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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 or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Wai Yuen Tong Medicine Holdings Limited (位元堂藥業控股有限公司\*), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, 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 circular.

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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)**

- (1) PROPOSED PLACING OF CONVERTIBLE NOTE;**  
**(2) REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES;**  
**AND**  
**(3) NOTICE OF THE SGM**

**Placing Agent**



**KINGSTON SECURITIES LIMITED**

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

**Nuada Limited**

*Corporate Finance Advisory*

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A notice convening the SGM to be held at Room 3503, 35th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Thursday, 26 July 2007 at 10:00 a.m. is contained on pages 20 to 23 of this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as practicable and in any event not less 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 should you so wish.

**The CN Placing may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

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## DEFINITIONS

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

“associate”	has the same meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Business Day”	any day (excluding a Saturday) on which banks in Hong Kong are generally open for business throughout their normal business hours
“CN Placing”	placing of the Convertible Note pursuant to the terms of the CN Placing Agreement
“CN Placing Agreement”	the conditional placing agreement entered into between the Company and the Placing Agent dated 11 June 2007 in relation to the CN Placing
“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
“connected person(s)”	has the same meaning ascribed to it in the Listing Rules
“Conversion Share(s)”	new Share(s) falling to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Note
“Convertible Note”	the convertible note of an aggregate principal amount of HK\$250 million to be issued by the Company pursuant to the CN Placing Agreement
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors to exercise the power of the Company to issue securities up to 20% of the Company’s issued share capital as at the date of the relevant annual general meeting held on 17 August 2006, representing 279,269,537 Shares
“General Mandate (as refreshed)”	the general mandate to be refreshed and granted to the Directors to exercise the power of the Company to issue securities up to 20% of the Company’s issued share capital as at the date of the SGM

\* For identification purpose only

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Leung Wai Ho, Mr. Yuen Chi Choi, Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou, the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in relation to the refreshment of the General Mandate
“Independent Financial Adviser”	Nuada Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the refreshment of the General Mandate
“Independent Shareholders”	the Shareholders other than Wang On and its associate(s) and those who are required to abstain from voting at the SGM under the Listing Rules and their respective associates (if any)
“Joint Announcement”	the announcement dated 11 June 2007 made by the Company and Wang On in relation to, amongst other things, the Share Placing and the proposed CN Placing
“Last Trading Date”	7 June 2007, being the last trading day for the Shares before the date of the Joint Announcement
“Latest Practicable Date”	4 July 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placee(s)”	any individual(s), institutional or other professional investor(s) or any of their respective subsidiaries or associates procured by the Placing Agent to subscribe for any Convertible Note pursuant to the Placing Agent’s obligations under the CN Placing Agreement

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## DEFINITIONS

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“Placing Agent”	Kingston Securities Limited, a deemed licensed corporation to carry on business in types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance, and asset management) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“PRC”	the People’s Republic of China
“SGM”	the special general meeting of the Company to be held for considering and, if thought fit, approving the CN Placing, the refreshment of the General Mandate and the transactions contemplated thereunder, or any adjournment thereof (as the case may be)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Option(s)”	the option(s) to subscribe for Share(s) under the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 18 September 2003
“Share Placing”	placing of 279,000,000 new Shares pursuant to the terms of the share placing agreement dated 11 June 2007 entered into between the Company and the Placing Agent
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the same meaning ascribed to it in the Listing Rules
“Wang On”	Wang On Group Limited (宏安集團有限公司*), an exempted company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

\* For identification purpose only

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Tang Ching Ho (*Chairman*)

Mr. Chan Chun Hong, Thomas  
(*Managing Director*)

*Independent non-executive Directors:*

Mr. Leung Wai Ho

Mr. Siu Man Ho, Simon

Mr. Yuen Chi Choi

Mr. Cho Wing Mou

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place  
of business:*

5th Floor

Wai Yuen Tong Medicine Building

9 Wang Kwong Road

Kowloon Bay

Kowloon

Hong Kong

9 July 2007

*To the Shareholders,*

Dear Sir or Madam,

**(1) PROPOSED PLACING OF CONVERTIBLE NOTE;  
(2) REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES;  
AND  
(3) NOTICE OF THE SGM**

#### INTRODUCTION

The purpose of this circular is to provide you with information relating to (i) the proposed placing of the Convertible Note; (ii) the refreshment of the General Mandate; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders on the refreshment of the General Mandate; (iv) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the refreshment of the General Mandate; and (v) a notice convening the SGM.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### THE CN PLACING AGREEMENT

#### Date

11 June 2007

#### Parties involved

The Placing Agent and the Company

#### The Placing Agent

Kingston Securities Limited is the placing agent for the CN Placing and will be entitled to receive a placing commission of 1.5% of the gross proceeds of the Convertible Note.

