

Corporate Profile



About Eu Yan Sang Group

Listed on the Singapore Exchange, Eu Yan Sang International Limited is Asia's premier consumer healthcare company with the aim to promote good health through the usage and dissemination of knowledge of traditional Chinese medicine and other Asian health practices. Today, Eu Yan Sang manufactures and markets fine quality, Chinese herbs and medicine under the brand name "Eu Yan Sang". A household name in Asia for over 120 years, Eu Yan Sang has since earned an unrivalled reputation as the leader in the traditional Chinese medicine industry.

The Group currently offers more than 150 products under its Eu Yan Sang brand name and over 1000 different types of Chinese herbs and other medicinal products. Manufacturing activities are carried out primarily at its two GMP-certified (Good Manufacturing Practice) factories - one in Chai Wan, Hong Kong and the other in Cheras, Kuala Lumpur, Malaysia. In addition, the Malaysian factory has been awarded the ISO9002 certification since March 2001. Together, they produce more than 50 different types of Chinese proprietary medicine products, including its flagship products, Bak Foong Pill and Bo Ying Compound.

Eu Yan Sang's products are readily available in its own 61 retail stores spread across Hong Kong, Singapore and Malaysia, as well as in over 5,000 drugstores, supermarkets, medical halls and convenience stores worldwide. These include outlets of wholesale chains such as Mannings, Watsons, Wellcome and Park n Shop in Hong Kong; Jaya Jusco, Carrefour, Makro and Parkson's in Malaysia; and Guardian, Cold Storage, NTUC Fairprice and Nature's Farm in Singapore. In addition, its cybershop at www.euyansang.com offers its global customers the ease and convenience of buying its products online.



**Eu Yan Sang quality products
are trusted for good health
and general well being.**

Eu Yan Sang quality products have been trusted for
generations in our care for mankind.

b r a n d s
Q U A L I T Y

Today our customers have come to rely on our wide range of
healthcare products in maintaining their healthy lifestyle.

Chairman's Statement



On behalf of the Board of Directors, I am pleased to present to you the Group's annual report for the financial year ended 30 June 2001.

The Year In Review

The twelve months to 30 June 2001 was our first financial year as a listed company. During the start of this period, we witnessed the slowing down of the US economy after a prolonged period of growth. By early this year, it became clear that the US slowdown has affected our region, the Group's main markets. Against this backdrop of increasingly difficult conditions, we fared well and achieved higher sales in all our major markets in Hong Kong, Malaysia and Singapore.

Our focus during the year was to concentrate on our core activities. To this end, we made selective additions to our product lines, expanded our distribution network and increased our marketing efforts in advertising and promotion. Five new Eu Yan Sang stores were opened during the year. We added new distribution outlets for our products in Singapore and China. Marketing was stepped up to promote our key products such as bottled Bird's Nest, Bak Foong Pill, Lingzhi Cracked Spore Capsules and Bo Ying Compound. With our expanded distribution network, we are enjoying better advertising efficiency.

Hong Kong was our best performing market, with turnover rising 14% to \$46.9m. This constituted about 57% of group turnover. Wholesale turnover increased in Hong Kong as a result of higher exports to China. At group level, development costs incurred in retail network expansion and higher advertising expenditure dampened our profitability in the first half of the financial year, but these initiatives added significantly to second half turnover and profit margin.

We are ever mindful of macroeconomic developments and changes in legislation that have an impact on our business. In our last annual report, I touched on the growing global interest in natural medicines. This trend has attracted the attention of the Western scientific community and legislators to the TCM industry. In Singapore, we are in full compliance with new legislation covering the import, manufacture, sale and supply of Chinese proprietary medicines. The passage of the TCM Practitioners Act in late 2000 will work towards raising the standard and professionalism of registered TCM practitioners. In addition, the Economic Development Board (EDB) has established the Biomedical Research Council to study the funding of research and education in TCM as part of EDB's initiatives in the biomedical sciences. We believe these and other similar developments will boost the public image of TCM as a complementary medicine, and we welcome them.

In response to these changes, we have made several investments during the year, which we believe will accrue long term benefits to our Group. In addition to our previously mentioned 45% stake in Oxford Natural Products Asia Pte Ltd, we have established Applied Biomedical International Pte Ltd (ABMI), a 100% owned subsidiary and took a 75% stake in Eu Yan Sang Australia Pty Ltd (EYSA). The Group will be strengthened by ABMI's expertise in providing systematic and analytical approach in products evaluation. Consistent product quality and safety is achieved and maintained by adopting stringent sampling and validated testing and manufacturing procedures and protocols. Upon attaining internationally-recognised accreditation for specialized chemical and microbiological tests, ABMI would offer these services to interested third parties.

