Loulan Holdings Limited
樓 蘭 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8039)

ANNUAL REPORT 2006

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

This annual report, for which the directors ("Directors") of Loulan Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM 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 annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I hereby present the annual report of Loulan Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

BUSINESS REVIEW

For the year ended 31 December 2006, the Group recorded a loss attributable to shareholders of approximately RMB12,821,000 (2005: RMB9,188,000). Turnover for the year was approximately RMB7,618,000 (2005: RMB12,377,000).

During the year under review, as a result of 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 terminated and the assets of the Group's major subsidiary, Xinjiang Loulan Wine Co., Ltd. ("Xinjiang Loulan"), were auctioned by an order of the Court in order to satisfy claims made from a banker and consequently has suspended its wine production, turnover decreased drastically as compared with the last financial year.

PROSPECTS

The Board has been actively negotiating with potential business partners for the continuance of its wine distribution and trading businesses and with its best endeavour to resume the Group's normal operations.

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 services.

Woo Hang Lung
Chairman

Beijing, the PRC, 31 October 2007

LOULAN HOLDINGS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover decreased by approximately 38% for the year ended 31 December 2006 to RMB7,618,000 compared with the turnover in 2005 of RMB12,377,000. The significant decrease in sales was mainly due to the termination of the wine distribution business of the Shanghai Shen Hong early the current year, and the assets of Xinjiang Loulan being auctioned. The approximately 4.5% average gross profit margin of the Group for the last year turned into gross loss margin of approximately 69% this year. Such was attributable to the sharp decrease in sales that was insufficient to recover fixed costs and factory overheads.

The loss attributable to shareholders of the Company for the year ended 31 December 2006 was approximately RMB12,821,000 (2005: RMB9,188,000). Loss attributable to shareholders increased from RMB0.023 of last year to RMB0.032 of the current year.

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

The Group used to finance its operations in the past years 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 2006, the Group had outstanding bank loans and other loans in aggregate amount of approximately RMB39,937,000 (2005: RMB39,900,000) and approximately RMB4,610,000 (2005: 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 floating charges over the assets of 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 RMB26,734,000 (2005: RMB30,801,000). As disclosed in note 28 to the financial statements, subsequent to the balance sheet date, the Group's pledged assets were auctioned by an order of the Court in order to repay the outstanding bank loans.

As at 31 December 2006, the Group had net current liabilities of approximately RMB61,245,000 (2005: RMB51,342,000) 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.

LOULAN HOLDINGS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

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 2006.

CAPITAL STRUCTURE

During the year, there was no change in the Company's capital and it only comprises of ordinary shares.

GEARING RATIO

The Group's gearing ratio as at 31 December 2006 calculated as a percentage of total liabilities over total assets is 139% (2005: 120%). 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 2006, the Group has no commitment (2005: operating lease arrangements in respect of office premises amounted to RMB8,000).

CONTINGENT LIABILITIES

At the balance sheet date, the Group does not have any material contingent liabilities (2005: 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 112 (2005: 120) employees. 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 RMB1,670,000 for the year ended 31 December 2006 (2005: RMB3,710,000).

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Woo Hang Lung
Mr. Poon Chiu (appointed on 6 February 2007)
Mr. Guo Ping (appointed on 6 February 2007)

NON-EXECUTIVE DIRECTORS
Mr. Tsao Ke Wen Calvin (appointed on 6 February 2007)
Mr. Junichi Goto (resigned on 24 February 2006)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Wang Desheng
Mr. Yue Kwai Wa, Ken (resigned on 31 January 2006)
Mr. Lau Chi Sun, Robbie (resigned on 31 January 2006)

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
Shuang Shui Mo District
Shanshan County
Turpan, Xinjiang, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 405, 4th Floor
Dannies House
20 Luard Road
Wanchai
Hong Kong

COMPANY SECRETARY
Mr. Poon Chiu (appointed on 6 February 2007)
Mr. Peng Zhi Heng (resigned on 15 November 2006)

AUTHORISED REPRESENTATIVES
Mr. Woo Hang Lung
Mr. Poon Chiu (appointed on 6 February 2007)
Mr. Peng Zhi Heng (resigned on 15 November 2006)

COMPLIANCE OFFICER
Mr. Woo Hang Lung
Mr. Poon Chiu (appointed on 6 February 2007)

QUALIFIED ACCOUNTANT
Mr. Poon Chiu (appointed on 6 February 2007)
Mr. Peng Zhi Heng (resigned on 15 November 2006)

AUDIT COMMITTEE
Mr. Wang Desheng
Mr. Yue Kwai Wa, Ken (resigned on 31 January 2006)
Mr. Lau Chi Sun Robbie (resigned on 31 January 2006)

PRINCIPAL BANKERS
Agricultural Bank of China, Shanshan County Branch
Industrial and Commercial Bank of China, Shanghai Branch
Standard Chartered Bank, Hong Kong Branch

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
Tricor Investor Services Limited
Level 26, Tesbury Centre
28 Queen’s Road East
Hong Kong

AUDITORS
Cheng & Cheng Limited
Certified Public Accountants

GEM STOCK CODE
8039

LOULAN HOLDINGS LIMITED

BIOGRAPHIES OF DIRECTORS

Executive Directors

Mr. Woo Hang Lung ("Mr. Woo"), aged 55, 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. Mr. Woo has 20 years of experience in economic planning and business investment and held positions varying from a manager to a factory director and worked in the Heilongjiang Provincial Forestry Bureau, the Local Products Company of the Hubei Province, the Light Industry Bureau of Wuhan, the Aeronautical Technology Import and Export Company of the PRC and the Trade and Industrial Centre of Shenzhen.

Mr. Poon Chiu ("Mr. Poon"), aged 58, has been appointed since 6 February 2007. In addition, Mr. Poon is also the Authorised Representative, Compliance Officer, Qualified Accountant and Company Secretary of the Company.

Mr. Poon is a practicing Certified Public Accountant in Hong Kong and holds a Master of Science degree in Finance from the University of Leicester, United Kingdom. He is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is a seasoned financial professional with extensive experience in high-tech, wine and spirits distribution and operations, business acquisition and merger and system development. Mr. Poon is also an independent non-executive director of Dynamic Global Holdings Limited, a company listed on the main board of the Stock Exchange.

