



# OSIM International Ltd

(Incorporated in the Republic of Singapore)

(Registration No.: 198304191N)

## Financial Statements And Dividend Announcement For 12 Months Ended 31 December 2007

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## **REVIEW OF PERFORMANCE OF THE GROUP**

### **Overview**

OSIM is the Pioneer of a Growing Industry. Our mission is to bring healthy lifestyle to our customers and today we are serving our customers over a worldwide network of more than 1,100 outlets in 31 countries.

We are in the process of Building a Global Brand. Our strategy is to expand to more cities, more countries and our goal is to expand to 3,000 outlets by year 2013.

FY2007 was a transitional year for OSIM's core business. Following many years of growth, we revamped the structure & systems and sharpened the strategy of the Group. The Group starts the year confident that these changes will help us to better respond to market challenges and deliver improved results in 2008.

Brookstone achieved a record year and completed seven successive quarters of same store growth. Moreover, it is profitable and growing. Despite the concerns over the effects of sub-prime, we saw improved sales in 4Q FY2007 which gives us a good level of confidence moving into 2008.

Global Active continued its healthy growth in 2007 and its vitamins and supplements business is expected to grow in a steady and sustainable manner this year.

### **Profitability**

In FY2007, revenue was \$523.7 million while EBITDA was \$ 35.4 million. This arose mainly because of lower sales in North Asia and South Asia which resulted in lower operating margins. In addition, there was a one-off non-cash impairment of S\$4.5 million in 2007. Excluding this, EBITDA was S\$39.9 million for FY2007.

On a positive note, Global Active turned in better profitability in FY2007 as there was broad-based growth in its key countries of Singapore, Malaysia and Australia.

In 4Q FY2007, due to lower revenue in North Asia, group EBITDA was \$2.9 million. Excluding the impairments mentioned above, EBITDA was S\$7.4 million for 4QFY2007.

The Group equity accounts the results of OSIM Brookstone Inc. In FY2007, Brookstone's revenue was a record US\$562.8 million and net profit was US\$6.4 million. The company posted its seventh successive positive same store growth in 4Q FY2007. It achieved an annual 5.0% positive same store growth, an improvement over the 1.8% recorded in 2006.

## REVIEW OF PERFORMANCE OF THE GROUP

### Profitability (cont'd)

Moreover, Brookstone is profitable and cash flow positive in FY2007. It paid US\$24.1m of bond interest expense during the year. Notwithstanding Brookstone's profitability under US accounting rules, when OSIM equity accounts its share of Brookstone's results under SFRS (Singapore Financial Reporting Standards), the rules are different from US GAAP and it has to recognise payment to preference shareholders ("OBH cumulative dividend") as a financial interest expense, thereby resulting in a share of loss in joint venture & associates of \$5.5 million (compared with share of loss of \$11.2 million in 2006).

After accounting for Associates & Joint Ventures using this methodology, Group net profit after tax declined to \$3.1 million in FY2007 (or \$17.4 million in excluding OBH cumulative dividend).

### **Revenue by Region – Full Year**

Region	2007		2006	
	S\$m	%	S\$m	%
North Asia	251.8	48%	341.9	55%
South Asia	180.3	35%	203.5	33%
America/Africa/Europe/ Middle East/Oceania	91.6	17%	77.5	12%
Total	523.7	100%	622.9	100%

For FY2007, revenue was lower in both North & South Asia as we revamped the structure & systems of the business. Our fundamentals remain strong and we expect both these regions to register growth this year. Sales to the rest of the world rose mainly due to increased sales to America and franchisees.

### **Global Network of Outlets**

Region	31 Dec 2007	31 Dec 2006
North Asia	322	329
South Asia	291	323
America/Africa/Europe/ Middle East/Oceania	36	34
Total OSIM Outlets	649	686
Global Active Outlets	133	139
Brookstone Outlets	322	310
Total	1,104	1,135

## **REVIEW OF PERFORMANCE OF THE GROUP**

In FY2007, the Group had an increase in Brookstone outlets and a net decrease in OSIM outlets and Global Active outlets. The expansion of Brookstone outlets is in line with our plan. For OSIM, the reduction was mainly because of rationalisation of outlets with focus to achieve better profitability. For Global Active, it was due to the sale of its US military bases outlets in Korea & Japan as it focused on the development of its key countries.

The Group has direct control over 1,104 outlets globally as at end December 2007. This scale continues to be a key strength of OSIM in maximising returns from the sale of innovative healthy lifestyle products to customers on a global scale. Our goal for year 2013 remains as 3,000 outlets.

### **Balance Sheet and Cash Flow & Dividends**

Cash flow from operations and internal resources was used to finance the investment in fixed assets and the net repayment of bank loans. Due to lower level of business activities, lower stocks and trade debtors were recorded as at 31 December 2007.

The directors do not recommend any dividend to be paid for FY2007.

## **COMMENTARY ON CURRENT PERIOD'S PROSPECTS**

Notwithstanding challenging global market conditions, the directors are optimistic of the Group's performance in 2008.

The performance in FY2008 is expected to improve as the Group executes the following profit growth plan:

1. To launch more innovative OSIM products every quarter, including the introduction of major products like the World's First Well-Being Chair uSpace, Massage & Exercise Chair uYoYo and Cardio-Twist Trimmer uRobic in Asia in 1H FY2008.
2. To improve the quarterly performance of Brookstone by increasing store profitability through higher store productivity, enhanced selling culture and better products.
3. To capitalise on a comprehensive product range by expanding Global Active's retailing network in Australia and Malaysia. It will also continue to develop its China network.
4. To add at least another five countries this year to its International Franchise (OSIM is currently in 31 countries). Targets include several countries in Europe & South America.

The Group will continue to develop its long term plan to establish a global healthy lifestyle retailing business. As with any longer term endeavour, some short term volatility in performance from quarter to quarter should be expected.

Barring unforeseen circumstances, the Group expects profit after tax in FY2008 to be higher than FY2007.

