

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st March 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

Wanji Pharmaceutical Holdings Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) are principally engaged in the business of sale of medical equipment, medicinal and winery products. Its operations are carried out principally in Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the Consolidated Profit and Loss Account on page 21.

The directors do not recommend the payment of a dividend in respect of the year.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 25 and note 20 to the accounts respectively.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 11 to the accounts.

PRINCIPAL PROPERTIES FOR SALE

Details of the principal properties for sale are set out on page 55.

SHARE OPTION SCHEME

The Company has adopted a share option scheme for the purpose of motivating the directors and employees of the Group and to allow them to participate in the growth of the Company. A share option scheme (the "Old Share Option Scheme") was adopted on 24th September 1998. On 26th August 2003, in order to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), a new share option scheme of the Company (the "New Share Option Scheme") was approved by the Company's shareholders. The Old Share Option Scheme was terminated on 26th August 2003 and prior to that termination date, there were no outstanding share options.

Pursuant to the New Share Option Scheme, the directors were authorised to grant options to any directors (including non-executive directors and independent non-executive directors) or employees of the Company or any of the Company's subsidiaries or any employees of any of its associated companies (the "Eligible Person") to take up options to subscribe for shares of HK\$0.01 each in the capital of the Company.

The option price per share payable on the exercise of an option as determined by the directors and being not less than the higher of (a) the average closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the day of offer of such option and (b) the closing price of a share as stated in the Stock Exchange's daily quotation sheets on the day of offer of such option, which must be a business day and (c) the nominal value of a share.

The total number of shares available for issue under the New Share Option Scheme is 544,232,517 which represents approximately 10% of the issued share capital of the Company at the date of this report. The maximum entitlement for any Eligible Person is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12 months period does not exceed one per cent. of the relevant class of shares in issue.

Upon acceptance of the option, the grantees shall inform the Company together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant within 21 days from the date of making offer of option.

There is no minimum period for which an option must be held before it can be exercised.

The New Share Option Scheme will remain in force for a period of 10 years commencing on 26th August 2003 to 25th August 2013.

Pursuant to the shareholders' approval at the special general meeting of the Company held on 20th December 2004, every 10 ordinary shares of HK\$0.01 each in the issued and unissued share capital of the Company have been consolidated into one consolidated share of HK\$0.10 each of the Company. Accordingly, the subscription prices payable and the number of consolidated shares entitled on exercise of the share options was adjusted in accordance with the New Share Option Scheme where the respective subscription prices was enlarged by 10 times and the total number of consolidated shares available for issue under the New Share Option Scheme was reduced to 1/10.

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At the special general meeting of the Company held on 8th March 2005, 32,653,950 share options were granted under the New Share Option Scheme to Mr. Yen Shiao Hua, Sheridan and Mr. Lam Wai Hung, Freddie and have an exercise price of HK\$0.196 and a life of ten years from the date of grant. As the grant of the options to Mr. Yen and Mr. Lam would result in the shares to be issued upon exercise of all options granted to each of Mr. Yen and Mr. Lam in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the total issued share capital of the Company, the grant of the options was approved by the shareholders by way of poll in the special general meeting with Mr. Yen and Mr. Lam and their respective associates abstaining from voting.

The closing price of the Company's shares on 7th March 2005, the day before the date of grant of the options, was HK\$0.17.

The following table discloses details of share options outstanding under the Company's share option scheme and movements during the year.

			2005	2004	2005	2004
	Date of grant	Exercise price	Number of options		Vested percentages	
Director	8th March 2005	HK\$0.196	21,769,300	–	4.0%	–
			21,769,300	–		
Other employee	8th March 2005	HK\$0.196	10,884,650	–	2.0%	–
			10,884,650	–		
			32,653,950	–		

No share options were exercised, lapsed and cancelled during the year (2004: Nil).

The directors are of the view that value of options granted during the period depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical basis of speculative assumptions. Accordingly, the directors believe that any calculation of the value of options will not be meaningful and may be misleading to shareholders.

DISTRIBUTABLE RESERVES

There is no distributable reserves of the Company at 31st March 2005, calculated under the Companies Act 1981 of Bermuda (as amended). The Company's share premium account, in the amount of HK\$31,904,000 at 31st March 2005 (2004: HK\$31,904,000), may be distributed in the form of fully paid bonus shares.