Mr. Guo Ping ("Mr. Guo"), aged 52, has been appointed since 6 February 2007. Mr. Guo was graduated from the Beijing Guan On College 北京市公安學校 and has been a tuitor and officer of the Beijing Police Academy 北京民警察學院 until he joined the commercial sector. He was appointed chairmen of 北京寶鑫工藝品有限公司 and 北京伊斯特投資顧問有限公司 ("北京伊斯特"). 北京伊斯特 is engaged in the business of wine and spirit distribution in China and Mr. Guo was responsible for the strategic planning and management control of the company. He is presently the director and vice president of 東方銀安(北京)信用擔保有限公司 which is engaged in credit control, guarantee, distribution of technological and lifestyle products in China.

Non-executive Director

Mr. Tsao Ke Wen Calvin ("Mr. Tsao"), aged 44, has been appointed since 6 February 2007. He graduated with the degree of Bachelor of Science (Economic) from the University of Buckingham, United Kingdom. He has extensive experience in business, financial and China investments. He has worked for Horwath & Horwath Certified Public Accountants and was a director of XXI Century Investments Company Limited. He was the executive director respectively of Dynamic Global Holdings Limited and Aurora Global Investment Holdings Limited, companies that are listed on the main board of the Stock Exchange. Mr. Tsao is presently the sole shareholder and director of L & L Holdings Limited, an investment holdings company and director of Well Positioned Finance Limited, a registered money-lender company.

Independent Non-executive Director

Mr. Wang Desheng ("Mr. Wang"), aged 65, has been appointed since 27 September 2004. Mr. Wang graduated from Tianjin Nankai University with a bachelor degree in chemistry and received his master degree in philosophy from Beijing Normal University. He is a professor of School of Philosophy and Sociology at Beijing Normal University as well as a mentor of postgraduate students for Science Philosophy and News Publication.

CORPORATE GOVERNANCE REPORT

Directors' responsibility on the financial statements

The directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2006, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditors on the financial statements are set out in the "Independent Auditors' Report" on pages 17 to 21.

Corporate governance practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). In the opinion of the Directors, the Company has only complied with certain of the code provisions set out in the CCGP (the "Code Provisions") throughout the year.

Directors' securities transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry to all Directors, as most of the Directors have resigned and could not be contacted, the Company is unable to confirm that all Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions throughout the year ended 31 December 2006.

Board of directors and board meeting

Board of Directors

During the year under review, the Board comprises one executive director, one non-executive director (resigned at beginning of the year) and three independent non-executive director (note: two independent non-executive directors resigned at beginning of the year). The composition of the Board has been disclosed in all the Company's announcements and circulars. The Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board. The biographies of the Directors as at the date of this report are set out on page 6 with details of diversity of skills, expertise, experience and qualifications concerning the Directors.

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The management was delegated the authority and responsibility by the Board for the management of the Group.

Board Meetings

The Board used to hold four full board meetings in each year and meets as and when required. During the financial year ended 31 December 2006, there was no full board meeting being held:

The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Board minutes are kept by the Company Secretary of the Company and copies are sent to the Directors for records and are open for inspection by the Directors.

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CORPORATE GOVERNANCE REPORT

Chairman and chief executive officer

The chairman of the Board and chief executive officer of the Company were held by the same person. The Company has not yet segregated the duties in order to preserve independence and to have a balanced judgement of views. The Company will take appropriate actions to complete the separation of the roles of chairman and chief executive officer with clear division of their responsibilities, and formalizing the function of the Board and management as soon as possible.

Non-executive directors

The sole non-executive director has no specific term of office with the Company and shall subject to retirement by rotation in accordance with the Company's articles of association.

The sole independent non-executive director was appointed for a period of one year and will continue thereafter until terminated by either party giving no less than one month's written notice. As the sole independent non-executive director has not returned his annual confirmation of independence. In this connection, the Company is unable to consider him to be independent throughout the year under review in accordance with Rule 5.09 of the GEM Listing Rules.

Remuneration of directors

The Company has not established a remuneration committee and will take appropriate actions to set up such committee once the casual vacancies of independent non-executive directors are filled.

Nomination of directors

Subject to article 14(4) of the Company's articles of association, a director may be appointed on the terms that he shall automatically retire from office.

The Company has not established a nomination committee and will take appropriate actions to set up such committee once the casual vacancies of independent non-executive directors are filled. In addition, the Company will amend its articles of association as soon as practicable in order to comply with the Code Provisions in relation to the appointment, re-election and retirement by rotation of the Directors.

Auditors' remuneration

During the year under review, except the statutory audit fee, the Group has not paid fees to the external auditors for any other non-audit services.

Audit committee

The audit committee did not hold any meeting during the year under review. As described in the section headed "Audit committee" of the Report of the Directors, the Company's and the Group's financial statements for the year ended 31 December 2006 have not been reviewed by the audit committee.

Full minutes of audit committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

The Audit Committee meets the external auditors at least once a year to discuss issues concerning the audits. The Audit Committee reviews the quarterly results, interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Group's quarterly results, interim and annual reports.

LOULAN HOLDINGS LIMITED

CORPORATE GOVERNANCE REPORT

Internal control

The Directors have to conduct a review of the Group's system of internal control once a year to ensure the effective and adequate internal control system including finance, operations and risk management. The reports and findings prepared by the internal audit team have to be circulated to the relevant committee delegated by the Board. If necessary, the internal audit team will submit their findings and the proposed audit plan to the Audit Committee for its approval. Due to insufficiency in qualified human resources, the annual review of the effectiveness of the system of internal control has not been carried out during the year under review.

Breach of the GEM Listing Rules

The Company has failed to announce its results and publish its annual reports for the year ended 31 December 2006 in time which constituted a breach of rules 18.03, 18.48A and 18.49 of the GEM Listing Rules. The Stock Exchange reserves its right to take appropriate actions against the Company and/or the Directors in respect of the aforesaid breach.

The new management is fully aware of and will comply with rule 5.56 of the GEM Listing Rules.

LOULAN HOLDINGS LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements.

RESULTS

The Group's loss for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 65.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 21 to the financial statements and in the consolidated statements of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, 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.

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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 47.5% of the total sales for the year and sales to the largest customer included therein amounted to approximately 23.2%. Purchases from the Group's five largest suppliers accounted for approximately 22.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 16.9%.

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 suppliers.

