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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Wai Yuen Tong Medicine Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**WAI YUEN TONG MEDICINE HOLDINGS LIMITED**

**( 位元堂藥業控股有限公司\* )**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 897)**

**DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RELATION TO THE DISPOSAL**

**Independent Financial Adviser to  
the Independent Board Committee and the Shareholders**

**Nuada Limited**

*Corporate Finance Advisory*

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All capitalised terms used in this circular have the same meanings set out in the section headed "Definition" of this circular.

A letter from the Board is set out on pages 3 to 8 of this circular. A letter from the Independent Board Committee is set out on pages 9 to 10 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Shareholders is set out on pages 11 to 17 of this circular.

A notice convening the SGM to be held at 4:00 p.m. on Monday, 18 January 2010 at 17/F., Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong is set out on pages 22 to 23 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

\* *For identification purpose only*

31 December 2009

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b>	
1. Introduction .....	3
2. Agreement .....	4
3. Information on Hunan Xiangya Pharmaceutical .....	5
4. Reasons for and Benefits of the Disposal .....	6
5. Listing Rule Implications .....	7
6. SGM .....	7
7. Recommendation .....	8
<b>Letter from the Independent Board Committee</b> .....	9
<b>Letter from the Independent Financial Adviser</b> .....	11
<b>Appendix — General Information</b> .....	18
<b>Notice of SGM</b> .....	22

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context otherwise requires:*

“Agreement”	the conditional sale and purchase agreement dated 10 December 2009 entered into between China Field and Hunan Fangsheng in respect of the Disposal
“Announcement”	the announcement made by the Company dated 15 December 2009 in respect of the Disposal
“associate(s)”	has the meaning given to it in the Listing Rules
“Board”	the board of the Directors
“China Field”	China Field Enterprises Limited, an investment holding company incorporated in Hong Kong with limited liability and an indirect non wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Company”	Wai Yuen Tong Medicine Holdings Limited (位元堂藥業控股有限公司*), an exempted company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Agreement
“connected person(s)”	has the meaning given to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Interest by China Field pursuant to the Agreement
“Group”	the Company together with its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hunan Fangsheng”	湖南方盛製藥股份有限公司 (Hunan Fangsheng Pharmaceutical Co Limited <sup>#</sup> ), a company established in the PRC
“Hunan Xiangya Group”	湖南湘雅集團有限公司 (Hunan Xiangya Group Limited <sup>#</sup> ), a company established in the PRC and principally engaged in investment holding and provision of medical services
“Hunan Xiangya Pharmaceutical”	湖南湘雅製藥有限公司 (Hunan Xiangya Pharmaceutical Co Limited <sup>#</sup> ), a company established in the PRC

\* *For identification purpose only*

# *Denotes English translation of a Chinese company or entity or address and is provided for identification purposes only*

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## DEFINITIONS

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“Independent Board Committee”	the independent board committee comprising all independent non-executive Directors, namely, Mr. Leung Wai Ho, Mr. Yuen Chi Choi, Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou established for the purpose of advising the Shareholders in relation to the Disposal
“Independent Financial Adviser”	Nuada Limited, a licenced corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity, which has been appointed as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Disposal
“Latest Practicable Date”	means 28 December 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	registered share capital of RMB18,762,450 of Hunan Xiangya Pharmaceutical owned by China Field, representing 64.2% of the entire equity interest of Hunan Xiangya Pharmaceutical as at the Latest Practicable Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held by the Company at 4:00 p.m. on Monday, 18 January 2010 for the purpose of considering and, if thought fit, approving the Disposal and the transactions contemplated thereunder
“Shareholder(s)”	the holder(s) of the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning given to it in the Listing Rules
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

*For illustration purpose only, amounts denominated in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.14.*



**WAI YUEN TONG MEDICINE HOLDINGS LIMITED**  
**( 位元堂藥業控股有限公司 \* )**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 897)**

*Executive Directors:*

Mr. Tang Ching Ho (*Chairman*)  
Mr. Chan Chun Hong, Thomas  
(*Managing Director*)  
Ms. Tang Mui Fun