## **RISK FACTORS**

### **Industry specific risks**

#### **1. Changes in consumer tastes**

As with all other consumer products, sales of our products are dependent on consumers' demand for our products and are susceptible to changes in consumer tastes. There is no assurance that our intensive efforts in niche marketing, brand management and product innovation will continue to enable us to satisfy the evolving consumer tastes.

#### **2. Susceptibility to downturns in economic cycles**

The nature of our healthy lifestyle products make us more susceptible to reduced demand in times of economic downturn than other kinds of businesses because our products may not be considered as essential health products.

#### **3. Health epidemics, terror alerts, terror attacks and other acts of violence or war may adversely affect sales.**

A large part of our outlets are located at high traffic malls and airports. Any of the above events will lead to a decrease in consumer traffic in malls and airports and consequently may have a material adverse effect on sales.

#### **4. Inferior quality and unsubstantiated product performance claims by imitators may lead to adverse media publicity and negative market sentiments**

A number of our products have always attracted imitation products traders. Their inferior quality and unsubstantiated product performance claims may lead to adverse media publicity and negative market sentiments and may have a material adverse effect on sales.

## **RISK FACTORS**

### **Company specific risks**

#### 5. Foreign exchange risks

While our sales are mainly denominated in the respective local currencies in which the sales arise, namely the S\$, RM, HK\$, RMB, NT\$, A\$ and US\$, our costs of procurement of products from our contract manufacturers are incurred mainly in US\$, Yen and Euro. There is therefore an exchange transaction risk.

#### 6. Expansion of business and franchisee network

We plan to open OSIM Focus stores in existing and new geographical markets and sign on new franchisees. There are risks that these initiatives may not be successful.

#### 7. The results of Brookstone are highly dependant on sales during the fourth quarter of the year.

A high percentage of our joint venture company, Brookstone's sales is transacted during the fourth quarter of the year. As a result, Brookstone's annual profits are substantially made during the year end. If there should be any unfavourable external events or deviation from projected demand for products, these could have a material adverse effect on Brookstone's sales and profitability.

# Financial Statements

## BALANCE SHEETS

(Amounts in Singapore dollars)

	Note	Group		Company	
		31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
		\$'000	\$'000	\$'000	\$'000
<b>Equity attributable to equity holders of the Company</b>					
Share capital	A	42,574	42,501	42,574	42,501
Accumulated profits		141,062	145,947	122,988	111,266
Enterprise expansion funds		545	545	-	-
Capital reserves		1,384	1,401	748	765
Hedging reserve		(12)	(1,394)	(12)	(1,394)
Revaluation reserve		5,237	5,237	-	-
Premium on purchase of minority interests' (MIs') shares		(7,720)	(7,033)	-	-
Foreign currency translation reserve		(23,355)	(17,082)	-	-
		159,715	170,122	166,298	153,138
<b>Minority interests</b>		6,940	6,217	-	-
<b>Total equity</b>		<b>166,655</b>	<b>176,339</b>	<b>166,298</b>	<b>153,138</b>
<b>Non-current assets</b>					
Fixed assets		38,144	48,446	9,532	12,657
Investment property		569	592	569	592
Subsidiaries	C	-	-	80,589	78,118
Associated companies and a joint venture		127,595	140,738	146,327	146,474
Intangible assets		35,069	39,845	1,571	84
Deferred tax assets		7,368	4,910	-	-
Long term Investment		930	930	930	930
Long term receivables		11,746	10,619	1,716	1,915
		221,421	246,080	241,234	240,770
<b>Current assets</b>					
Stocks		71,698	91,658	13,891	17,286
Trade debtors		31,683	39,625	7,467	9,402
Other debtors, deposits and prepaid operating expenses		8,300	9,077	2,296	3,495
Due from subsidiaries (trade)		-	-	13,247	12,856
Due from subsidiaries (non-trade)		-	-	1,610	3,032
Due from affiliated companies (trade)		811	1,074	-	-
Due from affiliated companies (non-trade)		2	1	1	1
Due from associated companies (trade)		1,370	410	1,370	396
Due from associated companies (non-trade)		749	704	749	692
Due from a joint venture (trade)		683	871	683	871
Due from a joint venture (non-trade)		227	-	227	-
Loans to associated companies		757	510	757	510
Fixed deposits		5,621	5,719	-	5,100
Cash and bank balances		22,126	24,047	5,251	8,041
		144,027	173,696	47,549	61,682

## Financial Statements

### BALANCE SHEETS (Continued)

(Amounts in Singapore dollars)

	Note	Group		Company	
		31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
		\$'000	\$'000	\$'000	\$'000
<b>Current liabilities</b>					
Trade creditors		22,710	20,547	4,731	3,357
Other creditors, accruals and provisions		41,374	49,268	12,220	14,802
Due to subsidiaries (trade)		-	-	70	58
Due to subsidiaries (non-trade)		-	-	132	7,764
Due to affiliated companies (trade)		1	-	-	-
Due to affiliated companies (non-trade)		-	1,219	-	-
Due to associated companies (trade)		9,782	20,650	6,722	17,930
Due to associated companies (non-trade)		3	6	3	6
Due to a joint venture (trade)		809	7	809	7
Short-term bank loans	D	8,594	11,658	-	-
Provision for income tax		6,951	9,933	3,862	4,920
Bank loans - current portion	E	21,208	23,635	20,000	20,000
Obligations under finance leases – current portion		629	1,185	-	-
Bills payable to banks (unsecured)		38,805	32,987	33,453	19,404
		<u>150,866</u>	<u>171,095</u>	<u>82,002</u>	<u>88,248</u>
<b>Net current (liabilities)/assets</b>		(6,839)	2,601	(34,453)	(26,566)
<b>Non-current liabilities</b>					
Bank loans - non-current portion	E	43,908	66,639	40,000	60,000
Obligations under finance leases – non-current portion		534	1,128	-	-
Provision for pension benefits		359	321	-	-
Deferred tax liabilities		3,126	4,254	483	1,066
		<u>47,927</u>	<u>72,342</u>	<u>40,483</u>	<u>61,066</u>
<b>Net assets</b>		<u>166,655</u>	<u>176,339</u>	<u>166,298</u>	<u>153,138</u>