DIRECTORS

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

Executive directors:
Mr. Woo Hang Lung
Mr. Poon Chiu (appointed on 6 February 2007)
Mr. Guo Ping (appointed on 6 February 2007)

Non-executive directors:
Mr. Tsao Ke Wen Calvin (appointed on 6 February 2007)
Mr. Junichi Goto (resigned on 24 February 2006)

Independent non-executive directors:
Mr. Wang Desheng
Mr. Yue Kwai Wa, Ken (resigned on 31 January 2006)
Mr. Lau Chi Sun, Robbie (resigned on 31 January 2006)

In accordance with article 14(4) of the Company's articles of association, Mr. Woo Hang Lung and Mr. Wang Desheng will retire by rotation and, being eligible, will offer themselves for re-election at the Company's annual general meeting.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company as at the date of this report are set out on page 6.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

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

The non-executive director is not appointed for specific terms but is 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 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, 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	1.50

Note: Mr. Woo Hang Lung has pledged 163,125,000 shares to TKR Finance Limited which is a subsidiary of REXCAPITAL Financial Holdings Limited.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Save as disclosed above, as at 31 December 2006, none of the directors or chief executive had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as disclosed in the section headed "Share Option Scheme" below, 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.

REPORT OF THE DIRECTORS

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

At 31 December 2006, 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 (Note 5)	163,125,000	40.78
New Dragon (No. 7) Investments Limited (Notes 1 and 2)	41,250,000	10.30
Global Funds Trust Company (Note 2)	41,250,000	10.30
China Enterprise Investment Fund (Notes 1 and 2)	41,250,000	10.30
New Dragon Investments Limited (Note 3)	41,250,000	10.30
Nomura China Venture Investment Fund Limited (Notes 3 and 4)	41,250,000	10.30
Nomura Holdings, Inc. (Note 4)	41,250,000	10.30
JAFCO Co., Ltd. (Note 4)	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, 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.

(3) So far as the Directors are aware, New Dragon Investments Limited is held as to 100% by Nomura China Venture Investment Fund Limited.

(4) 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.

(5) Mr. Woo Hang Lung has pledged 163,125,000 shares to TKR Finance Limited ("TKR"). TKR is a subsidiary of REXCAPITAL Financial Holdings Limited.

Save as disclosed above, as at 31 December 2006, 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.

REPORT OF THE DIRECTORS

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.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 28 to the financial statements.

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 2006, the audit committee originally 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. As two of the committee members namely Mr. Yue Kwai Wa, Ken and Mr. Lau Chi Sun, Robbie both resigned from the posts of independent non-executive directors and audit committee members of the Company with effect on 31 January 2006, The Company's and the Group's financial statements for the year have not been reviewed by the audit committee and the audit committee did not hold any meeting during the year.

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 accounting period covered by the annual report.

A report on the principle corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

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 2006.

AUDITORS

BDO McCabe Lo & Company were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Ernst & Young with effect from 5 February 2004 and audited the financial statements of the Group and the Company for the year ended 31 December 2003.

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 and audited the financial statements of the Group and the Company for the year ended 31 December 2004.

Cheng & Cheng Limited was appointed as auditors of the Company to fill the casual vacancy created by the resignation of Wong Brothers & Co. with effect from 10 May 2007 and audited the financial statements of the Group and the Company for the year ended 31 December 2005 and onward.

Cheng & Cheng Limited retires and a resolution for its reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Woo Hang Lung
Chairman

Beijing, the PRC
31 October 2007

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司

Room 1003-1005, Allied Kajima Building,
138 Gloucester Road,
Wanchai, Hong Kong.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF
LOULAN HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of LOULAN HOLDINGS LIMITED (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 64, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, condolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of the consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit 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 other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

1. The original ownership certificates in respect of the Group's leasehold land and buildings amounting to RMB14,426,000 as at 31 December 2006 were not available for our inspection. Accordingly we are unable to verify the Group's title to such properties.

2. We have not been provided with sufficient supporting documents to verify the assets, liabilities and loss 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 RMB25,279,000 as at 31 December 2006 and turnover, cost of sales and loss for the year were RMB183,000, RMB4,993,000 and RMB5,200,000, respectively.

TO THE SHAREHOLDERS OF
LOULAN HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Basis for disclaimer of opinion

3. We were unable to carry out auditing procedures we considered necessary to ascertain the valuation of the closing inventories with a carrying value of RMB6,427,000 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 2006.

4. We have not been provided with sufficient evidence to verify the existence and valuation of trade receivables of RMB2,786,000. Direct confirmations in respect of 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 RMB36,854,000. 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 2006.

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 RMB930,000 and interest bearing borrowings of RMB44,547,000 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 2006.

7. We have not been provided with sufficient evidence to verify the completenes of trade payables of RMB10,606,000 and sundry creditors and payables of RMB52,982,000. Direct confirmations in respect of trade payables and sundry creditors and 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 2006.

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 (“Xianjiang Loulan”). We have also not been provided with the necessary 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 2005 was qualified in that:-

    (a) 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 were unable to verify the Group's title to such properties;

TO THE SHAREHOLDERS OF
LOULAN HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Basis for disclaimer of opinion (Continued)

(b) We had not been provided with sufficient supporting documents to verify the assets, liabilities and profit of a wholly ownved 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;

(c) 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;

(d) We had 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 had not been sent as we had not been provided with detail information of them. We had 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;

(e) Included under current assets were sundry debtors and receivables totaling RMB37,090,000. We had 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;

(f) Direct confirmations had 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;

(g) We had 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 had not been obtained. We had 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 Excheng. Any adjustments to the amounts may have a consequential effect on the loss for the year and net liabilities as at 31 December 2005; and

TO THE SHAREHOLDERS OF
LOULAN HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Basis for disclaimer of opinion (Continued)

(h) We had 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 ("Xianjiang Loulan"). We had also not been provided with the necessary 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.

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 2005 and thus, a carried forward effect to the accumulated losses and net liabilities as at 31 December 2006.

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 2006 were carried at valuation and the remaining leasehold land and buildings, furniture, fixtures and equipment and motor vehicles amounting to RMB10,152,000, RMB1,894,000 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.

Fundemental uncertainty relating to the goning concern basis

As disclosed in note 2(e) and note 26, 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.

We are unable to form an opinion on the appropriateness of adopting the going concern basis in view of the uncertainty as described above.

INDEPENDENT AUDITORS' REPORT (Continued)

TO THE SHAREHOLDERS OF
LOULAN HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Disclaimer of opinion

Because of the significance of the possible effects of:-

(a) the limitation in evidence available to us as stated in the basis for disclaimer of opinion paragraph;

(b) the limitation in evidence available to us as stated in the disagreement in accounting treatment paragraph; and

(c) the fundemental uncertainty relating to the going concern basis;

we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

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.