The Placing Agent and its ultimate beneficial owners are independent of and not connected persons of the Company and its connected persons.

#### Placees

The Placing Agent agreed to place the Convertible Note, on a fully underwritten basis, to not fewer than six Placees who and whose ultimate beneficial owners are to be independent of and not connected persons of the Company and its connected persons. Assuming the Convertible Note is exercised immediately after the CN Placing, none of the individual Placee will become a substantial Shareholder.

#### **Conversion Shares falling to be issued upon exercise in full of the conversion rights attaching to the Convertible Note**

Assuming that the maximum aggregate principal amount of the Convertible Note (i.e. HK\$250,000,000) are placed under the CN Placing, upon exercise in full of the conversion rights attaching to the Convertible Note, an aggregate of 431,034,482 Conversion Shares would fall to be allotted and issued by the Company at the initial conversion price of HK\$0.58 per Conversion Share represents (i) approximately 25.73% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 20.46% of the issued share capital of the Company as enlarged by the CN Placing.

The Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Note will, when issued, rank *pari passu* with all other Shares in issue as at the date of allotment and issue of such Conversion Shares.

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## LETTER FROM THE BOARD

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### Conditions of the CN Placing

Completion of the CN Placing is conditional upon:

- (i) the Listing Committee of the Stock Exchange granting approval of the issue for the Convertible Note (if required) and the listing of, and permission to deal in the Conversion Shares falling to be issued on the exercise of the conversion rights attaching to the Convertible Note either unconditionally or subject to conditions to which the Placing Agent may accept; and
- (ii) the Shareholders passing at the SGM the resolution(s) approving the allotment and issue the Conversion Shares falling to be issued upon the exercise of the conversion rights attaching to the Convertible Note.

If any of the above conditions are not fulfilled at or before 5:00 p.m. (Hong Kong time) on 10 August 2007 or such later time or date as may be agreed between the Placing Agent and the Company in writing, the Placing Agent may, at any time thereafter, terminate its obligations under the CN Placing Agreement by notice in writing to the Company, whereupon the obligations of the Placing Agent under this CN Placing Agreement shall forthwith cease and terminate and neither the Company nor the Placing Agent shall have any claim against any of the others, save for any antecedent breach thereof.

### Completion of the CN Placing

Completion of the CN Placing will take place within five Business Days after the CN Placing Agreement becomes unconditional.

### PRINCIPAL TERMS OF THE CONVERTIBLE NOTE

Issuer:	The Company
Aggregate principal amount:	HK\$250,000,000
Maturity date:	The date falling on the second anniversary of the date of issue of the Convertible Note. Any unredeemed and unconverted Convertible Note will be redeemed at an amount equal to the principal amount of the Convertible Note together with any accrued interest in cash.



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## LETTER FROM THE BOARD

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Initial conversion price: HK\$0.58 per Conversion Share

The initial conversion price was determined on an arm's length basis between the Company and the Placing Agent with reference to, among other things, the recent performance of the Share price.

The initial conversion price is subject to adjustments, including consolidation or subdivision of Shares, rights issue, extraordinary stock or cash distribution, and other dilutive events, which may or may not occur.

The conversion price of HK\$0.58 per Share represents: (i) a premium of approximately 3.57% over the closing prices of HK\$0.56 per Share on the Last Trading Day; (ii) a premium of approximately 29.18% over the average of the closing prices of HK\$0.449 per Share in the last five trading days prior to the date of the CN Placing Agreement; (iii) a premium of approximately 51.04% over the average of the closing price of HK\$0.384 per Share in the last ten trading days prior to the date of the CN Placing Agreement; and (iv) a premium of approximately 17.17% over the closing price of HK\$0.495 per Share on the Latest Practicable Date.