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

Mr. Leung Wai Ho  
Mr. Yuen Chi Choi  
Mr. Siu Man Ho, Simon  
Mr. Cho Wing Mou

*Head office and principal*

*place of business:*  
5/F., Wai Yuen Tong Medicine Building  
9 Wang Kwong Road  
Kowloon Bay  
Kowloon  
Hong Kong

31 December 2009

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RELATION TO THE DISPOSAL**

**1. INTRODUCTION**

Reference is made to the Announcement regarding the discloseable and connected transactions in relation to the Disposal. On 10 December 2009, China Field, an indirect non wholly-owned subsidiary of the Company, and Hunan Fangsheng entered into the Agreement, pursuant to which China Field has agreed to dispose of and Hunan Fangsheng has agreed to purchase the Sale Interest, representing 64.2% of the entire equity interest of Hunan Xiangya Pharmaceutical, for a cash consideration of HK\$37.35 million.

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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The Disposal constitutes a discloseable transaction for the Company pursuant to Rule 14.06(2) of the Listing Rules. Given that Hunan Xiangya Group held 35.8% of the equity interest in Hunan Xiangya Pharmaceutical and 17% of the equity interest in China Field as at the Latest Practicable Date, the Disposal also constitutes a connected transaction for the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee has been formed to advise the Shareholders in relation to the Disposal. Nuada Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the Disposal.

The purpose of this circular is to provide you with (i) details of the Disposal; (ii) recommendation of the Independent Board Committee regarding the Disposal to the Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Shareholders regarding the Disposal; (iv) a notice convening the SGM and a proxy form; and (v) other information required under the Listing Rules.

## 2. AGREEMENT

### **Date**

10 December 2009

### **Parties**

- (i) China Field, an investment holding company and an indirect non wholly-owned subsidiary of the Company, as the vendor; and
- (ii) Hunan Fangsheng, a company principally engaged in manufacturing and sale of Chinese medicinal products, as the purchaser.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Hunan Fangsheng and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons.

### **Assets to be disposed of**

The Sale Interest, being 64.2% of the equity interest in Hunan Xiangya Pharmaceutical, free from any option, charge, lien, equity, encumbrance, rights of pre-emption or any other third party rights whatsoever.

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## LETTER FROM THE BOARD

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### **Consideration and payment**

The consideration of HK\$37.35 million for the Disposal was arrived at after arm's length negotiations between the parties to the Agreement with reference to the net assets of Hunan Xiangya Pharmaceutical as at 31 December 2008 and the results of Hunan Xiangya Pharmaceutical for the previous financial years.

Pursuant to the Agreement, the consideration shall be settled by cash, among which, (i) HK\$5 million is payable by Hunan Fangsheng within three days after signing of the Agreement (the "**First Installment**"); (ii) HK\$15 million shall be paid by Hunan Fangsheng within three days after the Disposal is approved by the Shareholders at the SGM and Hunan Fangsheng being satisfied with the results of the due diligence on Hunan Xiangya Pharmaceutical; (iii) HK\$13.35 million (the "**Third Installment**") shall be paid by Hunan Fangsheng within three days after completion of registration of changes and all necessary licences required by relevant laws and regulations; and (iv) the remaining, being HK\$4 million, shall be paid by Hunan Fangsheng within 12 months after the settlement of the Third Installment. The Company has received an acceptance bill due 11 June 2010 issued by China Merchants Bank in the amount of RMB4.4 million from Hunan Fangsheng for the settlement of the First Installment.

### **Conditions precedent**

Completion shall be conditional on (i) the Company having fulfilled the necessary requirements and having obtained the necessary approvals from the Shareholders under the Listing Rules with respect to the Disposal under the Agreement and the transactions contemplated thereunder; and (ii) satisfaction as to its due diligence on Hunan Xiangya Pharmaceutical conducted by Hunan Fangsheng. If such conditions cannot be fulfilled, the Agreement will lapse and neither Hunan Fangsheng nor China Field shall be obliged to complete the sale and purchase of the Sale Interest pursuant to the Agreement and China Field shall repay the consideration paid by Hunan Fangsheng within three days.

### **3. INFORMATION ON HUNAN XIANGYA PHARMACEUTICAL**

As at the Latest Practicable Date, Hunan Xiangya Pharmaceutical, a company established in the PRC, was principally engaged in the manufacturing and sale of Chinese and western medicinal products, including mainly gastric and cardiac medicines, in the PRC. As at the Latest Practicable Date, 35.8% equity interest in Hunan Xiangya Pharmaceutical was held by Hunan Xiangya Group and the remaining 64.2% equity interest was held by China Field.