Cheng & Cheng Limited
Certified Public Accountants

HONG KONG, 31 October 2007

Tong Yat Hung
Practising Certificate number P01055

LOULAN HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	NOTE	2006 RMB'000	2005 RMB'000
Turnover	3	7,618	12,377
Cost of sales		(12,884)	(11,816)
GROSS PROFIT/(LOSS)		(5,266)	561
Other revenues	3	704	187
Selling expenses		(346)	(1,691)
Administrative and general expenses		(6,044)	(11,510)
Gain on disposal of fixed assets		0	2,271
Loss on disposal of fixed assets		0	(70)
Provision for diminution in value of inventories		(12)	(633)
Reversal of provision for doubtful debts		0	3,936
Finance costs	5	(1,857)	(2,165)
LOSS BEFORE TAXATION	6	(12,821)	(9,114)
Taxation	9	0	(74)
LOSS FOR THE YEAR		(12,821)	(9,188)
Attributable to:			
Equity holders of the parent		(12,821)	(9,188)
Minority interests		0	0
		(12,821)	(9,188)
LOSS PER SHARE - BASIC (RMB)	11	(0.032)	(0.023)

The notes on page 28 to 64 form an integral part of these financial statements.

LOULAN HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	NOTE	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Fixed assets			
- Property, plant and equipment	12	28,395	31,024
Intangible assets	13	3,004	3,309
		31,399	34,333
CURRENT ASSETS			
Inventories	15	6,427	13,530
Trade receivables	16	2,786	2,763
Sundry debtors and receivables		36,854	37,090
Financial assets	17	720	720
Cash and bank balances		930	1,468
		47,717	55,571
DEDUCT: CURRENT LIABILITIES			
Trade payables		10,606	11,189
Sundry creditors and payables	18	52,982	50,216
Current portion of interest bearing borrowings	19	44,547	44,510
Current taxation liabilities		827	998
		108,962	106,913
NET CURRENT LIABILITIES		(61,245)	(51,342)
TOTAL ASSETS LESS CURRENT LIABILITIES		(29,846)	(17,009)

CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2006

	NOTE	2006 RMB'000	2005 RMB'000
Financed by :			
CAPITAL AND RESERVES			
Share capital	20	4,240	4,240
Reserves		(34,881)	(22,044)
		(30,641)	(17,804)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	795	795
		(29,846)	(17,009)

Signed on behalf of the Board of Directors by:-

Director

Director

The notes on page 28 to 64 form an integral part of these financial statements.

LOULAN HOLDINGS LIMITED

BALANCE SHEET

As at 31 December 2006

	NOTE	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	3,494	3,451
CURRENT ASSETS			
Sundry debtors and receivables		774	800
Cash and bank balances		5	6
		779	806
DEDUCT: CURRENT LIABILITIES			
Sundry creditors and payables	18	9,860	9,679
NET CURRENT LIABILITIES		(9,081)	(8,873)
TOTAL ASSETS LESS CURRENT LIABILITIES		(5,587)	(5,422)
Represented by :			
CAPITAL AND RESERVES			
Share capital	20	4,240	4,240
Reserves	21	(9,827)	(9,662)
		(5,587)	(5,422)

Signed on behalf of the Board of Directors by:-

Director   Director

The notes on page 28 to 64 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000 (Note 1)	Statutory reserve fund RMB'000 (Note 2)	Accumulated losses RMB'000	Revaluation reserve RMB'000	Exchange translation reserve RMB'000	Total RMB'000
At 1 January 2005	4,240	35,739	29,703	1,884	(80,278)	120	0	(8,592)
Currency translation differences	0	0	0	0	0	0	(26)	(26)
Net loss for the year	0	0	0	0	(9,188)	0	0	(9,188)
Transfer	0	0	0	2	0	0	0	2
At 31 December 2005	4,240	35,739	29,703	1,886	(89,466)	120	(26)	(17,804)
Currency translation differences	0	0	0	0	0	0	(16)	(16)
Net loss for the year	0	0	0	0	(12,821)	0	0	(12,821)
At 31 December 2006	4,240	35,739	29,703	1,886	(102,287)	120	(42)	(30,641)

Note 1:

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.

Note 2:

Xinjiang Loulan and Shanghai Shen Hong are required to follow the laws and regulations of the People's Republic of China 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 People's Republic of China. The statutory reserve fund may only be used, upon approval by the relevant authority, to offset accumulated losses or to increase capital.

LOULAN HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	NOTE	2006 RMB'000	2005 RMB'000
Net cash from/(used in) operating activities	23	1,282	(647)
Net cash from/(used in) investing activities	24	(3)	11,746
Net cash used in financing activities	25	(1,817)	(10,853)
Increase/(decrease) in cash and cash equivalents		(538)	246
Cash and cash equivalents at 1 January		1,468	1,222
Cash and cash equivalents at 31 December		930	1,468

ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances		930	1,468

The notes on page 28 to 64 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands with its shares listed on the Growth Enterprises Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the corporate information section of the annual report.

The Company and its subsidiaries (the "Group") are principally engaged in the production, sale and distribution of alcoholic drinks.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out as

(a) STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all applicable Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK(IFRIC)-Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 in the Stock Exchange (the "Listing Rules"). A summary of the significant accounting policies adopted by the Company is set out below.

(b) IMPACT OF NEW AND REVISED HKFRSs

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's consolidated financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES

(c) IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the consolidated financial statements.

HKAS 1 Amendment	Capital Disclosures (effective on or after 1 January 2007)
HKAS 23 Revised	Borrowing Costs (effective on or after 1 January 2009)
HKFRS 7	Financial Instruments: Disclosures (effective on or after 1 January 2007)
HKFRS 8	Operating Segments (effective on or after 1 January 2009)
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKFRS 29 Financial Reporting in Hyperinflationary Economics (effective on or after 1 March 2006)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (effective on or after 1 May 2006)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives (effective on or after 1 June 2006)
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment (effective on or after 1 November 2006)
HK(IFRIC)-Int 11	Group and Treasury Share Transactions (effectively on or after 1 March 2007)
HK(IFRIC)-Int 12	Service Concession Arrangements (effective on or after 1 August 2008)

(d) BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) ADOPTION OF GOING CONCERN BASIS

The Group reported a net loss attributable to shareholders of RMB12,821,000 (2005: RMB9,188,000) for the year ended 31 December 2006. At that date, its current liabilities exceeded its current assets by RMB61,245,000 (2005: RMB51,342,000).

Last year, 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.

