



# OSIM International Ltd

(Incorporated in the Republic of Singapore)

(Registration No.: 198304191N)

## Financial Statements And Dividend Announcement For The 6 Months Ended 30 June 2007

## TABLE OF CONTENTS

1	REVIEW OF PERFORMANCE OF THE GROUP	3
2	COMMENTARY ON CURRENT PERIOD'S PROSPECTS	6
3	RISK FACTORS	7
4	BALANCE SHEETS	9
5	CONSOLIDATED PROFIT AND LOSS ACCOUNT	11
6	STATEMENTS OF CHANGES IN EQUITY	12
7	CONSOLIDATED STATEMENT OF CASH FLOWS	15
8	NOTES TO THE FINANCIAL STATEMENTS	
	A SHARE CAPITAL	18
	B SHARE OPTIONS	19
	C SUBSIDIARIES	21
	D SHORT-TERM BANK LOANS	23
	E BANK LOANS	23
	F TAXATION	25
	G EARNINGS PER SHARE	26
	H NET ASSET VALUE PER SHARE	27
	I INTERESTED PERSON TRANSACTIONS	27
	J SEGMENT INFORMATION	28
	K QUARTERLY ANALYSIS	31
9	ACCOUNTING POLICIES	32
10	DIVIDENDS	32
11	AUDIT	32
12	COMFIRMATION BY BOARD	33

## REVIEW OF PERFORMANCE OF THE GROUP

### Overview

2Q FY2007 was a better quarter when compared with 1QFY2007: Brookstone and Global Active continued with their growth trend whereas the core OSIM business performed better in 2Q than 1Q and is the market leader in all its key markets.

During 2Q FY2007, Brookstone recorded a 2.1% growth in same store sales, its fifth consecutive quarter of year-on-year same store sales growth. More significantly, Brookstone achieved a positive EBITDA in 2Q FY2007 as compared to negative EBITDA in 2Q FY2006. This augurs well as we work towards continued quarterly improvement while strengthening the brand and taking further strategic initiatives to improve results.

Similarly, the Group's nutraceutical business through GNC franchised outlets has maintained good growth in turnover and profit during the quarter.

As for the core OSIM Business, China is growing and our Franchise operations have recently expanded its network in the Middle East through new franchisees in Iran & Kuwait and a distributor in Oman. The introduction of more innovative products is expected bring better results. uSqueez & uAerobic will be launched during 3Q FY2007.

OSIM is the pioneer of the healthy lifestyle industry. In a little over 25 years, the business has grown to span a global network of over 360 cities in 30 countries. There is a strong pipeline of innovative products and a clear strategy. The Group's strategic acquisitions have gained traction. It is committed to building the next phase of growth and to develop OSIM into a global brand as it adds more outlets in more cities and more countries around the world.

### *Revenue by Region - 2QFY2007*

Region	2Q 2007		1Q 2007		% Change
	S\$m	%	S\$m	%	
North Asia	63.6	46%	59.4	49%	+7%
South Asia	51.0	37%	42.8	35%	+19%
America/Africa/Europe/ Middle East/Oceania	22.7	17%	19.1	16%	+19%
Total	137.3	100%	121.3	100%	+13%

The core OSIM business results improved in 2Q FY2007 compared to 1Q FY2007 by 13%. Against 1Q FY2007, the North Asian market is recovering from the industry consolidation. Markets in South Asia & America/Africa/Europe/Middle East/Oceania recorded good revenue growth through sales of a wider range of products.

## REVIEW OF PERFORMANCE OF THE GROUP

During 2Q FY2007, the Group's range of massage chairs sales grew and Power Drum Massager uPapa is trending positively and we can expect more innovative OSIM products to be launched for our consumers every quarter.

uSqueez, the perfect companion to beautiful & tired legs, has been launched in 3Q FY2007 in selected markets. The wrap-around squeeze rejuvenates the calves, ankles and feet all at once with an even more snug fit to the contours of the legs. The OSIM uSqueez is innovatively designed for dual functionality. By reversing the uSqueez, it transforms from a foot massager into a stylish leg-rest which fits into the home décor. After a massage, there is no need to store it away!

### Global Network of Outlets

Region	30 June 2007	31 March 2007
North Asia	324	328
South Asia	311	321
America/Africa/Europe/ Middle East/Oceania	35	33
Total OSIM Outlets	670	682
GNC Outlets	139	139
Brookstone Outlets	314	306
Total	1,123	1,127

During 2Q FY2007, we rationalised selected individual Focus outlets into larger and more efficient OSIM Focus outlets. At the Group level, the inclusion of GNC and Brookstone outlets brings the Group's global point-of-sales network to 1,123 outlets as at 30 June 2007.