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PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 56.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

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

Executive directors:

Wang Ling	(appointed on 20th October, 2004)
Luk Chung Po	(appointed on 20th October, 2004)
Yen Shiao Hua, Sheridan	(appointed on 18th January, 2005)
Chen Wei Dong	(resigned on 18th November, 2004)
Chen Xiao Yong	(resigned on 20th August, 2004)
Wei Jianan	(resigned on 18th November, 2004)
Lam Man Kit	(resigned on 18th November, 2004)

Non-executive director:

Chen Su Xia	(resigned on 18th November, 2004)
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Independent non-executive directors:

Li Kai Fai, David	
Tang Shun Lam	
Yung Ha Kuk, Victor	(appointed on 18th October, 2004)

In accordance with the Company's bye-laws 101 and 110, Messrs. Wang Ling, Luk Chung Po, Yen Shiao Hua, Sheridan, Yung Ha Kuk, Victor and Li Kai Fai, David retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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DIRECTORS' SERVICE CONTRACTS

A service contract has been entered into between the Company and Mr. Yen and Mr. Yen will receive a remuneration of HK\$145,834 per month for a term of three years and will hold office until 17th January 2008, subject to the relevant provisions for retirement by rotation and re-election at the annual general meeting of the Company pursuant to the bye-laws of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

The Company entered into a distributorship agreement (the "1st Distributorship Agreement") with Shenzhen Wanji Medicine Products Co. Ltd. ("Shenzhen Wanji"), whereby the Company (for itself and its subsidiaries) has been appointed as the exclusive distributor of Shenzhen Wanji's products, being a range of health supplement products as detailed in the distributorship agreement, on a worldwide basis, except for the Mainland of The People's Republic of China, for a fixed term of 10 years. Shenzhen Wanji is controlled by Mr. Chen Wei Dong who is a brother of Ms. Chen Shini, the beneficial owner of Wealth Generator Limited, which was previously the ultimate holding shareholder of the Company. The aggregate purchase considerations of medicinal products under the 1st Distributorship Agreement for the year amounted to approximately HK\$220,000.

On 12th January 2004, another distributorship agreement (the "2nd Distributorship Agreement") was entered into between Wanji (Hong Kong) Trading Limited ("Wanji HK"), an indirect wholly-owned subsidiary of the Company, and Shangdong Confucius Family Group Co., Ltd. ("Confucius Family"), whereby Wanji HK has been appointed as the exclusive distributor of Confucius Family spirits as detailed in the 2nd Distributorship Agreement, on a worldwide basis, except for the mainland of the PRC, for a fixed term of 2 years. Confucius Family is also controlled by Mr. Chen Wei Dong and his associates. The aggregate purchase considerations of winery products under the 2nd Distributorship Agreement for the year amounted to approximately HK\$1,725,000.

On 18th November, 2004 Mr. Chen Wei Dong resigned as executive director of the Company, however, he remains as executive director of a subsidiary of the Company.

Except for the above and disclosed in note 28 to the accounts, no other contracts of significance in relation to the Group's businesses to which the Company, its holding company, its subsidiaries, its fellow subsidiaries was a party and in which the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March 2005, the interests of the directors and Mr. Yen Shiao Hua, Sheridan, the chief executive of the Company, in the shares, share options of the Company, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, were as follows:

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Long positions

(a) Ordinary shares of HK\$0.10 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Directors			
Mr. Wang Ling	Held by controlled corporation (note 1)	277,571,061	51.00%
Mr. Luk Chung Po	Held by controlled corporation (note 2)	277,571,061	51.00%
Mr. Yen Shiao Hua, Sheridan	Beneficial owner	21,769,300	4.0%

(b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Director			
Mr. Yen Shiao Hua, Sheridan	Beneficial owner	21,769,300	4.0%

Notes:

1. Mr. Wang Ling is deemed to be interested in 277,571,061 ordinary shares of the Company through the beneficial interests of Homeriver Holdings Incorporated.
2. Mr. Luk Chung Po is deemed to be interested in 277,571,061 ordinary shares of the Company through the beneficial interests of Compelling Vision Holdings Limited.