In 2003, Xinjiang Loulan initiated a lawsuit against a bank in respect of the dispute of a bank loan agreement entered with a bank. The case was finalized on 8 October 2004 and 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 (中華人民共和國最高人民法院) on 25 October 2004, Xinjiang Loulan is required to repay the related principal installments amounting to RMB31,882,000, the interests of RMB6,963,000 up to 20 September 2004 and the related interests incurred after that date. The amounts of RMB31,882,000 and RMB6,963,000, together with additional interests of RMB1,800,000 each year for the year ended 31 December 2005 and 2006, have been accounted for in the consolidated financial statements.

On 7 March 2007, the Higher Court of the Self Administrative Region of Xinjiang (新疆維吾爾自治區高級人民法院) ordered Xinjiang Loulan to put up its assets for auction in order to repay the outstanding loan

However, according to legal advices obtained by the Directors, the matter should be contested and an appeal to the Supreme People's Court of the PRC (中華人民共和國最高人民法院) should be made.

The Company has submitted a resumption proposal to the Stock Exchange on 17 May 2007 for the trading of its shares in the GEM of the Stock Exchange. The consolidated financial statements were prepared on a going concern basis despite the uncertainty of the outcome of the proposal on the understanding that the present financial support provided by the Group's financiers shall continue in the foreseeable future. However, the continuing financial support is dependent on the said proposal, should the Group 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.

(f) CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Results of subsidiaries are consolidated from the effective date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All significant intercompany transactions and balances have been eliminated on consolidation.

(g) SUBSIDIARIES AND CONTROLLED ENTITIES

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) SUBSIDIARIES AND CONTROLLED ENTITIES (Continued)

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

(h) GOODWILL

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(i) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) FINANCIAL INSTRUMENTS (Continued)

Financial assets

Financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

(i) Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprised financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, jointly controlled entities, associates and related companies, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is an objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is an objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of convertible loan notes, financial liabilities and equity instruments are set out below.

(i) Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) FINANCIAL INSTRUMENTS (Continued)

Financial liabilities and equity (Continued)

(i) Convertible loan notes (Continued)

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

(ii) Financial liabilities

Financial liabilities including trade payables, other payables, amounts due to subsidiaries, a minority shareholder, a jointly controlled entity and related companies, obligation under finance leases, dividend payable, long term payable and bank borrowing are subsequently measured at amortised cost, using the effective interest rate method.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(iv) Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company or Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

For financial liabilities, they are removed from the Company's or Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in the consolidated income statement.

Impairment losses (other than goodwill and intangible assets with indefinite useful lives – see the accounting policies in respect of goodwill and intangible assets above)

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) FINANCIAL INSTRUMENTS (Continued)

Derecognition (Continued)

At each balance sheet date, the Company and Group review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

Borrowing costs

All borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

(j) PROPERTY, PLANT AND EQUIPMENT

The following properties held for own use are stated in the consolidated balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

- Leasehold land and buildings;
- Furniture, fixtures and equipment; and
- Motor vehicles

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the consolidated income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the consolidated income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the consolidated income statement.

The gain or loss on disposal or retirement of an asset recognised in the consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) PROPERTY, PLANT AND EQUIPMENT (Continued)

The following items of property, plant and equipment are stated in the consolidated balance sheet at cost or valuation less accumulated depreciation and impairment losses:

- Leasehold land and buildings
- Plant and machinery
- Furniture, fixtures and equipment
- Motor vehicles
- Vineyard development

Depreciation is provided to write off the cost or valuation 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%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) INTANGIBLE ASSETS (OTHER THAN GOODWILL) (Continued)

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

(l) LEASED ASSETS

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(m) IMPAIRMENT OF ASSETS

Impairment of investments in equity securities and other receivables

Investments in equity securities and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unlisted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) IMPAIRMENT OF ASSETS (Continued)

Impairment of investments in equity securities and other receivables (Continued)

- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated income statement. The amount of the cumulative loss that is recognised in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

  Impairment losses recognised in the consolidated income statement in respect of available-for-sale equity securities are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the consolidated income statement.

Impairment of non-financial assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- intangible assets; and
- investments in subsidiaries (except for those classified as held for sale or included in a disposal group that is classified as held for sale).

If any such indications exist, the recoverable amount of the assets, being the greater of its net selling price or value in use, is estimated. The carrying amount of the asset is reduced to its recoverable amount where appropriate. Such impairment loss is recognised in the consolidated income statement.

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 consolidated income statement in the year in which the reversals are recognised.

(n) INVENTORIES

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

Cost is calculated using the weighted average method and comprises all 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.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) INVENTORIES (Continued)

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

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

(o) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the consolidated balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

(p) EMPLOYEE BENEFITS

(i) Retirement benefit

The Group operates a retirement benefits scheme in Hong Kong, namely the Mandatory Provident Fund Scheme (the "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 consolidated income statement when they fall due.

(ii) Termination benefits

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

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) EMPLOYEE BENEFITS (Continued)

(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 the MPF where applicable.

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

(q) INCOME TAX

Income 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 net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes consolidated income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated 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 utilized. Such assets and liabilities are not recognized 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 recognised for taxable temporary differences arising on investments in subsidiaries, except 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 profits 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 realized. Deferred tax 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.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

(s) PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the fi nancial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(t) REVENUE RECOGNITION

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

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) REVENUE RECOGNITION (Continued)

(ii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Any other income not mentioned above is recognised whenever it is received or receivable.

(u) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the accounts of the Group are measured using the currency of the primary economic environment in which the Group operate (the functional currency). The consolidated financial statements are presented in Reminbi ("RMB"), which is the functional and presentation currency, and all values are rounded to the nearest thousand (RMB'000), except otherwise indicated.

(v) TRANSLATION OF FOREIGN CURRENCIES

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the consolidated income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Reminbi at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

2. SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES (Continued)

(w) RELATED PARTIES

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is a member of the key management personnel of the Company or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(x) SEGMENT REPORTING

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories and receivables, and mainly exclude corporate assets, financial assets at fair value through profit or loss and cash and bank deposits. Segment liabilities comprise operating liabilities and exclude items such as accrual for common expenses.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the place in which the customer is located and total assets and capital expenditure are where the assets are located.

3. REVENUE AND TURNOVER

The Group

The Group is principally engaged in the production, sale and distribution of alcoholic drinks. Revenues recognised during the year are as follows:

	2006 RMB'000	2005 RMB'000
Turnover		
Sales	7,618	12,377
Other revenues		
Interest income	4	12
Sundry income	700	175
	704	187
Total revenues	8,322	12,564

4. SEGMENT INFORMATION

Business segments

The following table presents revenue, result and certain assets, liabilities and expenditure information for the Group's business segments.