Through EYSA, we have invested in the Natural Health Therapies Group (NHT). In Australia, the NHT Group is developing a network of Integrative Medicine (IM) centres which combine conventional Western medicine with Chinese medicine and natural therapies. This investment would allow us to participate in the early stage development of a comprehensive form of medicine that could eventually have worldwide appeal.

Flagship product Bak Fong Pill



Chairman's Statement



Lingzhi Cracked Spores Powder Capsules

For the twelve months to 30 June 2001, group turnover grew 14% to \$82.3m, but group net profits have remained at \$5.76m. This was because we have consciously invested in our product promotion and R&D efforts, and they have contributed to short term costs. On the expanded capital base, earnings per share was 2.02 cents. As a consequence of the listing, group net tangible assets per share increased to 15.9 cents as at 30 June 2001. Your Board is recommending a final dividend of 0.525 cents per share. Payment of dividend is subject to shareholders' approval at the forthcoming Annual General Meeting.

Building On Our Strengths

Our core strengths lie in our trusted Eu Yan Sang brand name, our family of Eu Yan Sang products and our diversified distribution network. As in the previous financial year, we will continue to invest in our core activities. Our product branding programme will continue through advertising and promotion in the printed media. This is supported by an ongoing product repackaging programme designed to enhance the consumer appeal of our products. We are also selectively refurbishing some older stores to achieve a common retail image consistent with our overall branding approach. The desired end result is to broaden our consumer base by appealing to a wider group of potential customers as a consumer healthcare group.

Our extensive range of products will be selectively expanded. Following our investment in Herose Pharma International Pte Ltd, we are currently working with our joint venture partner to introduce herb-based products for the treatment of certain skin conditions. Together with our investment, we have secured a 20-year exclusive licence to manufacture and market Herose products.

Our recent investment of a 48.5% stake in Botanical Health Resources Inc. (BHRI), a Californian TCM-based herbal consumer healthcare company will allow us to exploit the market potential for TCM-based herbal beverages. Through BHRI, we will develop and introduce a range of herbal beverages and tonics for the Asian markets. Here again, we will have long-term marketing and distribution rights for the full range of BHRI products in Asia.

In the current year, we will be introducing our new supporting initiatives in scientific services in Singapore and IM centres in Australia. We are conscious of the need to clearly define the scope of our R&D or analytical activities so as to manage costs and direct our efforts productively. IM centres in Australia will be established at a rate that is acceptable to the marketplace and the measured pace of expansion will allow us to work through any initial problems that we may encounter. Our limited investments in these new synergistic initiatives will strengthen

our core activities, and at the same time allow us to venture into related areas that can be potentially lucrative in the longer term. BHRI and EYSA have existing distribution networks in their respective countries, and we intend to use these networks to enhance our overall distribution system in the US and Australia.

Global economic activities have remained subdued, and recent unfortunate events in the US have added to the general gloom. Under such uncertain conditions, it is prudent for us to manage our business conservatively in the current year. Costs will be carefully managed, and extra efforts will be expanded to generate additional sales from our distribution network. Barring any unforeseen circumstances, the Group is expected to remain profitable in the current year.

A Word of Thanks

On behalf of the Board of Directors, I would like to thank our management and staff whose dedication and teamwork have contributed to the achievements of the Group in the previous financial year. In addition, I would also like to thank all our customers, bankers, business associates, suppliers and shareholders for all their continuing support.

Joseph Eu
Chairman



Bottled Birds' Nest and Essence of Chicken

**Experience a world of comfort
and shopping convenience
at our retail outlets.**



We maintain high standards of product and service excellence to ensure that our customers are satisfied with their shopping experience.

s e r v i c e s
F I V E S T A R

Our people develop long term relationships with their customers, and this has formed the foundation of our approach to business.

Board of Directors

1st row (left to right)

Joseph Eu



Richard Eu



Clifford Eu



2nd row (left to right)

David Yeh



Robert Eu



Dr Jennifer Lee



Corporate Data

Board Of Directors

Joseph William Yee Eu

Non-executive Chairman

Richard Yee Ming Eu

Managing Director and CEO

Clifford Yee Fong Eu

Executive Director

David Chung Woo Yeh

Independent Director

Robert James Yee Sang Eu

Non-executive Director

Dr Jennifer Gek Choo Lee

Independent Director

Dr David Yee Tat Eu

(alternate to Richard Eu)

Laurence Yee Lye Eu

(alternate to Clifford Eu)