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## LETTER FROM THE BOARD

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Set out below is the financial information of Hunan Xiangya Pharmaceutical for the two years ended 31 December 2008, which are prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC:

	<b>For the year ended 31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)
Revenue	18.4	20.6
Net profit before taxation	2.2	2.8
Net profit after taxation	2.2	2.8

  

	<b>As at 31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)
Total assets	44.7	44.8
Net assets (liabilities)	20.3	23.1

#### 4. REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in (i) the manufacturing, processing and retailing of traditional Chinese medicine which includes Chinese medicinal products sold under the brand name of “Wai Yuen Tong” and a range of products manufactured by selected medicinal materials with traditional prescription, mainly in the PRC and Hong Kong; and (ii) the processing and sale of western pharmaceutical products under the brand names of “Madame Pearl’s” and “Pearl’s”. For the avoidance of doubt, after the Disposal, the Group will continue to engage in the manufacturing, processing and retailing of the Group’s products under the brand names of “Wai Yuen Tong”, “Madame Pearl’s” and “Pearl’s”, while Hunan Xiangya Pharmaceutical will continue to manufacture and sell Chinese and western medicinal products under its own brand names which will no longer be owned by the Group after the Disposal.

Hunan Xiangya Pharmaceutical was an associated company of the Group in 2004 and has thereafter become a subsidiary of the Group since 2007. It has been at loss for the past years until 2007 when it started to make profit. The Directors consider that the Disposal will allow the Group to realise its investment in Hunan Xiangya Pharmaceutical in the current market conditions. In view of the substantial gain from the Disposal and after arm’s length negotiations between the parties to the Agreement with reference to the net asset value and historical financial results of Hunan Xiangya Pharmaceutical, the Directors consider that the consideration for the Disposal is fair and reasonable and is in the interests of the Group and the Shareholders as a whole.



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## LETTER FROM THE BOARD

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Upon Completion, the Company expects to record a gain on disposal of approximately HK\$30.6 million (before minority interest). The expected gain is based on the consideration of HK\$37.35 million and the net asset value of Hunan Xiangya Pharmaceutical of approximately RMB23.1 million (equivalent to approximately HK\$26.30 million) as recorded in its financial statements for the year ended 31 December 2008 prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC. According to the Group's accounting policies and the Hong Kong Accounting Standards, such net asset value was adjusted to approximately HK\$10.50 million due to the different accounting treatment of inventory, depreciation and amortisation in the PRC. Shareholders should note that the actual gain on the Disposal to be recorded by the Company will depend on the net asset value of Hunan Xiangya Pharmaceutical as at the date of Completion. Upon Completion, the results of Hunan Xiangya Pharmaceutical will cease to be accounted for as a subsidiary of the Company.

The net proceeds of the Disposal will be approximately HK\$37 million, out of which the Company currently intends to apply approximately HK\$25 million for repayment of interest-bearing debts and the remaining balance of approximately HK\$12 million for general working capital of the Company.

The Directors are of the view that the terms of the Agreement are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### 5. LISTING RULE IMPLICATIONS

The Disposal constitutes a discloseable transaction for the Company pursuant to Rule 14.06(2) of the Listing Rules.

Given that Hunan Xiangya Group held 35.8% of the equity interest in Hunan Xiangya Pharmaceutical and 17% of the equity interest in China Field as at the Latest Practicable Date, the Disposal also constitutes a connected transaction for the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

### 6. SGM

A notice convening the SGM to be held at 4:00 p.m. on Monday, 18 January 2010 at 17/F., Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong is set out on pages 22 to 23 of this circular for the purpose of considering and, if thought fit, passing the resolution in relation to the Disposal and the transactions contemplated under the Agreement.