	Selling of self-manufactured wines RMB'000	Distribution of wine products RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2006					
Turnover	7,435	183	0	0	7,618
Segments result	(4,968)	(5,146)	(850)	0	(10,964)
Finance costs					(1,857)
Loss before taxation					(12,821)
Taxation					0
Minority interest					0
Loss for the year					(12,821)
Other information					
Amortisation of intangible assets	305	0	0	0	305
Depreciation of owned assets	2,525	98	9	0	2,632
Capital expenditure	3	0	0	0	3
Assets	84,063	41,068	26,658	(72,673)	79,116
Liabilities	(121,848)	(62,620)	(17,499)	92,210	(109,757)
Net assets/(liabilities)	(37,785)	(21,552)	9,159	19,537	(30,641)
Year ended 31 December 2005					
Turnover	11,071	1,306	0	0	12,377
Segments result	(6,332)	2,049	(3,078)	412	(6,949)
Finance costs					(2,165)
Loss before taxation					(9,114)
Taxation					(74)
Minority interest					0
Loss for the year					(9,188)
Other information					
Amortisation of intangible assets	305	0	0	0	305
Depreciation of owned assets	2,632	339	30	0	3,001
Capital expenditure	85	0	1	0	86
Assets	89,641	46,215	26,719	(72,671)	89,904
Liabilities	(120,654)	(62,568)	(16,695)	92,209	(107,708)
Net assets/(liabilities)	(31,013)	(16,353)	10,024	19,538	(17,804)

4. SEGMENT INFORMATION

Geographical segments

The following table presents revenue, result and certain assets, liabilities and expenditure information for the Group's geograpical segments.

	The PRC RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2006				
Turnover	7,618	0	0	7,618
Segments result	(10,114)	(850)	0	(10,964)
Finance costs				(1,857)
Loss before taxation				(12,821)
Taxation				0
Minority interest				0
Loss for the year				(12,821)
Other information				
Amortisation of intangible assets	305	0	0	305
Depreciation of owned assets	2,623	9	0	2,632
Capital expenditure	3	0	0	3
Assets	125,131	26,658	(72,673)	79,116
Liabilities	(184,468)	(17,499)	92,210	(109,757)
Net assets/(liabilities)	(59,337)	9,159	19,537	(30,641)
Year ended 31 December 2005				
Turnover	12,377	0	0	12,377
Segments result	(4,283)	(3,078)	412	(6,949)
Finance costs				(2,165)
Loss before taxation				(9,114)
Taxation				(74)
Minority interest				0
Loss for the year				(9,188)
Other information				
Amortisation of intangible assets	305	0	0	305
Depreciation of owned assets	2,971	30	0	3,001
Capital expenditure	85	1	0	86
Assets	135,856	26,719	(72,671)	89,904
Liabilities	(183,222)	(16,695)	92,209	(107,708)
Net assets/(liabilities)	(47,366)	10,024	19,538	(17,804)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2006

5. FINANCE COSTS

The Group

	2006 RMB'000	2005 RMB'000
Interest on bank loans	1,854	2,164
Interest on bank overdrafts	3	1
	1,857	2,165

6. LOSS BEFORE TAXATION

The Group

	2006 RMB'000	2005 RMB'000
Loss before taxation is stated after charging:		
Amortization on intangible assets	305	305
Auditors' remuneration	365	381
Cost of inventories sold	12,884	11,816
Depreciation of owned assets	2,632	3,001
Operating leases		
Hire of land and buildings	278	683
Salaries and allowances	1,045	1,877
Staff welfare and messing	148	579
Provident fund expenses	441	399
Staff costs	1,634	2,855

7. DIRECTORS' REMUNERATION

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

	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Contribution to defined contribution plan RMB'000	Total RMB'000
Year ended 31 December 2006				
Executive director				
Mr. Woo Hang Lung	0	0	0	0
Non-executive director				
Mr. Junichi Goto	0	0	0	0
Independent non-executive directors				
Mr. Lau Chi Sun, Robbie	3	0	0	3
Mr. Wang De Sheng	3	0	0	3
Mr. Yue Kwai Wa. Ken	30	0	0	30
	36	0	0	36
Year ended 31 December 2005				
Executive director				
Mr. Woo Hang Lung	0	756	12	768
Non-executive director				
Mr. Junichi Goto	0	0	0	0
Independent non-executive directors				
Mr. Lau Chi Sun, Robbie	32	0	0	32
Mr. Wang De Sheng	23	0	0	23
Mr. Yue Kwai Wa. Ken	32	0	0	32
	87	756	12	855

During the year, Mr. Woo Hang Lung waived his emoluments amounted to HK$780,000 (at RMB803,400). No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of offices.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included no director during the years ended 31 December 2006 and one director during the year ended 31 December 2005, and the information relating to their remuneration is disclosed in note 7. Details of the remuneration paid to the remaining five (2005: four) non-director, highest paid individuals during the years, are as follows:

	2006 RMB'000	2005 RMB'000
Basic salaries, housing benefits, other allowances and benefits in kind	366	384
Provident fund expenses	18	23
	384	407

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

	Number of employees 2006	 2005
Nil to RMB1,000,000	5	4

9. TAXATION

The Group

	2006 RMB'000	2005 RMB'000
Current tax - overseas		
Tax for the year	0	74

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 eneded 31 December 2006 in these jurisdictions (2005: Nil).

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2006

9. TAXATION (Continued)

The Group's two subsidiaries in the PRC, Xinjiang Loulan and Shanghai Shen Hong as referred to in note 14 to the financial statements, are foreign investment enterprises in the PRC which are subject to Enterprise Income Tax.

The tax expense for the year can be reconciled to the results per the consolidated income statement as follows:

	2006 RMB'000	2005 RMB'000
Loss before taxation	(12,821)	(9,114)
Notional tax at the domestic income tax rate of 33% (2005: 33%)	(4,231)	(3,007)
Effect of different tax rates of subsidiaries operating in other jurisdictions	132	477
Tax effect of non-deductible expenses	2,065	733
Tax effect of non-taxable revenue	0	(750)
Tax effect of unused tax loss not recognized	2,034	2,621
Total tax income for the year	0	74

10. NET LOSS ATTRIBUTABLE TO THE SHAREHOLDERS

The net loss attributable to the shareholders for the year ended 31 December 2006 includes a net loss of RMB170,000 (2005: Loss of RMB1,974,000) which has been dealt with in the financial statements of the Company.