Billy Wah Yan Ma

(alternate to Robert Eu)

Audit Committee

Dr Jennifer Gek Choo Lee

Chairman

David Chung Woo Yeh

Clifford Yee Fong Eu

Company Secretaries

Clifford Yee Fong Eu

Yvonne Choo, FCIS

Linda Law, FCIS

Registered Office

269A, South Bridge Road
Singapore 058818
Tel: 225 3211

Share Registrar

Lim Associates (Pte) Ltd

10 Collyer Quay #19-08,
Ocean Building
Singapore 049315
Tel: 536 5355

Auditors

Ernst & Young

Certified Public Accountants
10 Collyer Quay #21-01
Singapore 049315
Partner-in-charge:
Daniel Chung Hian Soh

Principal Bankers

Overseas Union Bank Limited

1 Raffles Place, OUB Centre
Singapore 048616

Public Bank Berhad

Menara Public Bank
146 Jalan Ampang, 50450 Kuala Lumpur
Malaysia

Standard Chartered Bank

13th Floor, Standard Chartered Tower
388 Kwun Tong Road, Kwun Tong
Hong Kong

**The Development Bank of
Singapore Ltd**

6 Shenton Way, DBS Building, Tower One
Singapore 068809

Senior Management

Head Office

Yin Fah Kam

Chief Technical Officer, Eu Yan Sang International Ltd
Executive Director, Applied Biomedical International Pte Ltd

Angie Pang

Group Human Resource Manager, Eu Yan Sang International Ltd

James Xiao

Sr. Manager, Research and Development, Eu Yan Sang International Ltd

Jennifer Leong

Financial Controller, Eu Yan Sang International Ltd

Australia

Menno Veeneklaas

Managing Director, Eu Yan Sang (Australia) Pty Ltd

Joachim Fluhrer (Dr)

Medical Director, Eu Yan Sang (Australia) Pty Ltd

Craig McIntosh

Finance Director, Eu Yan Sang (Australia) Pty Ltd

Hong Kong

Alice Wong

Director and General Manager, Eu Yan Sang (Hong Kong) Limited

Jaby Cheng

General Manager, Synco (H.K.) Limited

Yuen Wah Yip (Dr)

Manager, Quality Assurance, Synco (H.K.) Limited

Malaysia

Eng Hock Lok

General Manager, Eu Yan Sang (1959) Sdn. Berhad

Jasmine Wong

General Manager, Eu Yan Sang Marketing Private Limited

Win Soong Lui

General Manager, Weng Li Sdn. Bhd.

Singapore

Chong Hung Lim

General Manager, Eu Yan Sang Singapore Pte Ltd

USA

Jeffrey A. Stein

Chairman, Botanical Health Resources Inc.