# Financial Statements

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Amounts in Singapore dollars)

	Group		Group	
	3 months ended		12 months ended	
	31 Dec		31 Dec	
	2007	2006	2007	2006
Note	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>	127,941	145,632	523,673	622,936
Other operating income	2,226	1,672	8,277	8,995
Changes in inventories of finished goods	(191)	4,960	(19,959)	20,066
Finished goods purchased	(48,638)	(66,201)	(189,356)	(254,005)
Employee benefits expense	(22,131)	(20,449)	(86,290)	(86,050)
Depreciation and amortisation expenses	(5,027)	(4,441)	(18,702)	(16,056)
Losses on deemed changes in shareholdings in a subsidiary and a joint venture - net	(16)	(1,067)	(16)	(1,067)
Loss on disposal of a business operation	-	-	(389)	-
Loss on closure of an associated company	-	-	(24)	-
Other operating expenses	(56,301)	(58,957)	(200,489)	(234,153)
<b>(Loss)/profit before taxation and financial expenses and income</b>	(2,137)	1,149	16,725	60,666
Financial expenses	(1,341)	(1,787)	(6,184)	(7,091)
Financial income	104	73	370	1,220
	(3,374)	(565)	10,911	54,795
Share of profits of associated companies and a joint venture before financial expenses	34,636	32,602	8,821	2,536
Share of financial expenses of a joint venture	(3,756)	(3,683)	(14,297)	(13,719)
Share of profit/(losses) of associated companies and a joint venture after financial expenses	30,880	28,919	(5,476)	(11,183)
<b>Profit before taxation</b>	27,506	28,354	5,435	43,612
Taxation	F 3,060	2,045	(1,781)	(7,824)
Net profit for the period/year	30,566	30,399	3,654	35,788
<b>Attributable to:</b>				
Shareholders of the Company	30,174	29,921	3,133	33,802
Minority interests	392	478	521	1,986
	30,566	30,399	3,654	35,788
<b>Earnings per share (cents)</b>				
- Basic	G 5.57	5.52	0.58	6.25
- Diluted	G 5.57	5.49	0.58	6.20

# Financial Statements

## STATEMENTS OF CHANGES IN EQUITY

(Amounts in Singapore dollars)

2007 Group	Attributable to equity holders of the Company									Minority Interests	Total equity
	Share capital	Accumulated profits	Enterprise expansion funds	Capital reserves	Hedging reserve	Revaluation reserve	Premium on purchase of MIs' shares	Foreign currency translation reserve	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 Jan 2007	42,501	145,947	545	1,401	(1,394)	5,237	(7,033)	(17,082)	170,122	6,217	176,339
Net change in hedging reserve	-	-	-	-	1,382	-	-	-	1,382	-	1,382
Net effect of exchange differences	-	-	-	-	-	-	-	(6,275)	(6,275)	(108)	(6,383)
Net income/(loss) recognised directly in equity	-	-	-	-	1,382	-	-	(6,275)	(4,893)	(108)	(4,999)
Net profit for the year	-	3,133	-	-	-	-	-	-	3,133	521	3,654
Total recognised income and expenses for the year	-	3,133	-	-	1,382	-	-	(6,275)	(1,760)	413	(1,347)
Dividends on ordinary shares	-	(8,018)	-	-	-	-	-	-	(8,018)	-	(8,018)
Increase in shareholdings in a subsidiary	-	-	-	-	-	-	(399)	2	(397)	(397)	(794)
Additional premium recognised from purchase of MI's shares	-	-	-	-	-	-	(288)	-	(288)	288	-
Lapse of employee share options	-	-	-	(10)	-	-	-	-	(10)	-	(10)
Exercise of employee share options	73	-	-	(7)	-	-	-	-	66	-	66
Increase in investment by a minority shareholder	-	-	-	-	-	-	-	-	-	419	419
At 31 Dec 2007	42,574	141,062	545	1,384	(12)	5,237	(7,720)	(23,355)	159,715	6,940	166,655

# Financial Statements

## STATEMENTS OF CHANGES IN EQUITY (Continued)

(Amounts in Singapore dollars)

2006 Group	Attributable to equity holders of the Company									Minority Interests	Total equity	
	Share capital	Share premium	Accumulated profits	Enterprise expansion funds	Capital reserves	Hedging reserve	Revaluation reserve	Premium on purchase of MIs' share	Foreign currency translation reserve			Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 Dec 2005 as previously stated	22,449	18,046	124,035	545	1,446	(3,236)	-	(953)	(1,175)	161,157	8,395	169,552
Fair value adjustment to the identifiable assets and liabilities of a subsidiary acquired in 2005	-	-	-	-	-	-	5,237	(12)	(2)	5,223	(959)	4,264
At 1 Jan 2006 as restated	22,449	18,046	124,035	545	1,446	(3,236)	5,237	(965)	(1,177)	166,380	7,436	173,816
Net change in hedging reserve	-	-	-	-	-	1,842	-	-	-	1,842	22	1,864
Net effect of exchange differences	-	-	-	-	-	-	-	-	(15,905)	(15,905)	(80)	(15,985)
Net income/(loss) recognised directly in equity	-	-	-	-	-	1,842	-	-	(15,905)	(14,063)	(58)	(14,121)
Net profit for the year	-	-	33,802	-	-	-	-	-	-	33,802	1,986	35,788
Total recognised income and expenses for the year	-	-	33,802	-	-	1,842	-	-	(15,905)	19,739	1,928	21,667
Dividends on ordinary shares	-	-	(11,536)	-	-	-	-	-	-	(11,536)	-	(11,536)
Transfer of share premium to share capital	18,046	(18,046)	-	-	-	-	-	-	-	-	-	-
Transfer to capital reserves	-	-	(354)	-	354	-	-	-	-	-	-	-
Lapse of employee shares options	-	-	-	-	(43)	-	-	-	-	(43)	-	(43)
Exercise of employee share options	2,006	-	-	-	(356)	-	-	-	-	1,650	-	1,650
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,392)	(1,392)
Increase in shareholdings in a subsidiary	-	-	-	-	-	-	-	-	-	-	(2,171)	(2,171)
Premium on purchase of Ml's shares	-	-	-	-	-	-	-	(6,068)	-	(6,068)	-	(6,068)
Issue of shares to minority shareholder	-	-	-	-	-	-	-	-	-	-	416	416
At 31 Dec 2006	42,501	-	145,947	545	1,401	(1,394)	5,237	(7,033)	(17,082)	170,122	6,217	176,339

