

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

RESPONSE TO QUERIES REGARDING TRADING ACTIVITY

Question 1a

We note that for 3Q2016, profit before tax decreased by 80% as compared to the profit before tax for the corresponding quarter ended 31 March 2015.

In line with Appendix 7.2, Paragraph 9 of the Listing Manual, please disclose if this is a deviation from the prospect statements previously issued by the Company and provide the basis if the Company is of the view that there is no significant deviation.

Company's Response

Appendix 7.2 Paragraph 9 of the Listing Manual requires disclosure where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results. In reference to the previous prospect statement contained in the FY2015 full year announcement made on 26 August 2015, the Company disclosed as follows:

"The Group remains cautious on its business outlook as macro-environmental issues and challenges in Hong Kong and Malaysia will continue to persist, which may cause significant impact on the Group's future performance. **Store rationalisation will continue in China** as the Group focuses on online and wholesale channels. While the travel restrictions to Hong Kong imposed on mainland Chinese have affected parallel traders coming to Hong Kong to purchase Eu Yan Sang products, it has encouraged sales of our products at online sales platforms and at cross border, tax free outlets. Operations in Australia are on track to show a turnaround by FY16 through double digit same store sales growth. To accelerate the turnaround in Australia, the Group intends to acquire existing businesses to strengthen its existing network in Australia. Singapore will continue to demonstrate incremental improvements and provide positive revenue growth. This will help cushion the overall reduction in group revenues from Hong Kong and Malaysia. **Overall, the Group expects the business environment in the next twelve months to be difficult.** In view of this, the Group has also implemented cost reduction initiatives through the **rationalisation of weak performing retail outlets** while continuing to focus on improving efficiency of back office operations through the use of technology. With more emphasis on the wholesale and e-commerce channels to furthering growth opportunities, the Group expects to minimise impact from the negative operating environment"

As the Group continues to see persistent economic slowdown in the region weighing down on its core markets, the view will remain cautious and is consistent with the prospect statement dated 26 August 2015.

Question 1b

Please explain whether the Company could have issued a profit guidance given the expectation of a significant decline in profits for 3Q2016.

Company's Response

In line with Appendix 7.2, Paragraph 10 of the Listing Manual, included in the 2Q2016 announcement dated 12 February 2016, the Company has issued a commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months as follows:

“The Group expects the business environment in its key markets to remain challenging in line with broad market expectations. Despite the macro-environmental issues seen in Hong Kong and Malaysia that have persisted over the last few quarters, the Group's performance in Hong Kong has shown traction, where the rate of decline in revenues have moderated versus comparable periods last year, while its business in Malaysia, after a weak Q1 FY2016 performance, has rebounded in Q2 FY2016. This improvement in Malaysia however, when reported in Singapore dollars has been muted due to currency depreciation of the Malaysian Ringgit.

On a positive note, operations in Australia remain on track with double digit same store sales growth, and the Group intends to grow its existing network in Australia organically and through acquisitions. Singapore continues its revenue rejuvenation journey through incremental improvements in its retail operations and will be further extending its wholesale network. These two markets are expected to add resilience to group revenues, cushioning against revenue reductions in other markets. The Group has also embarked in a series of joint ventures with strategic partners in China. Through these collaborations, the Group is optimistic that the synergy of skillsets and resources will spur added momentum to its China operations.

As the overall operating business environment is expected to remain subdued, the Group will take a cautious approach and will continue to drive performance improvement and cost reduction initiatives including closure of non-profitable lines of business. rationalisation of weak performing retail outlets while continuing to focus on improving efficiency of back office operations through the use of technology. There will be added emphasis on wholesale and e-commerce channels to further growth opportunities. In addition, the Group intends to review its cash flow requirements and adequacy of its bank borrowings structure to ensure the Group's balance sheet is able to support revenue growth moving forward. With all these initiatives, the Group expects to mitigate the impact from the negative operating environment and continue to drive a turnaround.”

The Group is of the view that the 3Q2016 results are broadly in line with the abovementioned commentary as the Group continues to see challenges in Hong Kong and Malaysia, whilst Australia and Singapore has seen improvements in performance. The rate of decline in Revenue and Operating Profits in 3Q2016 in comparison to corresponding periods in the previous year has narrowed compared to H12016 and FY2015 Full Year results. During 3Q2016, the Group reassessed its non-profitable lines of business and made the decision to close its F&B operations in China and this resulted in a one-off expense of S\$ 2.787m in 3Q 2016. These expenses included loss on disposal of fixed assets, fixed assets written off, retrenchment expenses and professional fees.

Included in Profit before Taxation for 3Q2016 were foreign exchange losses of S\$ 1.866m (vs. foreign exchange gains of S\$ 1.126m in 3Q2015) which exacerbated the variance between 3Q2016 Profit before Tax vs. same quarter last financial year 3Q2015). Detailed information provided in item 2 below.

Question 2

It is disclosed under Turnover by Geographical Locations (see Paragraph 8(A) of the Announcement) that the “stronger HKD helped to cushion part of the revenue decline in SGD” in relation to the revenue derived from Hong Kong.

Company's Response

In relation to HK's revenue performance YTD3Q, these were converted based on average rates over the three quarters while the 3Q revenue is based on the difference between YTD 3Q March and YTD 1H. Overall, HKD has strengthened against the SGD (refer average rates below). This resulted in an improvement when reported in SGD from 0% to 2% increase for 3Q2016, and also a reduced decline from -15% to -9% for YTD 3Q2016.

Hong Kong						
Currency	3Q		Change	YTD 3Q		Change
	2016	2015	+ / (-)	2016	2015	+ / (-)
	'000	'000		'000	'000	
Revenue - SGD	36,199	35,594	2%	100,231	109,858	-9%
Revenue - HKD	202,426	202,120	0%	555,606	652,753	-15%
Average Rate	0.1788	0.1761	2%	0.1804	0.1683	7%

Under Profitability (see Paragraph 8(C) of the Announcement), it is explained that “ the Group's PBT for the 3rd quarter was also impacted by the foreign exchange loss a result of the weakening of HKD during the 3rd quarter”. Please clarify how the movements in HKD had affected the Group's revenue and profits for 3Q2016.

Although the HKD has been on strengthening trend against the SGD from since 1Q2015 to 2Q2016, there was a significant decline in the exchange rate during 3Q2016 from 0.182 to 0.174 (S\$/HKD). As the holding company, Eu Yan Sang International Ltd had existing HKD denominated intercompany balances outstanding from Eu Yan Sang Hong Kong as at 31 March 2006, this contributed to translation losses on consolidation as reported of S\$ 1.866m. On a year to date basis, these translation losses are less material at S\$ 241k as the 3Q2016 foreign exchange losses were offset against HKD gains against the SGD during the earlier part of 1H2016.

S\$/HKD Exchange Rate

S\$/HKD	Exchange Rate			
	4Q15	1Q16	2Q16	3Q16
	As at June 2015	As at Sep 2015	As at Dec 2015	As at Mar 2016
Closing Rate	0.1730	0.1840	0.1820	0.1740

BY ORDER OF THE BOARD

Lam Chee Weng
Chief Financial Officer & Company Secretary
19 May 2016