The ordinary resolution to be proposed at the SGM shall be determined by way of poll by the Shareholders. To the best knowledge of the Directors, as at the Latest Practicable Date, none of Hunan Fangsheng, Hunan Xiangya Group and their respective associates

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## LETTER FROM THE BOARD

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held any shares of the Company and that no Shareholder had a material interest in the Disposal. Accordingly, no Shareholder is required to abstain from voting on the resolution in relation to the Disposal.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

### 7. RECOMMENDATION

The Independent Board Committee, which comprises all four independent non-executive Directors, has been established to advise the Shareholders in connection with the Disposal.

Nuada Limited has been appointed to advise the Independent Board Committee and the Shareholders on the terms of Disposal.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that the transactions contemplated under the Agreement are on normal commercial terms, the terms of the Disposal are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution in relation to the Disposal set out in the notice of SGM enclosed to this circular.

Your attention is also drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the additional information set out in the appendix to this circular and the notice of SGM.

Yours faithfully,  
For and on behalf of the Board  
**Wai Yuen Tong Medicine Holdings Limited**  
(位元堂藥業控股有限公司\*)  
**Tang Ching Ho**  
*Chairman*

\* For identification purpose only



**WAI YUEN TONG MEDICINE HOLDINGS LIMITED**  
**( 位元堂藥業控股有限公司\* )**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 897)**

31 December 2009

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RELATION TO THE DISPOSAL**

We refer to the circular dated 31 December 2009 issued by the Company (the “Circular”) of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Disposal which require approval by the Shareholders and to advise the Shareholders as to the fairness and reasonableness of the terms of the Disposal and to recommend how the Shareholders should vote at the SGM. Nuada Limited has been appointed to advise us, the Independent Board Committee, in relation to the terms of the Disposal.

We wish to draw your attention to the letter from the Board, as set out on pages 3 to 8 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee containing its advice in respect of the terms of the Disposal, as set out on pages 11 to 17 of the Circular.

\* *For identification purpose only*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Having taken into account of the principal factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we consider that the transactions contemplated under the Agreement are on normal commercial terms, the terms of the Disposal are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Disposal and the transactions contemplated thereunder.

Yours faithfully,

**Independent Board Committee**

**Yuen Chi Choi**

**Siu Man Ho, Simon**

**Leung Wai Ho**

**Cho Wing Mou**

*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice to the Independent Board Committee and the Shareholders from Nuada Limited setting out its opinion regarding the Disposal prepared for the purpose of incorporation in this circular.*

**Nuada Limited**  
*Corporate Finance Advisory*

17th Floor, BLINK  
111 Bonham Strand  
Sheung Wan  
Hong Kong

31 December 2009

*To the Independent Board Committee and the Shareholders of  
Wai Yuen Tong Medicine Holdings Limited*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSAL**

#### **INTRODUCTION**

We refer to our engagement as independent financial adviser to advise the Independent Board Committee and the Shareholders with respect to the Disposal, details of which are set out in the letter from the Board (the “**Board’s Letter**”) contained in the circular of the Company dated 31 December 2009 to the Shareholders (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 10 December 2009, China Field, an indirect non wholly-owned subsidiary of the Company, and Hunan Fangsheng entered into the Agreement, pursuant to which China Field has agreed to dispose of and Hunan Fangsheng has agreed to purchase the Sale Interest, representing 64.2% interest of Hunan Xiangya Pharmaceutical, for a consideration of HK\$37.35 million.

The Disposal constitutes a discloseable transaction for the Company pursuant to Rule 14.06(2) of the Listing Rules. Given that Hunan Xiangya Group held 35.8% of the equity interest in Hunan Xiangya Pharmaceutical and 17% of the equity interest in China Field as at the date of the Announcement, the Disposal also constitutes a connected transaction for the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

The Independent Board Committee has been established to advise the Shareholders in respect of the Disposal. We are appointed as the independent financial adviser to the Independent Board Committee and the Shareholders to give an independent opinion in this regard.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASES AND ASSUMPTIONS

In formulating our opinion, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed to us by the Directors, the Company and its management and the published market information made available to us. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Circular and provided to us by the Company and the Directors, and have been advised by the Directors that no material facts have been omitted from the information provided to us and referred to in the Circular. We have also assumed that all statements of intention of the Company or its Directors as set out in the Circular will be implemented.