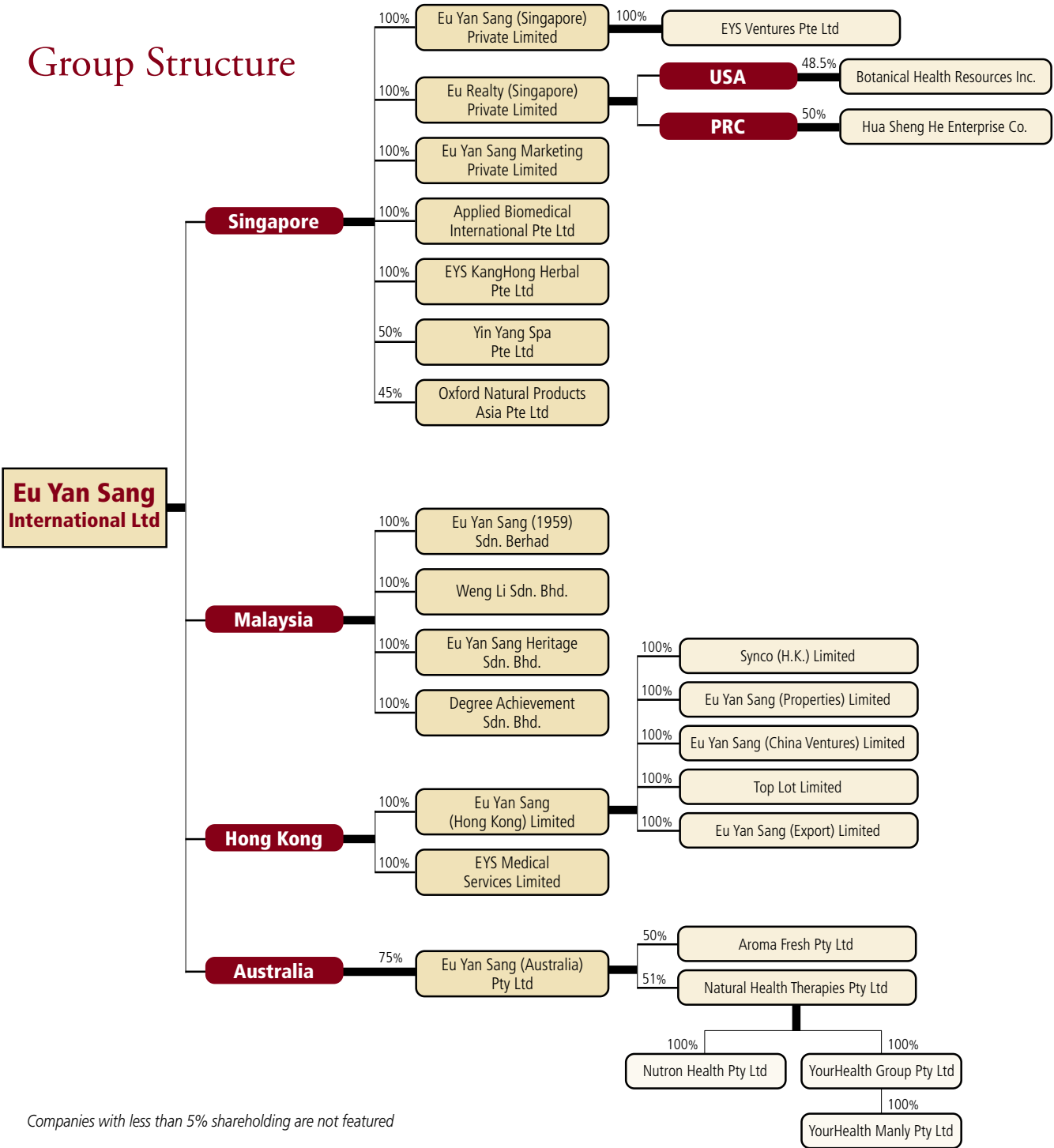
Edgar B. Veytia

Chief Executive Officer, Botanical Health Resources Inc.

Steven Piccus

Managing Director, Botanical Health Resources Inc.

Group Structure



Calendar of Events

Year 2000

July

- Eu Yan Sang International Ltd (EYSI) lists on the Main Board of the Singapore Exchange.

August

- Eu Yan Sang (Hong Kong) Ltd (EYSHK) collaborates with the Chinese University of Hong Kong to conduct scientific research on the action mechanisms and bio-active ingredients of the Bak Foong Pill, one of EYS's flagship product.

November

- Yin Yang Spa Pte. Ltd, a 50%-50% joint venture between EYSI and Renewal International Pte Ltd launches its innovative range of herbal spa products based on Chinese herbal formulations under the brand name "ZING".
- New Product - Lingzhi Cracked Spores Powder Capsules launches in Singapore.

Year 2001

January

- Eu Realty (Singapore) Pte Ltd, a 100% owned subsidiary, establishes a joint venture company, Chengdu Hua Sheng He Enterprise in Chengdu, China with two China partners – West China (Huaxi) University of Medical Sciences and Sichuan Xin Yang Technology Company to develop scientific-based herbal medicine to treat lifestyle diseases.
- Kuching retail outlet opens, our first Eu Yan Sang retail outlet in Sarawak, East Malaysia.

February

- The Paragon, Singapore retail outlet opens. This is the first outlet in the heart of Orchard Road, the shopping haven in Singapore.

April

- Establishes EYS Kang Hong Herbal Pte Ltd and Applied Biomedical International Pte Ltd.

May

- Eu Yan Sang (Hong Kong) launches a new product – Premium Bird's Nest Series.
- Eu Yan Sang Malaysia launches Fa Yien, our very own branded Raw Bird's Nest.

June

- Eu Yan Sang International Ltd invests in Herose Pharma International Pte Ltd – a company engaging in the development of new Chinese medicinal products. One such product is known as "Herose", a medication that is used for treating certain skin conditions.