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DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

At no time during the year was the Company, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the Company or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at 31st March 2005 so far as is known to the directors, the following persons had interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Name of interested party	Number of share held	Percentage of issued share capital
CV Capital Partners Limited (Note 1)	277,571,061	51.00%
Compelling Vision Holdings Limited (Notes 1&2)	277,571,061	51.00%
Homeriver Holdings Incorporated (Notes 1&3)	277,571,061	51.00%
Mr. Luk Chung Po (Note 2)	277,571,061	51.00%
Ms. Mak Sai Kuen (Note 4)	277,571,061	51.00%
Mr. Wang Ling (Note 3)	277,571,061	51.00%
Ms. Wang Ling (Note 5)	277,571,061	51.00%
Asia Capitol Technology Partners Limited (Note 6)	27,755,800	5.10%
Asia Capitol Global Limited (Note 6)	27,755,800	5.10%
Ms. Leung Yee Man (Note 6)	27,755,800	5.10%
Mr. Lin, Samuel Jr. (Note 6)	27,755,800	5.10%
Quam Limited	43,502,800	7.99%

Notes:

- CV Capital Partners Limited, a company incorporated in the British Virgin Islands, has a shareholding structure as follows:

Compelling Vision Holdings Limited (Note 2)	52%
Homeriver Holdings Incorporated (Note 3)	42%
Able Corporate Group Limited	4%
Mr. Lam Wai Hung, Freddie	2%
- Compelling Vision Holdings Limited, an investment holding company incorporated in the British Virgin Islands, is beneficially owned by its two directors, as to 82% by Mr. Luk Chung Po and as to 18% by Mr. Chong Tin Yam, Alex.
- Homeriver Holdings Incorporated, an investment holding company incorporated in the British Virgin Islands, is wholly and beneficially owned by its sole director Mr. Wang Ling.

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4. Ms. Mak Sai Kuen is the wife of Mr. Luk Chung Po.
5. Ms. Wang Ling is the wife of Mr. Wang Ling.
6. Asia Capitol Technology Partners Limited, a company incorporated in the British Virgin Islands, is wholly-owned by Asia Capitol Global Limited, an investment holding company incorporated in the British Virgin Islands. Its director is Ms. Leung Yee Man. Asia Capitol Global Limited is in turn beneficially owned by its director, as to 99.01% by Ms. Leung Yee Man and as to 0.99% by Ms. Wong Mei Yuk, Mia.
7. Mr. Lin, Samuel Jr. is the husband of Ms. Leung Yee Man.

Save as disclosed above, so far as is known to the directors, as at 31st March 2005, no other persons had interests or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of turnover attributable to the Group's five largest customers combined accounted for approximately 27% (2004: 37%) and the largest customer contributed approximately 6% (2004: 10%) to the turnover of the Group, and the percentage of purchases attributable to the Group's five largest suppliers combined accounted for approximately 69% (2004: 68%) and the largest supplier contributed approximately 19% (2004: 18%) to the purchases of the Group.

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 and suppliers.

CONNECTED TRANSACTIONS

As disclosed in directors' interests in contracts above, the aggregate purchase considerations under the distributorship agreements do not exceed the threshold under Rule 14A(34) of the Listing Rules applicable in the year.

Details of terms of the connected transactions were set out in the Company's announcement dated 4th August 2004.

The independent non-executive directors have reviewed and confirmed that the connected transactions arising from the distributorship agreements in the year (i) had been entered into by the Group in the ordinary and usual course of its business; (ii) had been entered into on normal commercial terms and on terms that were fair and reasonable so far as the shareholders of the Company are concerned; and (iii) the value of the aggregate purchase considerations under the distributorship agreements does not exceed the thresholds under Rule 14A (34) of the Listing Rules applicable in the year.

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The auditors of the Company have reviewed the above connected transactions in the year and confirmed that the transactions (i) were approved by the Board of directors of the Company; (ii) had been entered into in accordance with the terms of the distributorship agreements; and (iii) had not exceeded the thresholds under Rule 14A (34) of the Listing Rules applicable in the year.

Save as disclosed herein and for the transactions disclosed in directors' interest in contracts above, there were no other connected transactions entered into by the Group during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, which specifies the best practice to be followed by the directors and non-executive directors throughout the year ended 31st March 2005, except that all non-executive directors of the Company have no fixed terms of office, but will retire from office on a rotation basis in accordance with the Company's bye-laws.

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

The board has established an audit committee (the "Audit Committee") which comprises all of the non-executive directors as members. The role of the Audit Committee is to monitor the Group's accounting and financial reporting practices and internal controls system. In addition, the board has also established a remuneration committee to advise the board on the annual remuneration packages of the directors of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company had any interest in any business which competes with the Group.

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in note 29 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire. A resolution for the appointment of auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wang Ling
Chairman

Hong Kong, 25th July 2005