



EU YAN SANG INTERNATIONAL LTD
(Company Registration No. 199302179H)
(Incorporated in the Republic of Singapore)

PROPOSED ISSUANCE OF SHARES BY SUBSIDIARY

1. INTRODUCTION

Eu Yan Sang International Ltd (the “**Company**” and together with its subsidiaries and associated companies, the “**Eu Yan Sang Group**”) wishes to announce that the Company has entered into a Joint Venture Framework Agreement (the “**Agreement**”) on 15 January 2016 with HCare Investments Holding Limited (the “**Investor**”) in relation to (i) the proposed joint venture between the Company and the Investor for the purpose of *inter alia* conducting research and development, and operating a manufacturing, distribution and retail business of traditional chinese medicine related products in the People’s Republic of China and (ii) the proposed issuance of new shares by a wholly-owned subsidiary to be incorporated by the Company (“**NewCo**” together with its subsidiaries, the “**NewCo Group**”) to the Company and the Investor (collectively, the “**Proposed Issuances**”). NewCo will hold the entire issued share capital of Eu Yan Sang (China Venture) Limited (“**China Venture**”) and its subsidiary Eu Yan Sang Trading (Guangdong) Co. Ltd. (余仁生商贸(广东)有限公司) (“**GD Trading**”), both of which are currently owned by the Eu Yan Sang Group.

2. TRANSACTION DETAILS

2.1 Restructuring, Transfer of China Venture and Proposed Issuances

Pursuant to the Agreement, it is proposed that:

- 2.1.1 the Company will first incorporate NewCo and become the sole shareholder of NewCo, holding one (1) share;
- 2.1.2 the Company shall effect the transfer of the entire issued share capital of China Venture held by it to NewCo in consideration for the allotment by NewCo to the Company of one (1) share in NewCo. Based on the unaudited accounts of China Venture as at 30 September 2015, the book value and the net tangible asset value of China Venture are approximately S\$1,352,000 and S\$1,211,000 respectively; and

- 2.1.3 on the first closing of the Agreement (“**First Closing**”):
- (i) the Company shall subscribe for thirty-eight (38) shares in NewCo in consideration for the Company’s contribution of US\$499,999, and NewCo shall allot and issue the same to the Company; and
 - (ii) the Investor shall subscribe for sixty (60) shares in NewCo, in consideration for the Investor’s contribution of US\$5,000,000, and NewCo shall allot and issue the same to the Investor.
- 2.1.4 Upon First Closing, the Company will hold 40 per cent. of the total issued shares of NewCo and NewCo shall accordingly cease to be a wholly-owned subsidiary of the Company. Further, as NewCo will become the sole shareholder of China Venture, China Venture and GD Trading shall cease to be wholly-owned subsidiaries of the Company.

2.2 **Conditions Precedent to First Closing**

First Closing is subject to the following conditions:

- 2.2.1 the incorporation of NewCo by the Company;
- 2.2.2 the Company and the Investor having agreed on the terms of the memorandum and articles of association of NewCo;
- 2.2.3 the Company and the Investor having agreed on the terms of the license agreement to be entered into between the Company and NewCo relating to the license of certain intellectual property by the Company to NewCo in order for the NewCo Group to conduct its internal business;
- 2.2.4 the Company having completed the necessary reorganisation and funding steps so that on First Closing, all shareholder loans of China Venture and GD Trading by the Company or any of its Affiliates (as defined in the Agreement) (excluding the NewCo Group) shall have been converted to share capital of China Venture;
- 2.2.5 no injunction, restraining order or order of any nature by a government authority shall have been issued since the date of the Agreement that could prevent or materially interfere with the consummation of the transactions contemplated under the Agreement and no action shall have been taken and no applicable laws shall have been enacted, adopted or issued that could reasonably be expected to prevent the consummation of the transactions contemplated under the Agreement; and
- 2.2.6 the Company having completed the subscription of one (1) share in NewCo in consideration for the contribution by the Company to NewCo of all the issued shares in China Venture pursuant to which NewCo shall be the sole shareholder of China Venture and China Venture shall continue to be the sole shareholder of GD Trading.

2.3 Second Closing

2.3.1 It is proposed that on the second closing of the Agreement (“**Second Closing**”):

- (i) the Company shall *inter alia* make a capital contribution payment to NewCo in the amount of US\$500,000 and enter into a supply agreement relating to the supply of products by the Company to NewCo (the “**Supply Agreement**”) and an agreement relating to the promotion, sale and distribution of the Bo Ying Compound (保嬰丹) in the People’s Republic of China (the “**Bo Ying Compound Agreement**”), in each case with NewCo; and
- (ii) the Investor shall *inter alia* make a capital contribution payment to the Company in the amount of US\$5,000,000.

2.3.2 Second Closing is subject to the following conditions:

- (i) First Closing having occurred;
- (ii) the Company and the Investor having agreed on the terms of the Supply Agreement and the Bo Ying Compound Agreement; and
- (iii) no injunction, restraining order or order of any nature by a government authority shall have been issued since the date of the Agreement that could prevent or materially interfere with the consummation of the transactions contemplated under the Agreement and no action shall have been taken and no applicable laws shall have been enacted, adopted or issued that could reasonably be expected to prevent the consummation of the transactions contemplated under the Agreement.

2.4 Subsequent Capital Contributions

It is also proposed under the Agreement that pursuant to the business plan and budget approved by the board of directors of NewCo, the Investor shall make a capital contribution payment to NewCo in an amount up to US\$25,000,000 and the Company shall simultaneously make a capital contribution payment in an amount up to US\$2,500,000.