In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the Directors, the Company and its management in connection with the Disposal and discussed with the management of the Group so as to assess the fairness and reasonableness of the terms of the Disposal. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Disposal. We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company and the Directors, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and continue to be true, complete and accurate at the date of the SGM. We have not, however, carried out any independent verification of the information and representations provided to and reviewed by us nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company, Hunan Xiangya Pharmaceutical and/or their respective subsidiaries or associates and/or any of their partners. We have not studied, investigated nor verified the validity of all legal aspects of, and procedural aspects for, the Disposal. We have further assumed that all material governmental, regulatory or other consents, rights, waivers, authorisations, clearances and approvals necessary for the effectiveness and implementation of the Disposal have been or will be obtained and will not be withdrawn without any adverse effect on the Group, the assets and liabilities of the Group or the contemplated benefits to the Group as derived from the Disposal.

Our opinion is necessarily based upon the financial, economic (including exchange rates and interest rates), market, regulatory and other conditions as they exist on, and the facts, information, representations and opinions made available to us as of the Latest Practicable Date. Our opinion does not in any manner address the Company's own decision to proceed with the Disposal. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

The principal factors and reasons we have taken into account in assessing the Agreement and in giving our advice to the Independent Board Committee and the Shareholders are set out below:

**Background and reasons for the Disposal**

The Group is principally engaged in (i) the manufacturing, processing and retailing of traditional Chinese medicine which includes Chinese medicinal products sold under the brand name of “Wai Yuen Tong” and a range of products manufactured by selected medicinal materials with traditional prescription, mainly in the PRC and Hong Kong; and (ii) the processing and sale of western pharmaceutical products under the brand names of “Madame Pearl’s” and “Pearl’s”.

Hunan Xiangya Pharmaceutical was an associated company of the Group in 2004 and has thereafter become a subsidiary of the Group since 2007. As at the date of the Announcement, 35.8% equity interest in Hunan Xiangya Pharmaceutical is held by Hunan Xiangya Group and the remaining 64.2% equity interest is held by China Field. As at the Latest Practicable Date, Hunan Xiangya Pharmaceutical, a company established in the PRC, is principally engaged in the manufacturing and sale of Chinese and western medicinal products, including gastric and cardiac medicines, in the PRC. As stated in the Board’s Letter, after the Disposal, the Group will continue to engage in the manufacturing, processing and retailing of the Group’s products under the brand names of “Wai Yuen Tong”, “Madame Pearl’s” and “Pearl’s”, while Hunan Xiangya Pharmaceutical will continue to manufacture and sell Chinese and western medicinal products under its own brand names which will no longer be owned by the Group after the Disposal.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Set out below is the financial information of Hunan Xiangya Pharmaceutical for the two years ended 31 December 2008, which are prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)
Revenue	18.4	20.6
Net profit before taxation	2.2	2.8
Net profit after taxation	2.2	2.8

  

	<b>As at 31 December</b>	
	<b>2007</b>	
	<b>2007</b>	<b>2008</b>
	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)
Total assets	44.7	44.8
Net assets (liabilities)	20.3	23.1

According to the Company, Hunan Xiangya Pharmaceutical has been at loss for the past years until 2007 when it started to make profit. As advised by the Company, the turnaround of Hunan Xiangya Pharmaceutical for the two years ended 31 December 2008 was mainly due to the improvement in operational efficiency and thus the profit margin for the period. However, there is no guarantee that the profitability of Hunan Xiangya Pharmaceutical would sustain, in particular given the profit margin of Hunan Xiangya Pharmaceutical is subject to fluctuations in the raw material cost which is beyond the control of the management. Notwithstanding Hunan Xiangya Pharmaceutical had generated profit for the recent two financial years, we consider that the Disposal would enable the Group to realise its investment in Hunan Xiangya Pharmaceutical and have cash inflow of approximately HK\$37 million, being the estimated net proceeds of the Disposal. The Company currently intends to apply approximately HK\$25 million for repayment of interest-bearing debts and the remaining balance of approximately HK\$12 million for general working capital. Accordingly, the cash inflow from the Disposal would enable to the Group to reduce its gearing and interest burden as well as improve its liquidity level. Furthermore, the Company expects to record a gain on disposal of approximately HK\$30.6 million (before minority interest) upon Completion. For details regarding the calculation of the expected gain on disposal in respect of the Disposal, please refer to the Board's Letter.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account (i) the Disposal would enable the Group to realise its investment in Hunan Xiangya Pharmaceutical and have cash inflow for reducing the Group's gearing and improving the Group's liquidity; and (ii) the expected gain on disposal in respect of the Disposal, we consider that the Disposal is in the interests of the Company and the Shareholders as a whole.