## Financial Statements

### STATEMENTS OF CHANGES IN EQUITY (Continued)

(Amounts in Singapore dollars)

2007 Company	Attributable to equity holders of the Company				Total equity
	Share capital	Accumulated profits	Capital reserves	Hedging reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 Jan 2007	42,501	111,266	765	(1,394)	153,138
Net change in hedging reserve	-	-	-	1,382	1,382
Net profit recognised directly in equity	-	-	-	1,382	1,382
Net profit for the year	-	19,740	-	-	19,740
Total recognised income for the year	-	19,740	-	1,382	21,122
Dividends on ordinary shares	-	(8,018)	-	-	(8,018)
Lapse of employee share options	-	-	(10)	-	(10)
Exercise of employee share options	73	-	(7)	-	66
At 31 Dec 2007	42,574	122,988	748	(12)	166,298

2006 Company	Attributable to equity holders of the Company					Total equity
	Share capital	Share premium	Accumulated profits	Capital reserves	Hedging reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 Jan 2006	22,449	18,046	90,336	1,164	(3,073)	128,922
Net change in hedging reserve	-	-	-	-	1,679	1,679
Net profit recognised directly in equity	-	-	-	-	1,679	1,679
Net profit for the year	-	-	32,466	-	-	32,466
Total recognised income for the year	-	-	32,466	-	1,679	34,145
Dividends on ordinary shares	-	-	(11,536)	-	-	(11,536)
Transfer of share premium to share capital	18,046	(18,046)	-	-	-	-
Lapse of employee share options	-	-	-	(43)	-	(43)
Exercise of employee share options	2,006	-	-	(356)	-	1,650
At 31 Dec 2006	42,501	-	111,266	765	(1,394)	153,138

# Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in Singapore dollars)

	Group		Group	
	3 months ended 31 Dec		12 months ended 31 Dec	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>				
Profit before taxation	27,506	28,354	5,435	43,612
Adjustments for:				
Share of (profits)/losses of associated companies and a joint venture	(30,880)	(28,919)	5,476	11,183
Depreciation of fixed assets	4,050	3,993	16,704	14,469
Loss on disposal of fixed assets	870	355	1,676	1,414
Loss on disposal of a business operation	-	-	389	-
Loss on closure of an associated company	-	-	24	-
Intangible assets written off	1,487	110	1,487	110
Amortisation of intangible assets	977	448	1,998	1,587
Impairment loss on goodwill	848	-	848	-
Impairment loss on fixed assets	3,671	90	3,671	90
Losses on deemed changes in shareholdings in a subsidiary and a joint venture - net	16	1,067	16	1,067
Share-based payment expenses	(10)	5	(10)	(43)
Financial income	(104)	(73)	(370)	(1,220)
Financial expenses	1,341	1,787	6,184	7,091
<b>Operating profit before working capital changes</b>	9,772	7,217	43,528	79,360
(Increase)/decrease in:				
Stocks	177	(4,862)	19,169	(19,517)
Trade debtors	5,015	(4,814)	8,080	(3,362)
Other debtors, deposits and prepaid operating expenses	2,004	1,755	(1,873)	(2,827)
Due from affiliated companies (trade)	106	(218)	263	14,309
Due from affiliated companies (non-trade)	(1)	165	(1)	396
Due from associated companies (trade)	(220)	615	(961)	5,636
Due from associated companies (non-trade)	(27)	(696)	(45)	(247)
Due from a joint venture (trade)	1,018	184	188	3,668
Due from a joint venture (non-trade)	(227)	-	(227)	-
(Decrease)/Increase in:				
Trade creditors	3,369	2,376	2,164	(1,157)
Other creditors, accruals and provisions	(1,714)	7,424	(6,439)	(3,728)
Due to affiliated companies (trade)	(32)	(43)	1	(9,593)
Due to affiliated companies (non-trade)	(2)	1,219	(1,219)	1,201
Due to associated companies (trade)	165	6,953	(10,874)	14,672
Due to associated companies (non-trade)	2	-	2	-
Due to a joint venture (trade)	640	7	802	7
Provision for pension benefits	44	(42)	37	(107)
Bills payable to banks	(7,201)	(6,913)	5,821	(16,634)
<b>Cash flows generated from operations</b>	12,888	10,327	58,416	62,077
Income tax received/(paid) (net of refund)	273	1,095	(7,867)	(5,141)
<b>Net cash flows generated from operating activities</b>	13,161	11,422	50,549	56,936