The holders of the Convertible Note shall have the right at any time after the date of issue of the Convertible Note to convert any outstanding amount of the Convertible Note at denomination of HK\$500,000 each into the Conversion Shares at the then applicable conversion price, unless the amount remaining on exercise of the conversion rights shall be less than HK\$500,000 and in such event, the entire outstanding amount shall be converted.

Ranking: The Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with the other Shares in issue as at the date of issue of such Conversion Shares.

Interest: 1% per annum payable half yearly in arrears

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## LETTER FROM THE BOARD

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- Transferability:** The Convertible Note may be transferred to any third party without the prior written consent of the Company. None of the Convertible Note may be transferred to a connected person of the Company. The Company shall give notice to the Stock Exchange for any transfer of the Convertible Note and shall state whether any connected person of the Company is involved.
- Redemption:** At any time after the six months of the issuance of the Convertible Note, the Company shall be entitled at its discretion by giving not less than 30 days notice to the holders of the Convertible Note to redeem all (but not some only) outstanding Convertible Note.
- Voting rights:** The Convertible Note do not confer any voting rights at general meetings of the Company on the holder(s) of the Convertible Note.
- Events of default:** The events of default provisions which provide that on the occurrence of certain events of default specified in the Convertible Note (e.g. liquidation), each of the holders of the Convertible Note shall be entitled to demand for immediate repayment of the principal amount outstanding and accrued but unpaid interest under the relevant Convertible Note.
- Listing:** No application will be made for the listing of and permission to deal in, the Convertible Note on the Stock Exchange or any other stock exchange.

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## LETTER FROM THE BOARD

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### EFFECTS ON SHAREHOLDING STRUCTURE

The changes in the shareholding structure of the Company as a result of full exercise of the Convertible Note assuming immediately upon completion of the CN Placing are illustrated in the table below on the basis that there are no other changes in the shareholding and issued share capital of the Company:

	As at the Latest Practicable Date		Immediately after completion of the CN Placing (assuming full exercise of the Convertible Note)	
	<i>Number of Shares</i>	<i>Approximate</i>	<i>Number of Shares</i>	<i>Approximate</i>
		%		%
Wang On ( <i>Note 1</i> )	474,209,324	28.31	474,209,324	22.51
Public Shareholders				
Places under the CN Placing ( <i>Note 2</i> )	–	–	431,034,482	20.46
Other public Shareholders	<u>1,201,138,364</u>	<u>71.69</u>	<u>1,201,138,364</u>	<u>57.03</u>
Sub-total	<u>1,201,138,364</u>	<u>71.69</u>	<u>1,632,172,846</u>	<u>77.49</u>
<b>Total</b>	<b><u>1,675,347,688</u></b>	<b><u>100.00</u></b>	<b><u>2,106,382,170</u></b>	<b><u>100.00</u></b>

*Notes:*

1. The 474,209,324 Shares were held by Rich Time Strategy Limited. Rich Time Strategy Limited is wholly owned by Wang On Enterprises (BVI) Limited, and Wang On Enterprises (BVI) Limited is a wholly-owned subsidiary of Wang On.
2. These Shares would be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Note.

As at the Latest Practicable Date, the existing authorised share capital of the Company consists of 60,000,000,000 Shares out of which 1,675,347,688 Shares are issued and fully paid up.

As at the Latest Practicable Date, there is an outstanding convertible note with an aggregate principal amount of £590 convertible into 67 new Shares upon exercise in full at the conversion price of £8.79 per Share.

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## LETTER FROM THE BOARD

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### OTHER INFORMATION ON THE CN PLACING

#### Reasons for the CN Placing

The Directors consider the timing of the fund raising by the CN Placing is appropriate as the recent stock market has shown strong sentiment and there is imminent demand for the Shares as the investors are interested and confident about the business prospect of the Company. The Directors consider that notwithstanding that the CN Placing will result in the dilution of the existing shareholding interest of the Shareholders, the CN Placing represents an opportunity to raise capital for the Company to enhance the general working capital base and to further strengthen the existing business of the Group.