### Terms of the Agreement

Pursuant to the Agreement, China Field has agreed to dispose of and Hunan Fangsheng has agreed to purchase the Sale Interest, representing 64.2% interest of Hunan Xiangya Pharmaceutical, for a consideration of HK\$37.35 million, which shall be settled by cash, among which, (i) HK\$5 million is payable by Hunan Fangsheng within three days after signing of the Agreement; (ii) HK\$15 million shall be paid by Hunan Fangsheng within three days after the Disposal is approved by the Shareholders at the SGM and Hunan Fangsheng being satisfied with the results of the due diligence on Hunan Xiangya Pharmaceutical; (iii) HK\$13.35 million shall be paid by Hunan Fangsheng within three days after completion of registration of changes and all necessary licenses required by relevant laws and regulations (the "**Third Installment**"); and (iv) the remaining, being HK\$4 million, shall be paid by Hunan Fangsheng within 12 months after the settlement of the Third Installment. As stated in the Board's Letter, the consideration of HK\$37.35 million for the Disposal was arrived at after arm's length negotiations between the parties to the Agreement with reference to the net assets of Hunan Xiangya Pharmaceutical as at 31 December 2008 and the results of Hunan Xiangya Pharmaceutical for the previous financial years.

Based on the net asset value of Hunan Xiangya Pharmaceutical was approximately RMB23.1 million (equivalent to approximately HK\$26.3 million), as recorded in its financial statements for the year ended 31 December 2008 prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC as mentioned in the section headed "Background and reasons for the Disposal" above, the net asset value attributable to 64.2% equity interest of Hunan Xiangya Pharmaceutical amounted to approximately HK\$16.88 million (the "**Disposal NAV**"). As such, the consideration for the Disposal represents a premium of approximately 121.27% over the Disposal NAV. In addition, as advised by the Company, the aggregate original acquisition costs for the Sale Interest was HK\$24 million (the "**Original Acquisition Costs**"). As such, the consideration represents a premium of approximately 55.63% over the Original Acquisition Costs. As such, we consider that the consideration for the Disposal is fair and reasonable so far as the Company and the Shareholders are concerned. We note that the settlement of the consideration for the Disposal by installments as mentioned above is commercial decision determined after arms' length negotiation between the parties to the Agreement. Taking into account (i) the premium of approximately 121.27% represented by the consideration for the Disposal over the Disposal NAV; and (ii) the aggregate amount of HK\$33.35 million would have been received by the Group upon settlement of the Third Installment, which has already covered the Disposal NAV, with the last installment of HK\$4 million payable by Hunan Fangsheng within 12 months after the settlement of the Third Installment, we

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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consider that the payment terms of the consideration for the Disposal by installments pursuant the Agreement are commercially justifiable, on normal commercial terms, and fair and reasonable.

In assessing the fairness and reasonableness of the consideration of the Disposal, we have attempted to make reference to the price earnings multiples of all companies listed on the Stock Exchange which, we consider, are principally engaged in business similar to that of Hunan Xiangya Pharmaceutical and have made profits for their respective latest financial year (the “**Comparables**”), details of are summarised below:

Company name	Stock code	Principal business	Price earnings multiples (approximately) <i>(Note)</i>
Extrawell Pharmaceutical Holdings Ltd.	858	Marketing and distribution of pharmaceutical products, development, manufacture and sale of pharmaceutical products, commercial exploitation and development of genome-related technology, development of commercialization of oral insulin products	Trading of shares suspended
Jilin Province Huinan Changlong Bio-pharmacy Co. Ltd.	8049	Manufacture and distribution of biochemical medicines in the PRC	12.42 times
Hua Han Bio-Pharmaceutical Holdings	587	Research and development, manufacture and sale of gynecological medicine, feminine medicinal healthcare products and biopharmaceutical products in the PRC	11.28 times
China Pharmaceutical Group Ltd.	1093	Manufacture and sale of pharmaceutical products	7.85 times
United Gene High-Tech Group Ltd.	399	Manufacture and distribution of pharmaceutical products, health supplements in the PRC, and provision of gene testing services	4.60 times
Northeast Tiger Pharmaceutical Co. Ltd.	8197	Development, manufacture and sale of medicine products in the PRC	20.80 times

*Note:* Based on the financial results of the respective latest financial year and the respective closing share price on 10 December 2009 (being the date of the Agreement) of the Comparables.