## Financial Statements

### CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(Amounts in Singapore dollars)

	Group		Group	
	3 months ended 31 Dec		12 months ended 31 Dec	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
<b>Cash flows from investing activities</b>				
Purchase of fixed assets (Note A)	(2,346)	(10,195)	(12,193)	(23,014)
Proceeds from disposal of fixed assets	14	16	220	565
Proceeds from disposal of a business operation	-	-	3,604	-
Proceeds from closure of an associated company	-	-	278	-
Interest received	104	134	370	1,048
Dividend received from associated companies	874	-	2,836	952
Purchase of shares in subsidiaries	-	-	-	(4,943)
Acquisition of additional interests in a subsidiary	(83)	-	(794)	(7,762)
Increase in investment by a minority shareholder	419	-	419	-
Issue of shares to a minority shareholder	-	-	-	484
Capital injection in an associated company	-	-	(115)	-
Acquisition of intangible assets	(2,250)	(95)	(2,413)	(228)
Repayment of loan from an associated company	-	53	207	53
Loan to an associated company	-	-	(454)	(207)
Increase in other investment	-	-	-	(930)
<b>Net cash flows used in investing activities</b>	<b>(3,268)</b>	<b>(10,087)</b>	<b>(8,035)</b>	<b>(33,982)</b>
<b>Cash flows from financing activities</b>				
Receipts from new bank loans	923	12,907	11,706	30,143
Repayment of bank loans	(6,272)	(7,194)	(39,553)	(55,161)
Repayment of finance lease obligations (net of additions)	(176)	(1,969)	(1,231)	(3,253)
Proceeds from issuance of ordinary shares	3	285	66	1,650
Payment of dividends	-	(7,038)	(8,018)	(11,536)
Interest paid	(847)	(1,749)	(5,589)	(6,941)
<b>Net cash flows used in financing activities</b>	<b>(6,369)</b>	<b>(4,758)</b>	<b>(42,619)</b>	<b>(45,098)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,524</b>	<b>(3,423)</b>	<b>(105)</b>	<b>(22,144)</b>
Net effect of exchange rates changes	(791)	(1,564)	(1,914)	(4,167)
<b>Cash and cash equivalents at beginning of period/year</b>	<b>25,014</b>	<b>34,753</b>	<b>29,766</b>	<b>56,077</b>
Cash and cash equivalents at end of period/year (Note B)	<b>27,747</b>	<b>29,766</b>	<b>27,747</b>	<b>29,766</b>

## Financial Statements

### CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(Amounts in Singapore dollars)

#### Note A: Purchase of fixed assets

During the financial year, the Group acquired fixed assets with an aggregate cost of \$12,206,000 (2006: \$23,886,000) of which \$13,000 (2006: \$872,000) were acquired by means of finance leases. Cash payments of \$12,193,000 (2006: \$23,014,000) were made to purchase fixed assets.

#### Note B: Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following balance sheet amounts

	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
	\$'000	\$'000
Cash and bank balances	22,126	24,047
Fixed deposits	5,621	5,719
	<u>27,747</u>	<u>29,766</u>

## Financial Statements

### NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Singapore dollars)

#### A. SHARE CAPITAL

	<u>Group and Company</u>		<u>Group and Company</u>	
	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
	<b>Number of ordinary shares (‘000)</b>		<b>Issued and fully paid up capital (\$'000)</b>	
<b>Issued and fully paid</b>				
At beginning of year	541,709	448,988	42,501	22,449
Share options exercised	129	2,768	66	1,650
Effect of adopting FRS 102	-	-	7	356
Bonus shares issued	-	89,953	-	-*
Transfer of share premium reserves to share capital	-	-	-	18,046
At end of year	<u>541,838</u>	<u>541,709</u>	<u>42,574</u>	<u>42,501</u>

\*As share premium has become part of the Company's share capital and the bonus share are issued from the share premium account, there is no impact on the value of the share capital.

# Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### B. SHARE OPTIONS

Details of the options to subscribe for ordinary shares of the Company granted to directors and employees of the Group and associated companies pursuant to the scheme are as follows:

	Exercise period	Options granted during financial period under review	Aggregate options granted (including bonus issue) since commencement of the Option Scheme	Aggregate options exercised since commencement of the Option Scheme	Aggregate options lapsed since commencement of the Option Scheme	Aggregate options outstanding at end of financial period	Exercise Price \$
Charlie Teo	15.01.2002–14.01.2011	-	247,500	-	-	247,500	0.178
Chay Lee	15.01.2003–14.01.2012	-	247,500	-	-	247,500	0.236
	27.12.2003–26.12.2012	-	198,000	-	-	198,000	0.442
	16.02.2005–15.02.2014	-	95,040	-	-	95,040	0.917
Richard Leow	15.01.2002–14.01.2011	-	247,500	(247,500)	-	-	0.178
Lian Soon	15.01.2003–14.01.2012	-	247,500	(247,500)	-	-	0.236
	27.12.2003–26.12.2012	-	198,000	(198,000)	-	-	0.442
	16.02.2005–15.02.2014	-	95,040	(95,000)	-	40	0.917
Peter Lee	15.01.2002– 14.01.2011	-	135,000	-	-	135,000	0.178
Hwai Kiat	15.01.2003–14.01.2012	-	135,000	-	-	135,000	0.236
	27.12.2003–26.12.2012	-	144,000	-	-	144,000	0.442
	16.02.2005–15.02.2014	-	69,120	-	-	69,120	0.917
Michael Kan	15.01.2002–14.01.2006	-	39,063	(39,063)	-	-	-
Yuet Yun	15.01.2003–14.01.2007	-	39,063	(39,063)	-	-	-
	27.12.2003–26.12.2007	-	31,250	(31,250)	-	-	-
	16.02.2005–15.02.2009	-	21,600	-	-	21,600	0.917
Ong Kian Min	15.01.2002–14.01.2006	-	46,876	(46,876)	-	-	-
	15.01.2003–14.01.2007	-	46,876	(46,876)	-	-	-
	27.12.2003–26.12.2007	-	45,000	(45,000)	-	-	-
	16.02.2005–15.02.2009	-	21,600	-	-	21,600	0.917
Khor Peng Soon	16.02.2005–15.02.2009	-	21,600	-	-	21,600	0.917

# Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### B. SHARE OPTIONS (Continued)