### Profitability

Group EBITDA improved from \$4.9 million in 1Q FY2007 to \$11.9 million to 2Q FY2007. This improvement is attributable to the higher revenue in 2Q when compared to 1Q. Overall, the Group kept operating expenses under control and managed inventory levels to match demand.

In the first six months of FY2007, EBITDA was \$16.8 million. Lower finance expenses were incurred in 1H FY2007 as the Group continued to repay bank borrowings from internally generated cash flow.

## REVIEW OF PERFORMANCE OF THE GROUP

### Profitability (cont'd)

Since the acquisition of Brookstone in October 2005, the Group has been equity accounting its share of Brookstone's results. In 2Q FY2007, the share of losses from associated companies and joint venture (net of tax) amounted to \$7.2 million compared with \$14.4 million in the 1Q FY2007. The improvement is because Brookstone achieved a positive EBITDA in 2Q07 as compared to negative EBITDA in 2Q FY2006. This augurs well as we work towards continued quarterly improvement while strengthening the brand and taking further strategic initiatives to improve results.

Consequently, the pre-tax loss in 2Q FY2007 was reduced by US\$2.6 million when compared with 2Q FY2006. This quarterly improvement is consistent with the Group's objective of reducing losses at Brookstone in the first three quarters of the financial year and increasing fourth quarter profitability.

Weaker performance of OSIM Taiwan and Malaysia resulted in lower minority interests.

The Group recorded a net loss attributable to shareholders of \$3.1 million in 2Q FY2007. This is a significantly better than the net loss of \$17.3 million in 1Q FY2007. For 1H FY2007, net loss attributable to shareholders was \$20.4 million.

### Balance Sheet and Cash Flow

With no major capital expenditure during the quarter, cash flow from operations and internal resources were used to repay bank borrowings. The lower business activity was reflected in changes to debtors, creditors and stock balances.

No interim dividend is declared for the period.

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

Despite challenging industry conditions, the Group's business prospects remain positive over the longer term.

The Group will reinforce the key strengths of its core OSIM business by introducing new innovative lifestyle products every quarter, strengthening the OSIM brand in new and existing markets.

Brookstone is expected to steadily improve its quarterly performance through more innovative products, higher store productivity and enhanced selling culture.

As for the Global Active nutraceutical business, the Group will expand its GNC outlets in Malaysia. Steady and consistent improvement in performance is expected for this business.

Barring unforeseen circumstances, the Group expects 2H FY2007 revenue and profitability to be better than 1H 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 and Chair Spa 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 are 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	
		30 Jun 2007	31 Dec 2006	30 Jun 2007	31 Dec 2006
		\$'000	\$'000	\$'000	\$'000
<b>Equity attributable to equity holders of the Company</b>					
Share capital	A	42,547	42,501	42,547	42,501
Accumulated profits		117,498	145,947	111,769	111,266
Enterprise expansion funds		545	545	-	-
Capital reserves		1,394	1,401	758	765
Hedging reserve		(14)	(1,394)	(14)	(1,394)
Revaluation reserve		5,237	5,237	-	-
Premium on purchase of minority interests' (MIs') shares		(7,255)	(7,033)	-	-
Foreign currency translation reserve		(15,582)	(17,082)	-	-
		144,370	170,122	155,060	153,138
<b>Minority interests</b>		6,171	6,217	-	-
<b>Total equity</b>		<b>150,541</b>	<b>176,339</b>	<b>155,060</b>	<b>153,138</b>
<b>Non-current assets</b>					
Fixed assets		46,447	49,038	11,858	13,249
Subsidiaries	C	-	-	78,552	78,118
Associated companies and a joint venture		118,694	140,738	146,474	146,473
Intangible assets		36,228	39,845	81	84
Deferred tax assets		4,325	4,910	-	-
Long term Investment		930	930	930	930
Long term receivables		10,940	10,619	1,934	1,915
		217,564	246,080	239,829	240,769
<b>Current assets</b>					
Stocks		78,200	91,658	13,647	17,286
Trade debtors		37,683	39,625	11,834	9,402
Other debtors, deposits and prepaid operating expenses		9,097	9,077	2,966	3,495
Due from subsidiaries (trade)		-	-	6,957	12,857
Due from subsidiaries (non-trade)		-	-	2,191	3,032
Due from affiliated companies (trade)		805	1,074	-	-
Due from affiliated companies (non-trade)		1	1	1	1
Due from associated companies (trade)		515	410	515	396
Due from associated companies (non-trade)		583	704	582	692
Due from a joint venture (trade)		1,322	871	1,322	871
Loans to associated companies		303	510	303	510
Fixed deposits		5,944	5,719	2,990	5,100
Cash and bank balances		18,400	24,047	3,383	8,041
		152,853	173,696	46,691	61,683