#### Use of proceeds from the CN Placing

The gross proceeds from the CN Placing will be HK\$250 million and the net proceeds of approximately HK\$245.5 million from the CN Placing is intended to be used as to approximately HK\$180 million for other potential acquisition of new investment or business as and when appropriate and the remaining balance for general working capital of the Group. As at the Latest Practicable Date, no such investment or business has been identified by the Company.

#### Fund raising activities in the past twelve months

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the date of the Joint Announcement and up to the Latest Practicable Date:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
11 June 2007	Placing of 279,000,000 new Shares	HK\$124,100,000	For the expansion of retail network in the PRC and Hong Kong and the general working capital	Not yet utilised

#### REFRESHMENT OF THE GENERAL MANDATE

Following completion of the Share Placing on 29 June 2007, 279,000,000 new Shares were allotted and issued under the General Mandate and the General Mandate has been substantially utilised. The Directors propose to convene the SGM to seek the approval of the Independent Shareholders for the refreshment of the General Mandate to authorise the Directors to further issue securities not exceeding 20% of the issue share capital of the Company as at the date of passing of such resolution (including the 279,000,000 new Shares allotted and issued upon completion of the Share Placing on 29 June 2007), in order to maintain the Company's flexibility for any possible fund raising activities, future investment project(s) or acquisitions, including but not limited to further placing of Shares.

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## LETTER FROM THE BOARD

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### GENERAL

The Group is principally engaged in (i) 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) processing and retailing western pharmaceutical products under the brandname of "Madame Pearl's".

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Conversion Shares.

### THE SGM

Approval from the Shareholders will be sought at the SGM for (i) the proposed placing of Convertible Note and (ii) the refreshment of the General Mandate. According to the Listing Rules, any refreshment of the General Mandate made before the next annual general meeting requires any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates to abstain from voting in favour of the ordinary resolution for the refreshment of the General Mandate. Upon completion of the Share Placing, the Company does not have a single controlling Shareholder (as defined in the Listing Rules). However, Wang On and its associate(s) will abstain from voting at the SGM in relation to the resolution to approve the refreshment of the General Mandate by virtue of the fact that Mr. Chan Chun Hong, Thomas and Mr. Tang Ching Ho are the executive directors of the Company, and together with Ms. Yau Yuk Yin, the spouse (and an associate) of Mr. Tang Ching Ho, they also hold all the executive director's positions on the board of Wang On for the time being. The resolution in respect of the refreshment of the General Mandate will be voted by way of a poll by the Independent Shareholders at the SGM. As at the Latest Practicable Date, 474,209,324 Shares indirectly held by Wang On represents 28.31% of the existing issued share capital of the Company.

Subject to the approval of the Independent Shareholders for the refreshment of the General Mandate, and assuming that no further Shares will be issued or repurchased by the Company and no Share Options will be exercised on or prior to the date of the SGM, the Shares in issue as at the date of passing of the relevant resolution would be 1,675,347,688 Shares, which means that under the General Mandate (as refreshed) the Directors would be authorised to allot and issue a maximum of 335,069,537 Shares if the General Mandate is refreshed.

Set out on pages 20 to 23 of this circular is the notice convening the SGM to be held at Room 3503, 35th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Thursday, 26 July 2007 at 10:00 a.m. at which ordinary resolutions will be proposed to approve (i) the CN Placing; and (ii) the refreshment of the General Mandate. A form of proxy for use at the SGM is accompanied with this circular.

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## LETTER FROM THE BOARD

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Whether or not you intend to attend and vote at the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as practicable but in any event, not less than 48 hours before the time appointed for holding the SGM. Such form of proxy for use at the SGM is also published on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of the Company (<http://www.wyth.net>). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

### RECOMMENDATION OF THE BOARD

The Directors are of the opinion that (i) the proposed placing of the Convertible Note; and (ii) the refreshment of the General Mandate are in the interests of the Company and its Shareholders as a whole and the terms of which are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors recommend that the Shareholders should vote in favour of the relevant resolutions to be proposed at the SGM.

In addition, your attention is also drawn to the letter from the Independent Board Committee as set out on page 14 of this circular which contains its recommendation to the Independent Shareholders in relation to the refreshment of the General Mandate, which was given after the Independent Board Committee has considered the advice of the Independent Financial Adviser thereon. The letter from the Independent Financial Adviser is set out on pages 15 to 19 of this circular containing the principal factors and reasons it has taken into consideration and its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the refreshment of the General Mandate.

