respect of the trade receivables have not been sent as we have not been provided with detail information of them. We have also not been provided with aged analysis of the trade receivables. There were no practical alternative audit procedures that we could adopt to satisfy ourselves as to the truth and fairness of such balances and to make the necessary disclosure for the aged analysis of trade receivables as required by Chapter 18, Rule 18.50B(2)(b)(ii) of the listing rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

5. Included under current assets are sundry debtors and receivables totaling RMB37,090,000. We have not obtained direct confirmation of balances from these receivables. In addition, we were unable to satisfy ourselves on the recoverability of these receivables. Any adjustments to this figure may have a significant consequential effect on the loss for the year and net liabilities as at 31 December 2005.

6. Direct confirmations have not been obtained from the Group's bankers and loan creditors. There were no practical alternative audit procedures that we could adopt to verify the truth and fairness of the bank balances of RMB1,468,000 and interest bearing borrowings of RMB44,510,000 as stated in the consolidated balance sheet. Any adjustments to this figure may have a significant consequential effect on the loss for the year and net liabilities as at 31 December 2005.

7. We have not been provided with sufficient evidence to verify the completeness of trade payables of RMB11,189,000 and sundry creditors and payables of RMB50,216,000. Direct confirmations in respect of trade payables have not been obtained. We have also not been provided with aged analysis of the trade payables. There were no practical alternative audit procedures that we could adopt to satisfy ourselves as to the truth and fairness of such balances and to make the necessary disclosure for the aged analysis of trade payables as required by Chapter 18, Rule 18.50B(2)(c)(ii) of the listing rules of the Stock Exchange. Any adjustments to the amounts may have a significant consequential effect on the loss for the year and net liabilities as at 31 December 2005.

8. We have not been provided with the necessary evidence to verify the tax position of two subsidiaries, Shanghai Shen Hong and 新疆樓蘭酒業有限公司 ("Xinjiang Loulan"). We have also not been provided with the evidence to support the deferred tax liabilities balance of RMB795,000 as stated in the consolidated balance sheet which was related to Shanghai Shen Hong.

9. The auditors' report on the financial statements for the year ended 31 December 2004 was qualified in that:-

   Basis for disclaimer of opinion

   (a) No opinion could be expressed in respect of the appropriateness of the write back of bank loan of RMB5,000,000 as other income in 2003. Since the litigation in respect of this bank loan is still pending, the previous auditors were not able to quantify the effect of the results of the litigation;

   (b) The previous auditors were unable to attend the year-end physical stocktaking as they were appointed auditors after the balance sheet date. They were unable to carry out auditing procedures necessary to obtain sufficient evidence regarding the existence of the inventories as at 31 December 2004 appearing in the consolidated balance sheet at RMB18,105,000. In consequence, they 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. They 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;

   (c) 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, they 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, they were therefore unable to determine whether the carrying values of such assets are fairly stated, and whether any impairment loss should be provided;

   (d) 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 their inspection. Accordingly they were unable to verify the group's title to such properties;

   (e) Included under current assets were sundry debtors and receivables totaling RMB25,650,000. They have not obtained direct confirmation of balances from these receivables. They were therefore unable to satisfy themselves whether these receivables can be recovered in full;

(f) They have not been provided with breakdowns for other creditors totaling RMB2,287,000 under sundry creditors and payables. 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 they could adopt to satisfy themselves as to the truth and correctness of such balances; and

(g) Accumulated losses of RMB30,615,000 in the consolidated financial statements for the year ended 31 December 2004 were derived from the consolidated financial statements for the year ended 31 December 2003. They have not been provided with sufficient evidence for prior year audit adjustments which were not audited by them. There were no practical alternative audit procedures that they could adopt to verify the correctness of such amount.

Any adjustments to the consolidated financial statements in respect of the above matters may have a significant consequential effect on the accumulated losses and net liabilities as at 31 December 2004 and thus, a carried forward effect to the accumulated losses and net liabilities as at 31 December 2005.

Disagreement in accounting treatment

Certain leasehold land and buildings, furniture, fixtures and equipment, and motor vehicles included under fixed assets amounting to RMB14,162,000, RMB46,000 and RMB1,002,000, respectively as at 31 December 2005 were carried at valuation and the remaining leasehold land and buildings, furniture, fixtures and equipment and motor vehicles amounting to RMB10,152,000, RMB1,891,000 and RMB3,834,000, respectively were carried at cost. The accounting treatment is not in accordance with the requirements of Hong Kong Accounting Standards 16 ("HKAS 16") which states that if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. We have not been provided with sufficient evidence to make the necessary adjustment in order to comply with HKAS 16.

Fundamental uncertainty relating to going concern basis

The banker of Xinjiang Loulan has taken legal action against the subsidiary for the repayment of the loan balance outstanding together with the interest due to the banker. Pending the result of the litigation, the subsidiary may be forced to cease its operation.

The consolidated financial statements were prepared on a going concern basis on the understanding that financial support provided by the Group's financiers shall continue in the foreseeable future. The Group is also actively seeking new business opportunities. However, the continuing financial support and the success of seeking new business opportunities are dependent on the resumption proposal submitted to the Stock Exchange on 17 May 2007 being decided in favour of the Company. The failure of the proposal could lead to the de-registration of the Company from the Growth Enterprise Market of the Stock Exchange.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. During the year ended 31 December 2005, the audit committee comprised three members, Mr. Yue Kwai Wa, Ken, Mr. Lau Chi Sun, Robbie and Mr. Wang Desheng, all of whom are independent non-executive directors of the Company. The audit committee had held four meetings during the year.

The Company’s and the Group’s financial statements for the year ended 31 December 2005 have not been reviewed by the audit committee as two of the committee members namely Mr. Yue Kwai Wa, Ken and Mr. Lau Chi Sun, Robbie have resigned from the posts of independent non-executive directors and audit committee members of the Company with effect on 31 January 2006.

On behalf of the Board
Loulan Holdings Limited
Poon Chiu
Executive Director

Hong Kong, 8 June 2007

The directors of the Company as at the date of this announcement are as follows:

Woo Hang Lung (Executive Director)
Poon Chiu (Executive Director)
Guo Ping (Executive Director)
Tsao Ke Wen Calvin (Non-Executive Director)
Wang Desheng (Independent Non-Executive Director)

This announcement will remain on the GEM website on the "Latest Company announcements" page and on the Company's website for at least 7 days from the day of its posting.