11. 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 RMB12,821,000 (2005: RMB9,188,000) and the weighted average of 400,000,000 (2005: 400,000,000) shares in issue during the year.

Diluted loss per share for the years ended 31 December 2006 and 2005 have not been disclosed as there were no dilutive potential shares during the two years.

12. FIXED ASSETS

The Group

	Property, plant and equipment					
	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Vineyard development RMB'000	Total RMB'000
COST OR VALUATION						
At 1 January 2005	34,314	12,710	1,937	5,071	7,265	61,297
Additions	0	85	0	1	0	86
Disposals	(10,000)	0	0	(236)	0	(10,236)
At 31 December 2005	24,314	12,795	1,937	4,836	7,265	51,147
Additions	0	0	3	0	0	3
At 31 December 2006	24,314	12,795	1,940	4,836	7,265	51,150
Deduct: ACCUMULATED DEPRECIATION						
At 1 January 2005	8,328	5,431	669	1,846	1,453	17,727
Charged for the year	1,213	693	130	238	727	3,001
Eliminated on disposal	(562)	0	0	(43)	0	(605)
At 31 December 2005	8,979	6,124	799	2,041	2,180	20,123
Charged for the year	909	679	100	217	727	2,632
At 31 December 2006	9,888	6,803	899	2,258	2,907	22,755
NET BOOK VALUES						
At 31 December 2006	14,426	5,992	1,041	2,578	4,358	28,395
At 31 December 2005	15,335	6,671	1,138	2,795	5,085	31,024

The Group's leasehold land and building are situated in the People's Republic of China and held under medium term leases.

Certain property, plant and equipment of the Group with an aggregate carrying amount of RMB20,307,000 (2005: RMB22,103,000) were pledged to secure banking facilities granted to the Group, as disclosed in note 19.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2006

12. FIXED ASSETS (Continued)

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

	2006 RMB'000	2005 RMB'000
At valuation - 31 December 2002		
Leasehold land and buildings	14,162	14,162
Furniture, fixtures and equipment	46	46
Motor vehicles	1,002	1,002
	15,210	15,210
At cost		
Leasehold land and buildings	10,152	10,152
Plant and machinery	12,795	12,795
Furniture, fixtures and equipment	1,894	1,891
Motor vehicles	3,834	3,834
Vineyard development	7,265	7,265
	51,150	51,147

13. INTANGIBLE ASSETS

The Group

	Trademarks RMB'000	Production technology and know-how RMB'000	Total RMB'000
COST			
At 1 January 2005, at 31 December 2005 and at 31 December 2006	650	5,456	6,106
Deduct: ACCUMULATED AMORTISATION			
At 1 January 2005	265	2,227	2,492
Charged for the year	33	272	305
At 31 December 2005	298	2,499	2,797
Charged for the year	33	272	305
At 31 December 2006	331	2,771	3,102
NET BOOK VALUES			
At 31 December 2006	319	2,685	3,004
At 31 December 2005	352	2,957	3,309

The trademarks with an aggregate carrying amount of RMB319,000 (2005: RMB352,000) were pledged to secure a banking facility granted to the Group (note 19).

14. INTERESTS IN SUBSIDIARIES

The Company

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	1,762	1,762
Amounts due from subsidiaries	36,781	36,738
Amounts due to subsidiaries	(3,149)	(3,149)
Provision for impairment loss	(31,900)	(31,900)
	3,494	3,451

The amounts due from/(to) subsidiaries were unsecured, interest free and had no fixed repayment terms.

<u>Particulars of subsidiary are as follows:</u>

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid share capital/ registered capital	Percentage of ordinary shares 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	The People's Republic of China	RMB10,000,000	-	90	Selling, distribution and production of wines	The People's Republic of 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 ("Shanghai Shen Hong")	The People's Republic of China	RMB3,000,000	-	100	Distribution of wines	The People's Republic of China

* Xinjiang Loulan is a Sino-foreign equity joint venture established in the People's Republic of China.

15. INVENTORIES

The Group

	2006 RMB'000	2005 RMB'000
Consumable stores	2,287	2,589
Work-in-progress	3,651	5,461
Finished goods	489	5,480
	6,427	13,530

No Inventories were carried at net realisable value at 31 December 2006 (2005: Nil).

Certain inventories of the Group with cost of RMB6,427,000 (2005: RMB8,698,000) were pledged to secure banking facilities granted to the Group, as disclosed in note 19.

16. TRADE RECEIVABLES

The Group

	2006 RMB'000	2005 RMB'000
Trade receivables	16,537	16,498
Less: Provision for doubtful debts	(13,751)	(13,735)
	2,786	2,763

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

17. FINANCIAL ASSETS

	2006 RMB'000	2005 RMB'000
Available-for-sale ("AFS") equity securities, at cost		
- listed outside Hong Kong	600	600
Available-for-sale ("AFS") investment fund, at cost		
- listed outside Hong Kong	120	120
Total amount of financial assets	720	720
Market value of listed securities	720	720

The AFS equity securities were pledged to a creditor.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2006

18. SUNDRY CREDITORS AND PAYABLES

The Group

	Note	2006 RMB'000	2005 RMB'000
Value-added tax payable		2,792	2,792
Consumption tax payable		3,386	3,386
Salaries and staff welfare payable		105	155
Amounts due to a related company	a	6	0
Amounts due to directors	b	10,350	9,642
Accrued expenses		15,115	13,271
Other payables		21,228	20,970
		52,982	50,216

The Company

	Note	2006 RMB'000	2005 RMB'000
Salaries and staff welfare payable		105	69
Amounts due to directors	b	8,226	7,989
Accrued expenses		1,382	1,392
Other payables		147	229
		9,860	9,679

(a) The amounts due to a related company are unsecured, interest free and had no fixed repayment terms.

(b) The amounts due to directors are unsecured, interest free and had no fixed repayment terms.

19. INTEREST BEARING BORROWINGS

The Group

	2006 RMB'000	2005 RMB'000
Secured bank loans repayable		
- within 1 year or on demand	39,937	39,900
Other unsecured loans repayable		
- within 1 year or on demand	4,610	4,610
Total interest bearing borrowings	44,547	44,510

The bank loan balance as shown above has been overdue and the bank has taken recovery action as stated in note 26.