3. INFORMATION ON THE INVESTOR

Based on publicly available information, the Investor is a limited liability company incorporated and existing in the Cayman Islands.

4. RATIONALE FOR THE PROPOSED ISSUANCES

The Agreement established a joint venture arrangement between the Company and the Investor.

The Investor has strong expertise and track record in traditional chinese medicine and consumer healthcare in the People's Republic of China. In addition to capital injection through the Proposed Issuances, the Investor will also provide management expertise and subject matter domain knowledge in product development and registration. The Company, on the other hand, will inject trademark, a product license and capital to NewCo. The business scope of NewCo shall include but is not limited to product research and development, manufacturing, retail and wholesale distribution of the Company's products in the People's Republic of China.

5. PRO FORMA FINANCIAL EFFECTS OF THE PROPOSED ISSUANCES

5.1 Assumptions

The pro forma financial effects of the Proposed Issuances on the net tangible assets ("NTA") per share, the earnings per share and the share capital of the Company as set out below are prepared purely for illustration only and do not reflect the actual future financial situation of the Eu Yan Sang Group after the Proposed Issuances. The pro forma financial effects have been prepared based on (i) the audited consolidated financial statements of the Eu Yan Sang Group for the financial year ended 30 June 2015 ("FY2015 Results"), such financial year being the most recently completed financial year ("FY2015"), (ii) the unaudited consolidated financial statements of the Eu Yan Sang Group for the financial period ended 30 September 2015 and (iii) the assumption that First Closing and Second Closing have been completed.

5.2 NTA – FY2015

Purely for illustrative purposes only and assuming that the Proposed Issuances had been completed on 30 June 2015, being the end of FY2015, the effect on the NTA per share of the Company as at 30 June 2015 is as follows:

	Before the Proposed Issuances	After the Proposed Issuances
NTA (S\$'000)	155,436	158,925
NTA per share (S\$)	0.35	0.36

5.3 NTA – 1Q2016

Purely for illustrative purposes only and assuming that the Proposed Issuances had been completed on 30 September 2015, being the end of the financial period ended 30 September 2015 ("1Q2016"), the effect on the NTA per share of the Company as at 30 September 2015 is as follows:

	Before the Proposed Issuances	After the Proposed Issuances
NTA (S\$'000)	160,201	163,832
NTA per share (S\$)	0.36	0.37

5.4 Earnings – FY2015

Purely for illustrative purposes only and assuming that the Proposed Issuances had been completed on 1 July 2014, being the beginning of FY2015, the pro forma financial effects on the consolidated earnings of the Eu Yan Sang Group for FY2015 are as follows:

	Before the Proposed Issuances	After the Proposed Issuances
Profit attributable to the Shareholders (S\$'000)	4,563	8,542
Weighted average number of shares ('000)	446,732	446,732
Earnings per share (Singapore cents)	1.02	1.91

5.5 Earnings – 1Q2016

Purely for illustrative purposes only and assuming that the Proposed Issuances had been completed on 1 July 2015, being the beginning of 1Q2016, the pro forma financial effects on the consolidated earnings of the Eu Yan Sang Group for 1Q2016 are as follows:

	Before the Proposed Issuances	After the Proposed Issuances
(Loss)/Profit attributable to the Shareholders (S\$'000)	(150)	3,574
Weighted average number of shares ('000)	447,281	447,281
Earnings per share (Singapore cents)	(0.03)	0.80

5.6 Share Capital

The Proposed Issuances will not have any impact on the issued share capital of the Company.

6. RULE 805 OF THE LISTING MANUAL

6.1 Principal Subsidiary

Under the listing manual of the SGX-ST ("**Listing Manual**"), a principal subsidiary is a subsidiary whose latest audited consolidated pre-tax profits (excluding the minority interest relating to that subsidiary) as compared with the latest audited consolidated pre-tax profits of the group (excluding the minority interest relating to that subsidiary) accounts for 20 per cent. or more of such pre-tax profits of the group. In determining profits, exceptional and extraordinary items are to be excluded. Assuming the NewCo Group had been established on 1 July 2014, being the beginning of FY2015, the most recently completed financial year of the Eu Yang Sang Group, and based on the FY2015 Results, the profits of the NewCo Group is loss making. Accordingly, based on the FY2015 Results, NewCo is not a principal subsidiary of the Company.

6.2 Rule 805

Pursuant to Rule 805 of the Listing Manual, an issuer must obtain the prior approval of shareholders in general meeting for, *inter alia*, the issuance of shares by a principal subsidiary of the issuer that will or may result in a percentage reduction of 20 per cent. or more of the issuer's equity interest in the principal subsidiary. Accordingly, for the reasons set out in paragraph 6.1, notwithstanding that pursuant to the Proposed Issuances, the Company's equity interest in NewCo will decrease from 100 per cent. to 40 per cent., the Company will not be required to seek shareholders' approval for the Proposed Issuances.

7. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save for their interests in the shares of the Company (if any), none of the directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Issuances.

8. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Proposed Issuances. Accordingly, no service contract is proposed to be entered into between the Company and any such person in connection with the Proposed Issuances.

9. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the Agreement is available for inspection during normal business hours at the registered office of the Company at No. 21 Tai Seng Drive, Singapore 535223 for a period of three months commencing from the date of this announcement.

10. FURTHER ANNOUNCEMENT

Further details on the Proposed Issuances will be announced in accordance with the Listing Manual at the appropriate time.

Eu Yan Sang International Ltd

15 January 2016