### PROCEDURES FOR DEMANDING A POLL

The following sets out the procedures by which the Shareholders may demand a poll at the SGM.

Pursuant to bye-law 66 of the bye-laws of the Company, an ordinary resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of the meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

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## LETTER FROM THE BOARD

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- (d) by a Shareholder or Shareholders present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

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\*)  
**Chan Chun Hong, Thomas**  
*Managing Director*

\* For identification purpose only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

9 July 2007

*To the Independent Shareholders*

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the refreshment of the General Mandate, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 9 July 2007 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the refreshment of the General Mandate and the terms of the refreshment of the General Mandate and the advice of the Independent Financial Adviser in relation thereto as set out on pages 15 to 19 of the Circular, we are of the view that the refreshment of the General Mandate is in the interests of the Company and its Shareholders as a whole and the terms of the General Mandate (as refreshed) are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the refreshment of the General Mandate.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Leung Wai Ho**

*Independent non-executive*

*Director*

**Yuen Chi Choi**

*Independent non-executive*

*Director*

**Siu Man Ho, Simon**

*Independent non-executive*

*Director*

**Cho Wing Mou**

*Independent non-executive*

*Director*

\* For identification purpose only



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Nuada Limited dated 9 July 2007 prepared for incorporation in this Circular.*

**Nuada Limited**

*Corporate Finance Advisory*

7th Floor, New York House  
60 Connaught Road Central  
Hong Kong

9 July 2007

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

Dear Sirs,

### **PROPOSED REFRESHMENT OF GENERAL MANDATE TO ISSUE AND ALLOT SHARES**

#### **INTRODUCTION**

We refer to the circular to the Shareholders dated 9 July 2007 (the "Circular") issued by the Company and our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed refreshment of general mandate to issue and allot shares of the Company, details of which are set out in the letter from the Board contained in the Circular (the "Letter"). Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Pursuant to Rules 13.36(4) of the Listing Rules, the refreshment of the General Mandate of the Company is subject to the approval of the Independent Shareholders by way of poll at the SGM with the controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding the independent non-executive Directors) and the chief executive and their respective associates abstain from voting in favour. As at the Latest Practicable Date, the Company does not have a single controlling Shareholder (as defined in the Listing Rules). However, as stated in the Letter, Wang On and its associate(s) will abstain from voting at the SGM in relation to the resolution to approve the refreshment of the General Mandate by virtue of fact that Mr. Chan Chun Hong, Thomas and Mr. Tang Ching Ho are the executive directors of the Company, and together with Ms. Yau Yuk Yin, the spouse (and an associate) of Mr. Tang Ching Ho, they also hold all the executive director's positions on the board of Wang On for the time being. The resolution in respect of the refreshment of the General Mandate will be voted by way of a poll by the Independent Shareholders at the SGM. As at the Latest Practicable Date, 474,209,324 Shares indirectly held by Wang On represents 28.31% of the existing issued share capital of the Company.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the proposed refreshment of the General Mandate.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information, statements, opinions and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided sufficient information to enable us to reach an informed view regarding the proposed refreshment of the General Mandate, and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information (which is known to the Company) have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the proposed refreshment of the General Mandate, we have taken the following principal factors and reasons into consideration:

#### **Background**

At the annual general meeting of the Company convened on 17 August 2006, the Directors were granted the General Mandate to allot and issue up to 279,269,537 new Shares, representing 20% of the then issued share capital of the Company. As at the Latest Practicable Date, the General Mandate has been substantially utilised as to 279,000,000 Shares in association with the Share Placing. Other than the Share Placing and the CN Placing, the Company has not conducted any fund raising activities in the past twelve months. To maintain the financial flexibility necessary for the Group's future business development, the Directors therefore propose to seek the approval of the Independent Shareholders at the SGM for the refreshment of the General Mandate.