The Group's bank loans are secured by:

(a) Fixed and floating charges over certain property, plant and equipment and inventories of the Group with carrying values as follows:

	2006 RMB'000	2005 RMB'000
Leasehold land and buildings	12,531	13,343
Plant and machinery	5,966	6,644
Furniture, fixtures and equipment	770	863
Motor vehicles	1,040	1,253
Inventories	6,427	8,698
	26,734	30,801

(b) Floating charges over the right to use the trademarks of Xinjiang Loulan (Note 13).

20. SHARE CAPITAL

The Group and the Company

	2006 RMB'000	2005 RMB'000
Authorized:		
10,000,000,000 ordinary shares of HK$0.01 (at RMB0.0106) each	106,000	106,000
Issued and fully paid:		
400,000,000 ordinary shares of HK$0.01 (at RMB0.0106) 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 (the "Adoption Date") and, unless otherwise cancelled or amended, will remain in force for a period of 10 years starting from the Adoption Date.

HK$1.00 is payable by each eligible participants 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 elibible participants and will be not less than the greater of (i) the nominal value of a share; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day; or (iii) an amount equal to the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option.

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

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

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

21. RESERVES

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

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Exchange reserve RMB'000	Total RMB'000
At 1 January 2005	35,739	1,760	(45,172)	0	(7,673)
Currency translation differences	0	0	0	(15)	(15)
Net loss for the year	0	0	(1,974)	0	(1,974)
At 31 December 2005	35,739	1,760	(47,146)	(15)	(9,662)
Net loss for the year	0	0	(170)	0	(170)
At 31 December 2006	35,739	1,760	(47,316)	(10)	(9,827)

22. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised by the Group, and movements thereon during the current and prior years:-

The Group

	Accelerated tax depreciation RMB'000
At 1 January 2005, at 31 December 2005 and at 31 December 2006	795

	2006 RMB'000	2005 RMB'000
Net deferred tax liabilities recognised on the consolidated balance sheet	795	795

23. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH FROM/(USED IN) OPERATING ACTIVITIES

The Group

	2006 RMB'000	2005 RMB'000
Loss before taxation	(12,821)	(9,114)
Adjustments for:		
Amortization on intangible assets	305	305
Depreciation of owned assets	2,632	3,001
Gain on disposal of fixed assets	0	(2,271)
Loss on disposal of fixed assets	0	70
Provision for diminution in value of inventories	12	633
Reversal of provision of doubtful debts	0	(3,936)
Interest income	(4)	(12)
Interest on bank loans	1,854	2,164
Interest on bank overdrafts	3	1
Transfer to reserves	(17)	(24)
Operating loss before working capital changes	(8,036)	(9,183)
Decrease in inventories	7,091	3,942
Decrease in trade receivables	2,763	7,678
Increase in sundry debtors and receivables	(2,549)	(3,117)
Decrease in trade payables	(583)	(6,374)
Increase in sundry creditors and payables	2,766	6,646
Cash generated from/(used in) operations	1,452	(408)
Interest received	4	12
Interest on bank overdrafts	(3)	(1)
Tax paid	(171)	(250)
Net cash from/(used in) operating activities	1,282	(647)

24. INVESTING ACTIVITIES

The Group

	2006 RMB'000	2005 RMB'000
Purchase of fixed assets	(3)	(86)
Proceeds from disposal of fixed assets	0	11,832
Net cash from/(used in) investing activities	(3)	11,746

25. FINANCING ACTIVITIES

The Group

	2006 RMB'000	2005 RMB'000
Repayment of bank loans	0	(8,689)
Proceeds from bank loan	37	0
Interest on bank loans	(1,854)	(2,164)
Net cash used in financing activities	(1,817)	(10,853)

26. PENDING LITIGATION

Details of the pending litigation as at 31 December 2006 is described in note 2(e). The litigation has not been finalized and no adjustment was made in the consolidated financial statements of the current year.

27. COMMITMENTS UNDER OPERATING LEASES

AS LESSEES

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

At the balance sheet date, total future minimum lease payments under non-cancelable operating leases are set out below:

The Group

	2006 RMB'000	2005 RMB'000
Land and buildings		
- not later than 1 year	0	8

28. POST BALANCE SHEET EVENTS

The pending litigation and subsequent appeal as described in note 2(e) regarding Xinjiang Loulan's bank loan is still outstanding. Should the appeal be unsuccessful, the potential impairment and revaluation adjustment to the assets of the subsidiary as at 31 December 2006 would be RMB27,254,000 and RMB5,665,000 respectively. However, due to the uncertainty of the result of the litigation, no adjustments have been made in the consolidated financial statements of the current year.

29. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current year's presentation.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, bank balances, borrowings, trade receivables, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risk. The Group's principal businesses are conducted and recorded in Reminbi. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Interest rate risk

The principal risk lies with short-term floating rate bank borrowings. The Group mitigates the risk by monitoring the interest rate and revises the financing rate if necessary.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations are mainly in PRC. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and the directors of the Company consider that the credit risk for such is minimal.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 October 2007.

LOULAN HOLDINGS LIMITED

FINANCIAL SUMMARY

For the year ended 31 December 2006

RESULTS

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	7,618	12,377	41,362	183,533	13,037
Cost of sales	(12,884)	(11,816)	(33,676)	(167,398)	(6,844)
GROSS PROFIT	(5,266)	561	7,686	16,135	6,193
Other revenues	704	6,394	1,946	5,615	45
Selling expenses	(346)	(1,691)	(9,440)	(8,573)	(2,490)
Administrative and general expenses	(6,056)	(12,213)	(46,240)	(16,064)	(13,890)
Finance costs	(1,857)	(2,165)	(3,399)	(3,039)	(3,820)
LOSS BEFORE TAXATION	(12,821)	(9,114)	(49,447)	(5,926)	(13,962)
Taxation	0	(74)	(216)	(927)	(2)
LOSS FOR THE YEAR	(12,821)	(9,188)	(49,663)	(6,853)	(13,964)
Attributable to:					
Equity holders of the parent	(12,821)	(9,188)	(49,663)	(6,853)	(13,964)
Minority interests	0	0	0	0	193
	(12,821)	(9,188)	(49,663)	(6,853)	(13,771)
LOSS PER SHARE - BASIC (RMB)	(0.032)	(0.023)	(0.124)	(0.017)	(0.041)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	79,116	89,904	107,708	197,615	123,175
Total liabilities	(109,757)	(107,708)	(116,300)	(156,544)	(75,251)
Minority interests	0	0	0	0	0
	(30,641)	(17,804)	(8,592)	41,071	47,924