	Exercise period	Options granted during financial period under review	Aggregate options granted (including bonus issue) since commencement of the Option Scheme	Aggregate options exercised since commencement of the Option Scheme	Aggregate options lapsed since commencement of the Option Scheme	Aggregate options outstanding at end of financial period	Exercise Price \$
Staff	15.01.2002–14.01.2006	-	30,000	(30,000)	-	-	-
	15.01.2002–14.01.2011	-	1,649,057	(1,294,682)	(151,875)	202,500	0.178
	30.08.2002–29.08.2011	-	412,186	(348,436)	(63,750)	-	-
	15.01.2003–14.01.2007	-	46,875	(46,875)	-	-	-
	15.01.2003–14.01.2012	-	2,424,620	(1,852,180)	(234,375)	338,065	0.236
	16.08.2003–15.08.2012	-	1,048,200	(695,600)	(209,600)	143,000	0.506
	27.12.2003–26.12.2007	-	54,000	(54,000)	-	-	0.442
	27.12.2003–26.12.2012	-	2,720,830	(1,935,450)	(418,900)	366,480	0.442
	19.06.2004–18.06.2013	-	1,215,000	(840,000)	(259,000)	116,000	0.488
	16.02.2005–15.02.2009	-	28,800	(28,800)	-	-	0.917
	16.02.2005–15.02.2014	-	4,140,200	(1,154,860)	(905,220)	2,080,120	0.917
			16,141,896	(9,317,011)	(2,242,720)	4,582,165	

# Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### C. SUBSIDIARIES

Details of subsidiaries are as follows:

Name	Principal activities	Country of incorporation	Percentage of equity held		Cost of investment	
			31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
			%	%	\$'000	\$'000
OSIM International Trading (Shanghai) Co., Ltd	Import, trading and distribution of healthy lifestyle products	People's Republic of China	100	100	295	295
OSIM (M) Sdn Bhd	Sale and marketing of healthy lifestyle products	Malaysia	80	80	7,354	5,677
OSIM (HK) Company Limited	Sale and marketing of healthy lifestyle products	Hong Kong	100	100	12,070	12,070
OSIM (Taiwan) Co., Ltd	Sale and marketing of healthy lifestyle products	Taiwan	92.50	92.50	7,156	7,156
Nutrition Focus (USA) Inc*	Dormant	British Virgin Island	100	100	-	-
Global Active Limited	Specialty retailer and distributor of nutraceutical products	Singapore	82.77	81.24	41,990	41,196
OSIM (China) Co., Ltd	Sale and marketing of healthy lifestyle products	People's Republic of China	100	100	11,008	11,008
OSIM International (Australia) Pty Ltd	Sale and marketing of healthy lifestyle products	Australia	60	60	716	716
					<b>80,589</b>	<b>78,118</b>

\*Cost of Investment in Nutrition Focus (USA) Inc is \$2.

# Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### C. SUBSIDIARIES (Continued)

Name	Principal activities	Country of incorporation	Percentage of equity held		Cost of investment	
			31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
			%	%	\$'000	\$'000
<b><u>Held through Global Active Limited</u></b>						
Nutri Active Pte Ltd	Wholesale of nutraceutical products and supplements	Singapore	82.77 <sup>^</sup>	81.24 <sup>^</sup>	-	-
Victoria House Pte Ltd	Retailing of nutraceutical products and supplements	Singapore	82.77 <sup>^</sup>	81.24 <sup>^</sup>	-	-
VHE China Limited	Dormant	Hong Kong	82.77 <sup>^</sup>	81.24 <sup>^</sup>	-	-
VHE Shanghai Limited	Wholesale of nutraceutical products and supplements	People's Republic of China	82.77 <sup>^</sup>	81.24 <sup>^</sup>	-	-
Nutrition Imports Pty Ltd	Wholesale of nutraceutical products and supplements	Australia	82.77 <sup>^</sup>	81.24 <sup>^</sup>	-	-
Green Valley Nutrition Pty Ltd	Retailing of nutraceutical products and supplements	Australia	82.77 <sup>^</sup>	81.24 <sup>^</sup>	-	-
USB Inc	Retailing of nutraceutical products and supplements	Guam	82.77 <sup>^</sup>	81.24 <sup>^</sup>	-	-
<b><u>Held through Victoria House Pte Ltd</u></b>						
Victoria House Sdn Bhd	Retailing of nutraceutical products and supplements	Malaysia	70.35 <sup>^</sup>	69.05 <sup>^</sup>	-	-
Nutri Active Sdn Bhd	Wholesale of nutraceutical products and supplements	Malaysia	70.35 <sup>^</sup>	69.05 <sup>^</sup>	-	-

<sup>^</sup> Group's effective shareholdings

## Financial Statements

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### D. SHORT-TERM BANK LOANS

	Group		Company	
	31 Dec 07	31 Dec 06	31 Dec 07	31 Dec 06
	\$'000	\$'000	\$'000	\$'000
Secured	-	2,350	-	-
Unsecured	8,594	9,308	-	-
	<u>8,594</u>	<u>11,658</u>	<u>-</u>	<u>-</u>

The secured short-term bank loans which were previously secured by fixed deposits of S\$498,000 in 2006 and freehold land and building of a subsidiary had been repaid. These loans bore interest at the rates of 2.690% to 2.480% (2006: 2.350% to 2.550%) per annum.

The unsecured short-term bank loans bear interest at the rates of 4.790% to 7.908% (2006: 4.600% to 6.750%) per annum and are repayable within the next twelve months from the balance sheet date.

#### E. BANK LOANS

	Group		Company	
	31 Dec 07	31 Dec 06	31 Dec 07	31 Dec 06
	\$'000	\$'000	\$'000	\$'000
Bank loan A	1,266	3,444	-	-
Bank loan B	-	212	-	-
Bank loan C	2,286	2,357	-	-
Bank loan D	-	3,182	-	-
Bank loan E	60,000	80,000	60,000	80,000
Bank loan F	563	1,079	-	-
Bank loan G	1,001	-	-	-
	<u>65,116</u>	<u>90,274</u>	<u>60,000</u>	<u>80,000</u>
Due within 12 months	(21,208)	(23,635)	(20,000)	(20,000)
Due after 12 months	<u>43,908</u>	<u>66,639</u>	<u>40,000</u>	<u>60,000</u>

## Financial Statements

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### E. BANK LOANS (Continued)

Bank loan A, taken up by a subsidiary, is repayable in 180 equal monthly installments over a period of 15 years from the date of drawdown. This loan is secured by the freehold land and building of a subsidiary and bears interest at the rate of 3.515% (2006: 3.185%) per annum.