The Company had an aggregate of 1,675,347,688 Shares in issue as at the Latest Practicable Date. Subject to the passing of the ordinary resolution(s) for the approval of the refreshment of the General Mandate and assuming no Shares are issued and/or repurchased by the Company between the Latest Practicable Date and the date of the SGM, the Company would be allowed under the General Mandate (as refreshed) to allot and issue up to 335,069,537 Shares.

### **Reasons for the refreshment of the General Mandate**

As advised by the Company, the Directors consider that equity financing to be an important avenue of resources to the Group since it does not create any interest paying obligations on the Group. While the Board considers that, except for the CN Placing, there is no immediate funding need for the Group's current operations and there is currently no concrete proposal presented by potential investors for investment in Shares, the Board proposes to seek approval of the Independent Shareholders at the SGM for the refreshment of the General Mandate such that should future funding needs arise or attractive terms for investment in Shares become available from potential investors, the Board will be able to respond to the market and such investment opportunities promptly.

#### *Flexibility in financing alternatives*

The Group is principally engaged in (i) 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) processing and retailing of western pharmaceutical products under the brandname of "Madame Pearl's". As stated in the interim report 2006 of the Company, the Company believes that its effort in brand loyalty building, effective operation and financial strategies and effective distribution networks will support the growth of the Group allow them to gain access to additional business opportunities that may be presented to the Group in the future. Given the General Mandate has been substantially utilized, may any investment opportunities arise that would require the issuance of new Shares and specific mandate may have to be sought in this respect, the Directors are uncertain as to whether the requisite approval from Shareholders or independent Shareholders, as the case may be, could be obtained in a timely manner. In addition, the General Mandate (as refreshed) offers an opportunity for the Directors to capture a favourable equity market condition to raise funds by issuing new Shares.

Notwithstanding the fact that the Group had no immediate funding need for its current operations and there is currently no concrete proposal presented by potential investors for investment in Shares, except for the CN Placing, the Directors believe that the General Mandate (as refreshed) would offer the Group higher flexibility to capture investment opportunities which may arise at any time and require prompt investment decision by the Group. The Directors also consider that the General Mandate (as refreshed) would provide the Company with the maximum flexibility to raise additional capital for any future investment or as working capital of the Group.

In light of the above, we are of the opinion that the refreshment of the General Mandate would provide the Company with the necessary flexibility essential for fulfilling any possible funding needs for future business development and/or investment decisions in a timely manner. As such, we are of the view that the refreshment of the General Mandate will be in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Other financing alternative*

As advised by the Company, in appropriate circumstances, the Group will also consider other financing methods such as debt financing or internal cash resources to fund its future business development. While sufficient for its present requirements, there is no certainty that such cash resources will be adequate or other financing alternatives will be available for appropriate investment that may be identified by the Company in the future. In addition, as debt financing may incur interest burden to the Group, the Directors consider that equity financing such as issuance of new Shares for cash or equity swaps may be an appropriate means to fund such investments and/or acquisitions and provide additional working capital for the future development and expansion of the Group, given the Group's financial position, capital structure, cost of funding and the then financial market condition.

We consider that the General Mandate (as refreshed) will provide the Company with an additional alternative and it is reasonable for the Company to have the flexibility in deciding the financing methods for its future development, including equity issuance. As such, we are of the view that the refreshment of General Mandate will be in the interests of the Company and the Shareholders as a whole.

### **Potential dilution to shareholding of the public Shareholders**

Set out below is a table showing (i) the shareholding structure of the Company as at the Latest Practicable Date; and (ii) for illustrative purpose, the potential dilution effect upon full utilisation of the General Mandate (as refreshed), assuming no other Shares are issued and/or repurchased by the Company.

	As at the		Upon full utilisation	
	Latest Practicable Date		of the General Mandate (as refreshed)	
	<i>Shares</i>	%	<i>Shares</i>	%
Wang On ( <i>Note</i> )	474,209,324	28.31	474,209,324	23.59
Public Shareholders	1,201,138,364	71.69	1,201,138,364	59.74
Shares issued under the General Mandate (as refreshed)	—	—	335,069,537	16.67
<b>Total</b>	<b><u>1,675,347,688</u></b>	<b><u>100.00</u></b>	<b><u>2,010,417,225</u></b>	<b><u>100.00</u></b>

*Note:* The 474,209,324 Shares were held by Rich Time Strategy Limited which is wholly owned by Wang On Enterprises (BVI) Limited. Wang On Enterprises (BVI) Limited is a wholly-owned subsidiary of Wang On.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated in the table above, assuming no other Shares are issued and/or repurchased by the Company, the aggregate shareholding of the existing public Shareholders will be diluted from approximately 71.69% to approximately 59.74% upon full utilisation of the General Mandate (as refreshed). Taking into account the benefits of the refreshment of the General Mandate as discussed above and the fact that the shareholdings of all Shareholders will be diluted proportionately, we consider such dilution or potential dilution of shareholding to be acceptable.

### RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that the refreshment of the General Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders and advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM.

Independent Shareholders are however advised to take note of the possible dilution effect on their shareholding interests in the Company when and if the General Mandate (as refreshed) is utilised.

For and on behalf of  
**Nuada Limited**

**Po Chan**  
*Executive Director*

**Bernard Chan**  
*Executive Director*

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## NOTICE OF THE SGM

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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)**

**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 Room 3503, 35th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Thursday, 26 July 2007 at 10:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modification the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited for the issue for the convertible note (if required) and the listing of, and permission to deal in the new shares falling to be allotted and issued upon exercise of the conversion rights attaching to the convertible note (“**Conversion Share(s)**”) either unconditionally or subject to conditions to which the Placing Agent (as defined below) may accept, any one director of the Company be and is generally authorised to do all such acts and things and execute all documents, including under seal where applicable, as he considers necessary or expedient to give effect to the foregoing arrangements.”
2. “**THAT**
  - (a) the execution of and the placing agreement dated 11 June 2007 (the “**CN Placing Agreement**”) entered into between the Company and Kingston Securities Limited (the “**Placing Agent**”) in relation to the placing of convertible note in the aggregate principal amount of up to HK\$250,000,000 and at the initial conversion price of HK\$0.58 per Conversion Share by the Placing Agent on a fully underwritten basis, a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for identification purpose, be and is hereby approved, confirmed and ratified and the transaction contemplated thereunder be and is hereby approved;
  - (b) the terms and conditions of the convertible note to be issued by the Company pursuant to the CN Placing Agreement, a copy of which has been produced to this meeting marked “B” as referred to in paragraph 2(a) above and signed by the chairman of this meeting for identification purpose, be and are hereby approved;

\* For identification purpose only

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- (c) the issue of the convertible note in the aggregate principal amount of up to HK\$250,000,000 contemplated and pursuant to the CN Placing Agreement be and is hereby approved; and
- (d) the issue and allotment of shares of the Company to holders of the convertible note contemplated and pursuant to the terms of the convertible note upon exercise of the conversion rights attaching to the convertible note be and are hereby approved;

and any one director of the Company be and is hereby approved to do such acts and execute such documents as he may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the CN Placing Agreement and the convertible note and completion of the transactions contemplated thereunder.”

### 3. “THAT

- (a) the general mandate granted to the directors of the Company (the “**Directors**”) to exercise the powers of the Company to allot, issue and deal with shares of the Company as approved by the shareholders of the Company (the “**Shareholders**”) at the annual general meeting of the Company held on 17 August 2006 be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the passing this resolution);
- (b) subject to sub-paragraph (d) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (c) the approval in paragraph (b) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including bonds and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (b) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; (iii) an issue of shares as scrip dividends pursuant to the Bye-laws of the Company from time to time; or (iv) an

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issue of shares under any share option scheme or similar arrangement for the grant or issue to employees and/or other eligible persons of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue;

(e) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; and
- (iii) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting;

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

By order of the Board  
**Wai Yuen Tong Medicine Holdings Limited**  
(位元堂藥業控股有限公司\*)  
**Chan Chun Hong, Thomas**  
*Managing Director*

Hong Kong, 9 July 2007

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place of business:*  
5th Floor, Wai Yuen Tong Medicine Building  
9 Wang Kwong Road  
Kowloon Bay  
Kowloon  
Hong Kong

\* For identification purpose only



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*Notes:*

- (i) A form of proxy for use at the meeting is enclosed herewith.
- (ii) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
- (iii) Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more than one proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.
- (iv) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.
- (v) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.
- (vi) Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.