*Data source:* Website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on the net profit after taxation of Hunan Xiangya Pharmaceutical for the year ended 31 December 2008 of approximately RMB2.8 million (equivalent to approximately HK\$3.19 million), the price earnings multiple represented by the consideration for the Disposal of HK\$37.35 million is approximately 11.71 times. As illustrated above, the price earnings multiples of the Comparables ranged from 4.60 times to 20.80 times. As such, the price earnings multiple represented by the consideration for the Disposal is within the range of price earnings multiples of the Comparables. As such, we consider that the consideration for the Disposal is fair and reasonable so far as the Company and the Shareholders are concerned.

Taking into account (i) the Disposal would enable the Group to realise its investment in Hunan Xiangya Pharmaceutical and have cash inflow for reducing the Group's gearing and improving the Group's liquidity; (ii) the expected gain on disposal in respect of the Disposal; (iii) the consideration for the Disposal represents a premium of approximately 121.27% over the Disposal NAV as well as a premium of approximately 55.63% over the Original Acquisition Costs; (iv) the aggregate amount of HK\$33.35 million would have been received by the Group upon settlement of the Third Installment, which has already covered the Disposal NAV, which we consider is commercially justifiable; and (v) the price earnings multiple represented by the consideration for the Disposal is within the range of price earnings multiples of the Comparables, we consider that the Disposal is in the interests of the Company and the Shareholders as a whole, and the terms of the Disposal are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned.

### RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that the Disposal, which is not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the Shareholders and advise the Independent Board Committee to recommend the Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Disposal.

Yours faithfully,  
For and on behalf of  
**Nuada Limited**  
**Po Chan**  
*Executive Director*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) The Directors' and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange:

*Long positions in underlying shares of share options of the Company:*

Name of Director	Number of share options outstanding	Number of total underlying shares	Approximate percentage of the Company's total issued share capital (Note 2) %
Ms. Tang Mui Fun (Note 1)	1,950,000	1,950,000	0.03

*Notes:*

- 650,000 share options were granted on 3 January 2007 at an exercise price of HK\$0.415 per share, 650,000 share options were granted on 2 January 2008 at an exercise price of HK\$0.226 per share and 650,000 share options were granted on 8 January 2009 at an exercise price of HK\$0.145 per share. The aforesaid share options were vested as follows:
 

On 1st anniversary of the date of grant	30% vest
On 2nd anniversary of the date of grant	Further 30% vest
On 3rd anniversary of the date of grant	Remaining 40% vest
- The percentage shown was based on the 6,071,939,188 shares of the Company in issue as at the Latest Practicable Date.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of the Company**

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, none of any other persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or had any option in respect of such capital:

*(i) Long positions in the shares of the Company:*

Name of Shareholder	Number of shares	Approximate percentage of the Company's total issued share capital (Note 2) %
Rich Time Strategy Limited (“ <b>Rich Time</b> ”) (Note 1)	527,009,324	8.68
Wang On Enterprises (BVI) Limited (“ <b>WOE</b> ”) (Note 1)	527,009,324	8.68
Wang On Group Limited (“ <b>WOG</b> ”) (Note 1)	527,009,324	8.68
Ruan Yuan	450,500,102	7.42
Zhang Ming	450,500,102	7.42

*Notes:*

- (1) Rich Time is wholly owned by WOE, which is wholly owned by WOG. WOG and WOE are deemed to be interested in 527,009,324 shares in the Company held by Rich Time.
- (2) The percentages shown were based on the 6,071,939,188 shares of the Company in issue as at the Latest Practicable Date.