Bank loan B, taken up by a subsidiary, was repayable in 36 equal monthly installments over a period of 3 years from the date of drawdown. This loan was unsecured and had been fully repaid in August 2007. The loan bore interest at the rate of 6.000% (2006: 6.000%) per annum with monthly rest effective from the date of drawdown.

Bank loan C, taken up by a subsidiary, is repayable monthly over a period of 25 years from the date of drawdown. In 2005, this loan was secured by the leasehold building of a subsidiary and a corporate guarantee from a fellow subsidiary. The loan bore interest at the rate of 4.850% per annum, and thereafter at the bank's prevailing prime rate calculated on monthly rests basis. The terms of the bank loan were revised in September 2006 and bears interest at the rate of 4.850% per annum for the first year, 5.000% per annum for the second year, and thereafter at 1.000% per annum above the lending bank's prevailing prime rate calculated on monthly rests basis.

Bank loan D, taken up by a subsidiary, is repayable in 12 quarterly installments over a period of 3 years from the date of drawdown. In 2005, the loan was supported by a corporate guarantee from a fellow subsidiary and bore interest at the rate of 2.250% per annum plus bank's cost of fund. The terms of this bank loan were revised in September 2006 and bears interest at the rate of 2.000% (2006: 2.000%) per annum above the lending bank's cost of fund. The loan had been fully paid in December 2007.

Bank loan E, taken up at Company, is repayable half yearly over a period of 5 years from the date of drawdown. This is a syndicated loan supported by corporate guarantees from fellow subsidiaries. The loan's interest rate is at SGD Swap Offer Rate plus 0.700% per annum.

Bank loan F, taken up by a subsidiary, is repayable monthly over a period of 3 years from August 2006. This loan is secured by the leasehold building of a subsidiary. In 2005, this loan bore interest at the rate of 5.946% per annum. The terms of the bank loan were revised in September 2006 and bears interest at 2.250% (2006: 2.250%) per annum above the lending bank's cost of fund.

Bank loan G, taken up by a subsidiary, is repayable in 36 monthly installments commencing from 1 month after the full drawdown. This loan is secured by a corporate guarantee from the Company and personal guarantee from a director of a subsidiary. The bank loan bears interest at the rate of 6.000% per annum or 1.750% per annum over the 3 years effective cost of fund whichever is higher on monthly rests.

## Financial Statements

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### F. TAXATION

This comprises:

	<b>Group</b>	
	<b>12 months ended 31 Dec</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$' 000</b>	<b>\$' 000</b>
Current tax		
- current year	5,365	11,017
- (over)/under provision in respect of previous years	(17)	(1,704)
Deferred tax		
- Movement in temporary differences	(3,637)	(1,740)
- under provision in respect of previous years	70	251
Income tax expenses recognised in profit and loss account	<u>1,781</u>	<u>7,824</u>

# Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### G. EARNINGS PER SHARE

The weighted average number of ordinary shares is determined as follows:

	3 months ended 31 Dec		12 months ended 31 Dec	
	2007 No. of shares (‘000)	2006 No. of shares (‘000)	2007 No. of shares (‘000)	2006 No. of shares (‘000)
<b>Basic earnings per share:</b>				
Shares outstanding at beginning of the period / year	541,832	541,306	541,709	448,987
Adjustment for bonus issue	-	-	-	89,936
Weighted average number of shares issued during the period / year under the Share Option Scheme	2	306	67	1,517
Weighted average number of shares used in calculation of basic earnings per share	541,834	541,612	541,776	540,440
Basic earnings per share (cents)	5.57	5.52	0.58	6.25
<b>Diluted earnings per share:</b>				
Weighted average number of shares used in calculation of basic earnings per share	541,834	541,612	541,776	540,440
Adjustment for assumed conversion of share options	97	2,967	958	3,818
Weighted average number of shares used in calculation of diluted earnings per share	541,931	544,579	542,734	544,258
Diluted earnings per share (cents)	5.57	5.49	0.58	6.21

Financial Statements  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**H. NET ASSET VALUE PER SHARE**

	Group		Company	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Net asset value per share based on existing issued share capital as at the respective year	29 cents	31 cents	31 cents	28 cents

**I. INTERESTED PERSON TRANSACTIONS**

**Aggregate value of all interested person transactions conducted under shareholder's mandate pursuant to Rule 920 (excluding transactions < \$100,000)**

**12 months ended 31 Dec**

<b>2007</b>	<b>2006</b>
\$'000	\$'000

**Sales**

Health Focus (California) Inc	-	211
OSIM (Guangzhou) Co., Ltd	5,846	17,027
OSIM (Langfang) Co., Ltd	1,535	9,891
FK Marketing	1,198	1,148
	8,579	28,277

# Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### J. SEGMENT INFORMATION

#### Geographical segments

Revenue, assets and capital expenditure are based on the location of the business operations.

