

REPLY TO SGX'S LETTER DATED 14 MARCH 2005

With reference to the letter from the Singapore Exchange Limited dated 14 March 2005 relating to LifeBrandz Ltd's ("the Company") announcement of second quarter and half year financial statements for the period ended 31 January 2005 ("2nd Quarter Results"). The Company wishes to provide additional information below as requested:

Question (a)

Appendix 7.2 of the Listing Manual requires the issuer to provide a cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year. We note that you have only provided the cash flow statement for the half year ended 31 January 2005. Hence, please provide the same for the second quarter ended 31 January 2005 together with a comparative statement for the corresponding period.

Cash flow statements for LifeBrandz Ltd and its subsidiaries for the 2nd quarters ended 31 January 2004 and 2005.

	3 months ended 31 January	
	2005	2004
	S\$'000	S\$'000
Cash flows from operating activities:		
Profit before tax	1,211	2,988
Adjustments for:		
Depreciation	100	29
Foreign currency translation adjustment	2	1
Interest income	(48)	-
Interest expenses	34	14
Operating cash flow before working capital change	<u>1,299</u>	<u>3,032</u>
Change in operating assets and liabilities		
Receivables	(2,601)	99
Other current assets	449	(611)
Inventories	(164)	(329)
Payables	1,338	1,262
Cash generated from operations	<u>321</u>	<u>3,453</u>
Income tax paid	<u>(1,171)</u>	<u>(322)</u>
Net Cash (outflow)/inflow from operating activities	(850)	3,131
Cash flows from investing activities		
Payments for plant and equipment	(393)	(338)
Interest received	48	-
Net cash (outflow) from investing activities	(345)	(338)
Cash flows from financing activities:		
Payments from Share Premium	(80)	-
Proceeds from borrowings	-	29
Interest paid	(34)	(14)
Dividends paid to shareholders	(4,467)	(2,000)
Net cash (outflow) from financing activities	(4,581)	(1,985)
Net (decrease)/increase in cash and cash equivalents held	(5,776)	808
Cash and cash equivalents at the beginning of period	<u>28,707</u>	<u>2,693</u>
Cash and cash equivalents at end of the financial period	<u>22,931</u>	<u>3,501</u>



Question (b)

Please also provide a review of the performance of the Group for the second quarter ended 31 January 2005. Your discussion should include any significant factors that affected the turnover, costs and earnings of the Group for the quarter reported on and any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the quarter reported on.

The review of the performance of the Group for the second quarter ended 31 January 2005 ("Q2 2005") have already been covered in our review for second half of FY2005 of the Group in the announcement dated 11 March 2005. Set out below are more detailed explanation of the review of significant changes of the performance of the Group for the 3 months ended 31 January 2005.

For Q2 2005, the Group recorded a profit after tax of \$0.9 million on sales of \$12.5 million.

The Group's Q2 2005 sales grew 33% compared to the previous corresponding period in FY2004. A comparative breakdown of the sales by major product categories for the period under review is as follows:-

	3 months ended 31 January			
	2005		2004	
Major Product Category	S\$'M	%	S\$'M	%
Nutraceuticals	10.9	87.2	4.2	44.7
Cosmeceuticals	-	-	5.2	55.3
Functional Food and Beverages	0.3	2.4	-	-
Personal/Family Care and Lifestyle	1.3	10.4	-	-
	12.5	100.0	9.4	100.0

Nutraceuticals remained the key contributor accounting for \$10.9 million (representing 87%) of the Group's sales in Q2 2005. With the introduction of several new products in the Personal/Family care and Lifestyle Category during Q2 2005, the Group recorded sales of \$1.3 million in Q2 2005 (representing 10% of Group's sales) for this product category. Functional Food and Beverages consisted mainly of Genki Tea sales.

Total operating expenses increased by \$3.1 million from \$3.5 million for the 3 months ended 31 January 2004 ("Q2 2004") to \$6.6 million in Q2 2005. The increase was principally attributable to:-

Higher advertising and promotion ("A&P") expenses which increased by \$2.5 million from \$2.6 million in Q2 2004 to \$5.1 million in Q2 2005. In Q2 2004, the A&P expenses were incurred mainly for two products, Extrim carbohydrate neutraliser tablets and Intenz Skin Activator. In Q2 2005, the Group incurred higher A&P expenses in tandem with the increase in the number of products to more than 10.

The Group also invested greater A&P budget towards building brand awareness for various products and further strengthening market share in existing markets. Additional expenses were also incurred during Q2 2005 in laying the groundwork for further expansion into the region;

Higher other operating expenses (e.g. staff costs, depreciation and others) which increased by \$0.7 million to \$1.5 million, due mainly to the increase in staff strength including a number of senior management staff, more frequent overseas travel and higher professional and administrative charges, which were in line with the Group's business expansion and overseas market penetration during Q2 2005.

There are no significant changes to the cash flow for the two periods under review save for dividends paid to the shareholders in November 2004 and higher income tax paid arising from profit for FY2004. Net cash flow from operating activities decreased from an inflow of \$3.1 million to an outflow of \$0.9 million due principally to higher sales recorded towards the end of Q2 2005 resulting in higher receivables as at 31 January 2005.



During the review period the Group successfully expanded its brand portfolio under all four of its major product categories namely Nutraceuticals, Cosmeceuticals, Functional Food & Beverages and Personal/Family Care and Lifestyle. We have further entrenched our existing top-selling brands such as Extrim and Intenz, while a new brand — TummiTrim which was well received.

In addition, the momentum of the Group's launch of Extrim carbohydrate neutralizer tablets in the new Indonesia market in 2004 was temporarily dampened by local circumstances and concerns, e.g., the onset of Ramadan and Hari Raya Puasa in October~November 2004, while the 26 December tsunami also affected consumer sentiments and delayed the Group's promotion plans. Nonetheless, despite these initial setbacks, the Group has since received a subsequent batch of orders for its Extrim tablets from DKSH Group, the appointed exclusive distributor for Indonesia.

On the strategic front, the Group is pleased to have made significant headway in its push to penetrate the new countries of Taiwan and Thailand.

Question (c)

In respect of paragraph 4 of the 2nd Qtr Results, please clarify why the Company made reference to the "most recently audited financial statements of LifePharm Pte Ltd" instead of the most recently audited financial statements of the Group as contained in your Annual Report for FY2004.

LifePharm Pte Ltd's ("LifePharm") audited financial statement was used as a reference as it is the principal subsidiary of LifeBrandz Group and all other subsidiaries followed LifePharm's accounting policies and method of computation. In future, we will make reference to LifeBrandz Ltd as it is the holding company.