July

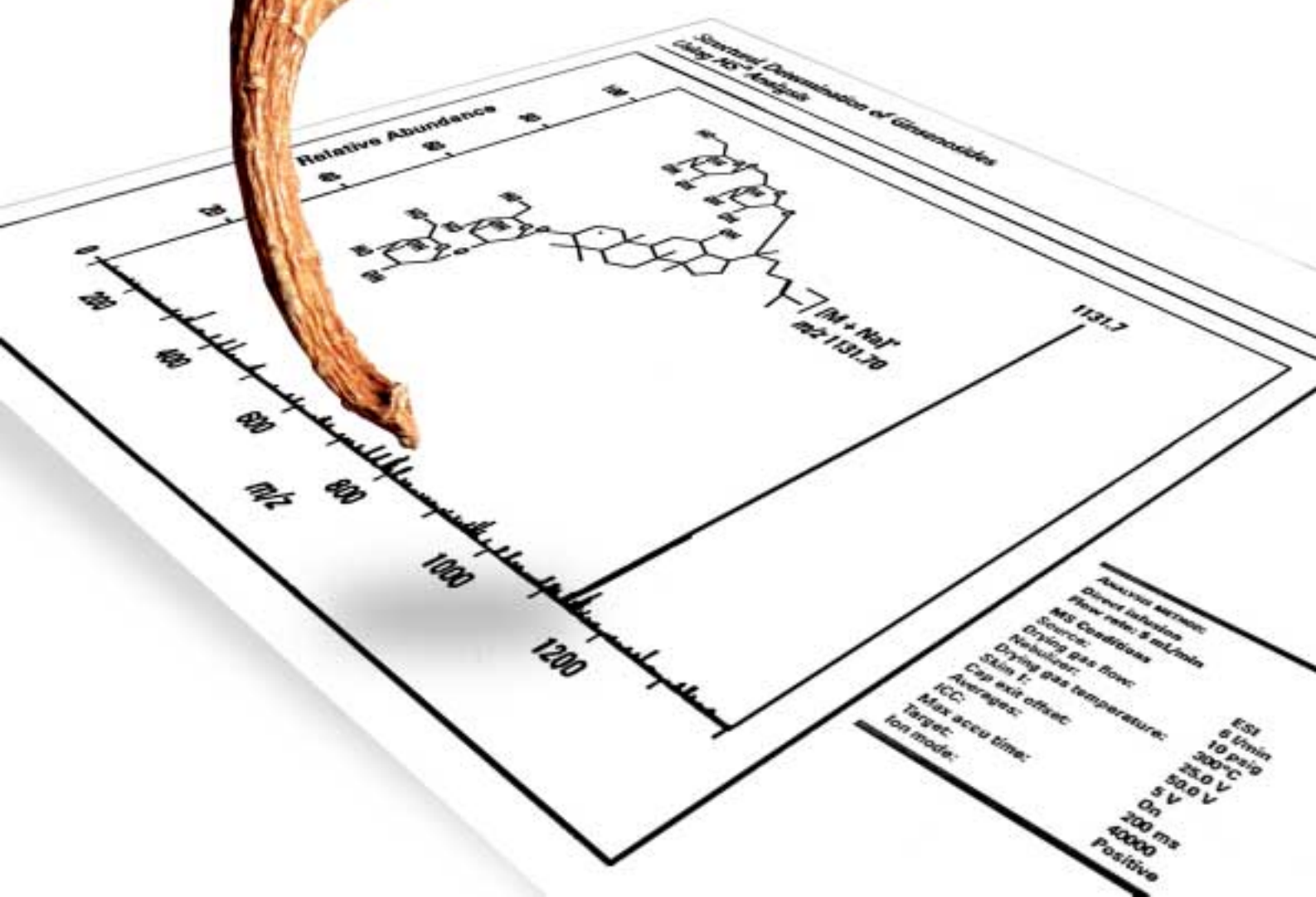
- Eu Yan Sang Australia Pty Ltd (EYSA) establishes a holding company to pursue investment opportunities in the Natural Health industry in Australia, and to import and distribute selected Eu Yan Sang products into these markets.

September

- Eu Realty (Singapore) Pte Ltd, enters into an Investor Rights Agreement to acquire shares in Botanical Health Resources Inc., – a company that retails branded Traditional Chinese Medicine based herbal and wellness related products under the proprietary line of 'Elixir' and "Gan Bei Tonics" brands.
- Eu Yan Sang Australia enters into a Share Purchase Agreement to purchase 50% equity-stake in Aroma Fresh Pty Ltd, which is involved in product development and distribution of aromatherapy and natural beauty products under the brand name "Aroma Fresh".



High quality healthcare products delivered through innovation.



Innovation is an important part of our success.

s c i e n c e
I N N O V A T I V E

Through scientific innovations, we develop new and consistently high quality healthcare products so that our customers can enjoy and benefit from using Eu Yan Sang products.