*(ii) Interest in subsidiaries of the Company:*

Name of subsidiary	Name of shareholder	Capacity	Approximate shareholding percentage %
China Field	Hunan Xiangya Group	Beneficial owner	17
Hunan Xiangya Pharmaceutical	Huana Xiangya Group	Beneficial owner	35.8

### 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation other than statutory compensation).

#### 4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder) was interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

#### 5. INTEREST IN ASSETS AND CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date,

- (a) none of the Directors had any interest, either direct or indirect, in any assets which had, since 31 March 2009 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested which was significant in relation to the business of the Group.

#### 6. QUALIFICATION AND CONSENT

The name and qualifications of the expert who has given opinion or advice to the Company which is contained in this circular and who has been named in this circular are set out below:

<b>Name</b>	<b>Qualification</b>
Nuada Limited	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Nuada Limited has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Nuada Limited was not interested in any share of the Company or share in any member of the Group nor did it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any share or share in any member of the Group.

As at the Latest Practicable Date, Nuada Limited had no direct or indirect interest in any assets which had been, since 31 March 2009, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date to which the latest published audited accounts of the Group were made up.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. on any business day (excluding Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong at 5/F., Wai Yuen Tong Medicine Building, 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the Agreement;
- (b) the letter from the Independent Financial Adviser; and
- (c) the written consent of the Independent Financial Adviser referred to in the section headed “Qualification and consent” in this Appendix.

**9. MISCELLANEOUS**

The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.



**WAI YUEN TONG MEDICINE HOLDINGS LIMITED**  
**( 位元堂藥業控股有限公司\* )**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 897)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Wai Yuen Tong Medicine Holdings Limited (位元堂藥業控股有限公司\*) (the “**Company**”) will be held at 17/F., Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong on Monday, 18 January 2010 at 4:00 p.m. (the “**SGM**”) for the purpose of considering and, if thought fit, passing the following resolution, with or without modification, as ordinary resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT:**

- (a) the conditional sale and purchase agreement dated 10 December 2009 (the “**Agreement**”) in respect of the disposal of the registered share capital of RMB18,762,450 of 湖南湘雅製藥有限公司 (Hunan Xiangya Pharmaceutical Co Limited<sup>#</sup>) (“**Hunan Xiangya Pharmaceutical**”), representing 64.2% of the entire equity interest of Hunan Xiangya Pharmaceutical, entered into between China Field Enterprises Limited and 湖南方盛製藥股份有限公司 (Hunan Fangsheng Pharmaceutical Co Limited<sup>#</sup>) (details have been set out in the circular of the Company dated 31 December 2009), a copy of which has been produced to the meeting marked “A” and initialled by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any one director of the Company (the “**Directors**”) or any two Directors (if affixation of the common seal is necessary) or any delegate(s) authorised by such Director(s) be and is/are hereby authorised to sign and/or execute all such other documents, instruments or agreements and to do or take all such actions or things as such Director(s) consider(s) necessary or desirable to implement and/or give effect to the terms of the Agreement and the transactions contemplated thereunder.”

By Order of the Board  
**Wai Yuen Tong Medicine Holdings Limited**  
(位元堂藥業控股有限公司\*)  
**Mak Yuen Ming, Anita**  
*Company Secretary*

Hong Kong, 31 December 2009

\* *For identification purpose only*

# *Denotes English translation of a Chinese company or entity or address and is provided for identification purposes only*



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## NOTICE OF SGM

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*Notes:*

- (1) A shareholder of the Company entitled to attend and vote at the SGM convened by the above notice or any adjournment thereof (as the case may be), is entitled to appoint one or more than one proxy to attend and to vote in his/her stead. A proxy need not be a shareholder of the Company.
- (2) In order to be valid, the form of proxy, together with any power of attorney or other authority, under which it is signed, or a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting at the SGM or any adjournment thereof (as the case may be), if they so wish and in such event, the form of proxy shall be deemed to be revoked.
- (3) Where there are joint holders of any shares, any one of such joint holders may vote at the SGM either personally or by proxy in respect of such shares as if he/she were solely entitled thereto provided that if more than one of such joint holders be present at the SGM whether personally or by proxy, the person whose name stands first on the register of members of the Company in respect of such shares shall be accepted to the exclusion of the votes of the other joint holders.
- (4) All resolution proposed at the SGM shall be voted by way of poll and no shareholder of the Company is required to abstain from voting on any resolution proposed at the SGM.