	North Asia		South Asia		America / Africa / Europe / Middle East / Oceania		Eliminations		Total	
	12 months ended 31 Dec		12 months ended 31 Dec		12 months ended 31 Dec		12 months ended 31 Dec		12 months ended 31 Dec	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>										
Sales to external customers	251,762	341,965	180,319	203,502	91,592	77,469	-	-	523,673	622,936
Inter-segment sales	50,349	50,831	100,282	183,330	145	-	(150,776)	(234,161)	-	-
	<u>302,111</u>	<u>392,796</u>	<u>280,601</u>	<u>386,832</u>	<u>91,737</u>	<u>77,469</u>	<u>(150,776)</u>	<u>(234,161)</u>	<u>523,673</u>	<u>622,936</u>
<b>Other segment information</b>										
Segment assets	108,319	156,359	74,413	84,450	26,677	10,316	-	-	209,409	251,125
Investment in associated companies and a joint venture	11,660	11,093	1,151	1,064	114,784	128,581	-	-	127,595	140,738
Unallocated assets							-	-	28,444	27,913
Total asset									<u>365,448</u>	<u>419,776</u>
<b>Capital expenditure</b>										
- Fixed assets	5,593	11,929	4,009	10,985	2,604	1,462	-	-	12,206	24,376
- intangible assets	-	31	2,264	1,179	149	173	-	-	2,413	1,383

# Financial Statements

## NOTES TO FINANCIAL STATEMENTS (Continued)

### J. SEGMENT INFORMATION (Continued)

#### **Business segments**

The Group is organised on a worldwide basis into two main operating divisions, namely retail and distribution.

	<u>Retail</u>	<u>Distribution</u>	<u>Eliminations</u>	<u>Group</u>
<b>31 Dec 2007</b>	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>				
External sales	467,078	56,595	-	523,673
Inter-segment sales	-	150,776	(150,776)	-
Total revenue	<u>467,078</u>	<u>207,371</u>	<u>(150,776)</u>	<u>523,673</u>
<b>Results</b>				
Segment results	(4,055)	22,445	(1,665)	16,725
Financial expenses, net				(5,814)
Share of results of associated companies and a joint venture	(9,437)	3,961	-	(5,476)
Taxation				(1,781)
Net profit for the year				<u>3,654</u>
<b>Assets</b>				
Segment assets	149,002	60,407	-	209,409
Investment in associated companies and a joint venture	115,375	12,220	-	127,595
Unallocated assets				28,444
Total assets				<u>365,448</u>
<b>Liabilities</b>				
Segment liabilities	47,014	27,665	-	74,679
Unallocated liabilities				124,114
Total liabilities				<u>198,793</u>
<b>Others segment information</b>				
Capital expenditure				
- Fixed assets	11,708	498	-	12,206
- Intangible assets	653	1,760	-	2,413
Depreciation of fixed assets	14,925	1,779	-	16,704
Amortisation of intangible assets	1,354	644	-	1,998

## Financial Statements

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### J. SEGMENT INFORMATION (Continued)

##### Business segments

<b>31 Dec 2006</b>	<u>Retail</u> \$'000	<u>Distribution</u> \$'000	<u>Elimination</u> \$'000	<u>Group</u> \$'000
<b>Turnover</b>				
External sales	570,183	52,753	-	622,936
Inter-segment sales	-	234,161	(234,161)	-
	<u>570,183</u>	<u>286,914</u>	<u>(234,161)</u>	<u>622,936</u>
<b>Results</b>				
Segment results	31,529	35,727	(6,590)	60,666
Financial expenses, net				(5,871)
Share of results of associated companies and a joint venture	(13,342)	2,159		(11,183)
Taxation				(7,824)
Net profit for the year				<u>35,788</u>
<b>Assets</b>				
Segment assets	155,409	95,716	-	251,125
Investment in associated companies and a joint venture	129,298	11,440	-	140,738
Unallocated assets				27,913
Total assets				<u>419,776</u>
<b>Liabilities</b>				
Segment liabilities	51,914	40,104	-	92,018
Unallocated liabilities				151,419
Total liabilities				<u>243,437</u>
<b>Others segment information</b>				
Capital expenditure				
- Fixed assets	22,860	1,516	-	24,376
- Intangible assets	1,311	72	-	1,383
Depreciation of fixed assets	10,949	3,520	-	14,469
Amortisation of intangible assets	1,428	159	-	1,587

## Financial Statements

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### K. QUARTERLY ANALYSIS

	12 months ended 31 Dec	
	2007	2006
	\$'000	\$'000
<b>Turnover</b>		
First Quarter	121,336	155,221
Second Quarter	137,286	183,345
Third Quarter	137,110	138,738
Fourth Quarter	127,941	145,632
	<u>523,673</u>	<u>622,936</u>
<b>(Loss)/profit before tax and minority interest</b>		
First Quarter	(16,148)	3,864
Second Quarter	(1,261)	19,332
Third Quarter	(4,662)	(7,938)
Fourth Quarter	27,506	28,354
	<u>5,435</u>	<u>43,612</u>
<b>Net (loss)/profit after tax and minority interest</b>		
First Quarter	(17,293)	430
Second Quarter	(3,138)	13,287
Third Quarter	(6,610)	(9,836)
Fourth Quarter	30,174	29,921
	<u>3,133</u>	<u>33,802</u>

## Financial Statements

### **ACCOUNTING POLICIES**

The Group has applied the same accounting policies and methods of computation in the preparation of financial statements for the current reporting period compared with the audited financial statements as at 31 December 2006.

### **DIVIDENDS**

No dividend has been recommended or declared for the full year 2007 (2006: \$15,055,000)

Details of the dividends for previous corresponding year are appended below:

Names of Dividend:	Final	Interim
Dividend Type:	Cash	Cash
Dividend Rate:	1.48 cents per ordinary shares (one tier tax exempt dividend)	1.30 cents per ordinary shares (one tier tax exempt dividend)


### **AUDIT**

The figures have not been audited or reviewed by the Company's auditors.

## CONFIRMATION BY THE BOARD

We, Ron Sim Chye Hock and Peter Lee Hwai Kiat, being two directors of OSIM International Ltd (the Company), do hereby confirm on behalf of the directors of the Company that, to the best of our knowledge, nothing has come to the attention of the board of directors of the Company which may render the full year 2007 financial results to be false or misleading.

On behalf of the Board of directors



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Ron Sim Chye Hock  
Director



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Peter Lee Hwai Kiat  
Director