Operations Review



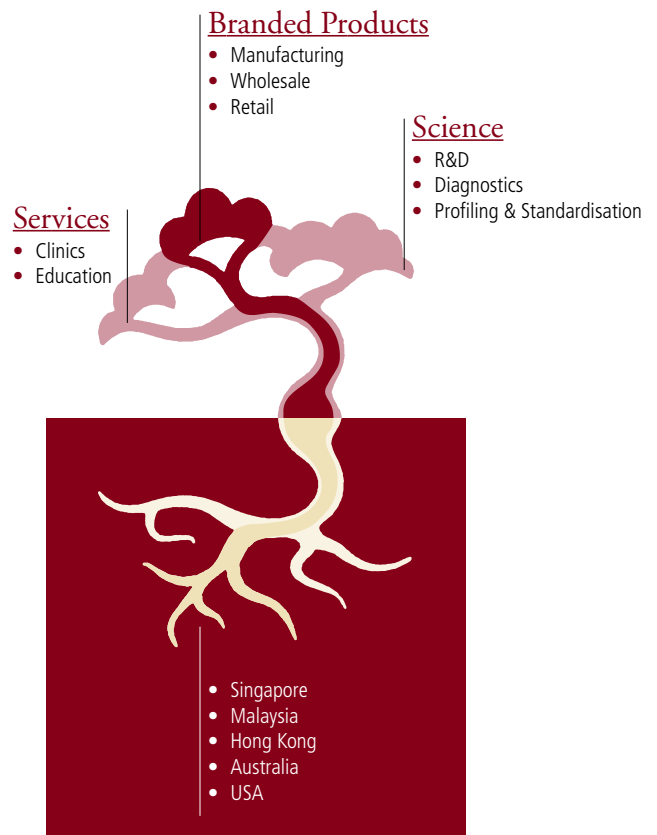
American Wild Ginseng Tea and Jasmine Tea

Retail

We started the financial year with 52 retail outlets, having opened 9 outlets in FY 2000. A total of 5 new outlets were added during the year, 3 in Singapore and 2 in Malaysia. These new stores, together with the ones added in FY 2000 contributed partially to the growth of group retail sales of 10.4% to \$58.5m in FY 2001. Under increasingly competitive conditions, we managed to maintain same store sales in Singapore and Malaysia, and registered a growth for Hong Kong.

The strategy for our retail network would be to optimise store sales through the introduction of suitable new products as well as undertaking selective advertising and promotion campaigns to raise product awareness among consumers. In addition, we will continue to expand our retail network by seeking suitable high-traffic locations for opening new stores. The performance of existing stores will be periodically reviewed to determine if the slower performing stores could benefit from relocation.

Our revamped cybershop at www.euyansang.com now offers each country a customised website for greater consumer shopping convenience. Together with our recently deployed Customer Relationship Management software, such customised website will enable us to target promotions at our 65,000 VIP cardholders in their respective markets.





Paragon, Singapore



Yuen Long, Hong Kong



Jalan Meru, Klang, Malaysia

Wholesale and Exports

Group turnover for wholesale and exports rose by 25% to \$23.5m for the year. All three major markets recorded higher wholesale turnover. In Malaysia, we increased our general market coverage of the supermarkets, convenience stores and independent retail outlets. For Singapore, three new major distributors were appointed during the year: Guardian, Watsons and Nature's Farm with a combined total of 173 outlets. This accounted for the 175% increase in Singapore wholesale turnover to \$1.1m. In Hong Kong, we benefited from the wholesale changeover through improved sales; we now handle the major wholesale accounts with an appointed agent covering the rest of the market.

Under the new exclusive distributor for China, our exports there grew by 80% to \$2.9m due to wider market coverage. Currently our [Bak Foong Pill] and [Bo Ying Compound] are available in 17 hospitals and over 4,000 clinics, drug stores and medical halls in 5 of China's 31 provinces. We are optimistic of our business prospects in China and will continue to work with our exclusive distributor to further exploit the market potential there.

New Products

The timely introduction of suitable new products is important for generating additional sales through our retail outlets and distribution channels. New products could originate from joint ventures, R&D initiatives or the acquisition of long term product marketing rights. In addition, we are continuously looking at offering different versions of our main products to properly serve the various segments of our customers. An example of this would be our recent introduction of a premium concentrated version of bottled bird's nest in Hong Kong, and we will continue to work at offering new innovative bird's nest-based products that are popular with our Asian customers. Our premium concentrated bottled bird's nest was well received in Hong Kong, and we will be launching the product soon in Singapore.

Our recent investment in Botanical Health Resources Inc. marks our entry into the TCM-based herbal beverage and tonic market. Herbal beverages and tonics will reinforce our position as a consumer healthcare company, and their appeal to younger consumers will broaden our customer base. These herbal beverages and tonics, being daily consumables, have high sales volume potential and are suitable products for our retail outlets and distribution channels. We expect to begin the retailing of these products in the current year. BHRI's range of "Gan Bei" tonics are widely sold in California and a marketing programme is being put into place to roll out the products to other parts of the US.

Following our joint venture with Renewal International Pte Ltd, we have developed and wholesaled a wide range of TCM based Zing herbal spa products to spa operators in Singapore.

Operations Review



Deer's Tail Pills and So Hup Pills

Scientific services

Our limited approach in applying Western scientific methods and techniques to Chinese medicine will be carried out through 45% owned Oxford Natural Products Asia Pte Ltd and 100% owned Applied Biomedical International Pte Ltd. Through these processes, we intend to achieve a higher degree of standardisation for our herb-based products. In some instances, we will work towards a scientific verification of the product efficacy claims. With a better understanding of the herbal ingredients, we can hopefully develop new products for more specific treatments.

With 50% funding from the Innovation and Technology Fund in Hong Kong, we have embarked on a three-year research and development project on the therapeutic actions and bioactive ingredients of Bak Foong Pills with the Chinese University of Hong Kong. Early this year, we formed a Chengdu joint venture in partnership with the West China University of Medical Sciences to develop new classes of Chinese herbal medicine by applying Western scientific principles. Future R&D initiatives are likely to follow this joint venture model which permits the entry of other co-investors to add value to the joint venture.

A Range of Herbal Capsules





Cheras, Malaysia, GMP Factory



Chai Wan, Hong Kong, GMP Factory

Integrative Medicine Centres & TCM clinics

Eu Yan Sang Australia owns a 51% stake in Natural Health Therapies Pty Ltd (NHT), which is involved in Integrative Medicine (IM). In 1999 / 2000, Integrative Medicine was estimated to account for about A\$1.9 billion of the A\$50 billion Australian health industry. It is the intention of NHT to build a small network of branded "YourHealth" Integrative Medicine centres covering a few major cities in Australia. The first centre will be opened in Manly, near Sydney in October this year. Under a subsequent phase, NHT will franchise its brand and management processes to the smaller independent integrative medicine centres.

We are working with NHT to develop a comprehensive range of herbal products and nutritional supplements to supply NHT's IM centres, as well as to support the other existing smaller integrative medical centres in Australia. Some of the herbal products and nutritional supplements developed with NHT could be sold through the Group's existing retail network and distribution channels in Asia. Our recent acquisition of a 51% stake in Aroma Fresh Pty Ltd will provide aromatherapy products to the IM centres. Currently, these aromatherapy products are available in about 600 supermarkets (including Coles, Myers and Woolworth), discount stores, pharmacies and selected gift shops throughout Australia.

Two TCM clinics have been established within our existing stores in Malaysia, and a third clinic will open later this year with the completion of refurbishment at our South Bridge Road store in Singapore. These clinics offer our customers greater convenience in accessing Chinese medicine as an additional form of medical therapy.

A Range of Herbal Candies



Corporate Governance

The Group is committed to maintaining a high standard of corporate governance in order to protect the interests of its shareholders and has put the following in place:

BOARD OF DIRECTORS

The Board comprises:

Mr Joseph William Yee Eu	(Non-Executive Chairman)
Mr Richard Yee Ming Eu <i>(Alternate: Dr David Yee Tat Eu)</i>	(Managing Director & CEO)
Mr Clifford Yee Fong Eu <i>(Alternate: Mr Laurence Yee Lye Eu)</i>	
Mr Robert James Yee Sang Eu <i>(Alternate: Mr Billy Wah Yan Ma)</i>	
Mr David Chung Woo Yeh	(Independent Director)
Dr Jennifer Gek Choo Lee	(Independent Director)

The Board reviews and approves key strategic operational and business expansion plans, major investments, funding decisions, the financial performance of the Group and its internal controls, and also ensures that the principal risks of the Group are identified and properly managed. It also reviews and approves announcements of the half-year and full-year results of the Company and the Group.

The Board is also responsible for the establishment of a healthy corporate environment which is conducive to promoting and maintaining good corporate governance within the Group.

During the financial year, the Board met four times. Full attendance for three of the meetings was recorded.

The duties of the Board are carried out directly or indirectly through various committees of the Board or through key management personnel.

- **Audit Committee**

The Audit Committee comprises:

Dr Jennifer Gek Choo Lee	(Chairman)
Mr David Chung Woo Yeh	
Mr Clifford Yee Fong Eu	

The Committee is governed and regulated by a Terms of Reference which sets out its role, responsibilities and proceedings.

Corporate Governance

- **Audit Committee (cont'd)**

During the financial year, the Committee met twice. It reviewed the scope of both the external and internal audit plans, the assistance given by Management to the external and internal auditors, the findings and recommendations of the internal auditors and made the appropriate recommendations to the Board, and the announcements of the half-year and full-year results of the Company and the Group.

The Committee has recommended the re-appointment of Messrs Ernst & Young as Auditors of the Company at the forthcoming Annual General Meeting.

In the opinion of the Board, the Company has complied with the Best Practices Guide in respect of audit committees issued by the Singapore Exchange Securities Trading Limited ("SGX-ST").

- **Securities Transactions**

The Group has adopted a Code of Best Practices on Securities Dealings (the "Code") to govern and regulate dealings in the Company's securities by officers of the Group. The Code was based on the Best Practices Guide set out in the Listing Manual of the SGX-ST.

- **Employee Share Option Scheme ("ESOS") Committee**

An ESOS committee comprising Dr Jennifer Gek Choo Lee, Mr Richard Yee Ming Eu and Mr Robert James Yee Sang Eu has been set up to administer the Eu Yan Sang ESOS. The ESOS was established to provide executives, directors and employees of the Group with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty.

- **Management Committee**

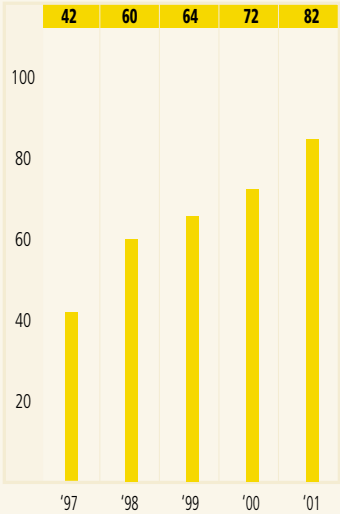
Senior executives of the Group, including the executive directors and group general managers, meet regularly to review and assess the Group's operational performance, brainstorm business strategies, and analyse and evaluate new projects and business expansion opportunities.

- **Group Procedures**

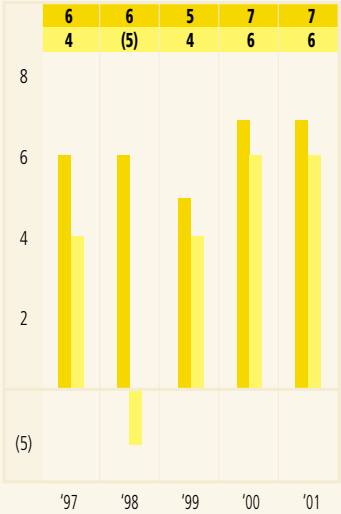
The Group has adopted a code of conduct covering pertinent operational, financial and administrative aspects of the Group's business, including setting authority limits and guidelines for all employees. This code of conduct has been incorporated into a 'Group Procedures and Authorities' (GPA) Manual. The GPA Manual is reviewed from time to time to ensure that the Group complies with prevailing laws and regulations in countries that the Group operates in.

Financial Highlights

Turnover (\$m)

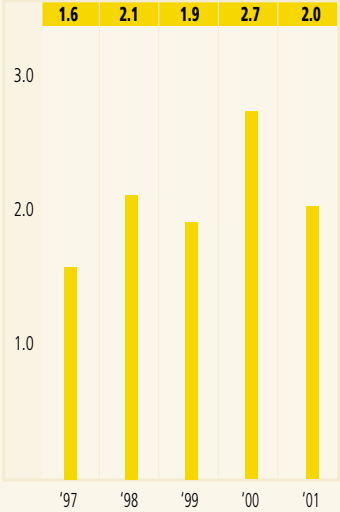


Profit Before Tax & Profit After Tax and Extraordinary Item (\$m)

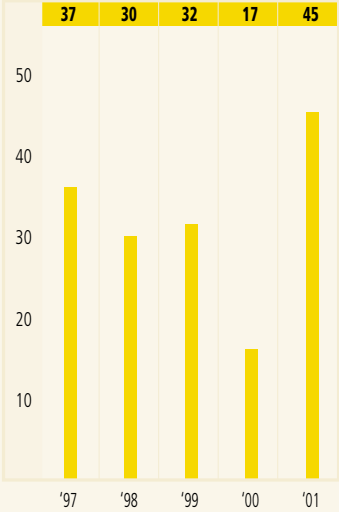


Profit Before Tax
Profit After Tax and
Extraordinary Item (\$m)

EPS (cents)



Shareholders' Equity (\$m)



NTA Per Share (cents)

