

Press Release

LifeBrandz Posts Net Loss for Q1 FY06 on Lower Beauty / Wellness Sales and Set-up / Pre-opening Expenditure for New Fashion / LifeStyle Businesses

- Unfavourable developments in Q4 FY05 persisted through Q1 FY06, resulting in lower sales of \$2.0 million, but gross margin maintained at 65%
- Start-up and pre-launch promotions for new fashion / lifestyle projects-in-progress contributed to net loss of \$5.7 million or net loss per share of 0.93 cent
- Fashion and lifestyle offering on track with the launch of Dashing Diva Nail Spa & Boutique in October, The Balcony boutique café and lounge in November and the internationally renowned dance club Ministry of Sound scheduled to open in December 2005. Other LifeStyle category concepts, e.g., Café del Mar, Fashion TV and Bice Restaurant are scheduled to follow

Singapore, 15 December 2005 -- Home-grown lifestyle brand development and management group LifeBrandz Ltd (“LifeBrandz” or the “Group”) announced today the Group financial results for the first three months ended 31 October 2005 (“Q1 FY06”) that were in line with its outlook statement provided in conjunction with FY2005 results announcement on 29 September 2005 and profit guidance of 17 November 2005.

As guided earlier, the unfavourable developments that arose in the fourth quarter of the previous financial year ended 31 July 2005, (“Q4 FY05”) have persisted, affecting the Group’s sales and profitability in Q1 FY06.

Furthermore, premises set-up costs and A&P-related spending expenses to position the new brands in Singapore were incurred in Q1 FY06 for the various projects-in-progress under the Group’s Fashion and LifeStyle categories. Although most of these new businesses are scheduled to commence operations progressively from Q2 FY06, they contributed to higher operating expenses and upfront cash payments in Q1 FY06 and will extend throughout FY06.

Accordingly, the Group posted significantly lower sales of \$2.0 million for Q1 FY06 compared to \$12.7 million for Q1 FY05 and a net loss of \$5.7 million for Q1 FY06 compared to a profit of \$2.1 million previously. Nevertheless, gross margin was maintained at 65%. Net loss per share based on a weighted average basis was 0.93 cent versus earnings per share of 0.34 cent.

The Group’s Q1 FY06 sales is comprised entirely from sales from its Beauty/Fashion/Wellness category, with the reduction in sales largely attributed to the slowdown in demand across the beauty and health supplement industry which its products are present, increased competition from new, price-centric competitors, and changing regulations in its new overseas markets, in particular Taiwan and Thailand.

However, despite the current situation over the Group’s beauty and wellness businesses, a strategic milestone was achieved in Q1 FY06 for its fashion business. LifeBrandz opened its first Dashing Diva Nail Spa and

Boutique (“Dashing Diva”) concept store in Singapore’s Suntec City Mall, the first such for the US-headquartered chain in the South-East Asia region.

Total advertising and promotion expenses rose marginally to \$4.5 million in Q1 FY06 from Q1 FY05’s \$4.3 million. This was mainly invested in penetrating overseas markets of Indonesia, Taiwan and Thailand, building brand equity for the Group’s leading products in Singapore and Hong Kong markets, launching of Dashing Diva brand in Singapore and pre-promotional expenses related to LifeStyle category (principally Ministry of Sound and the Balcony).

Other operating expenses in Q1 FY06 saw a net increase of \$1.0 million to \$2.4 million from \$1.4 million in Q1 FY05. Excluding a write-off of \$0.9 million arising from finished goods spoilage, other operating expenses increased by a net amount of \$0.1 million.

Savings from the Group’s streamlining of operations in Singapore and Hong Kong were partially offset by the increase in expenses arising from increased headcount to support the Group’s new business units, higher depreciation / amortisation charges consistent with increases in plant and equipment as well as franchise and licence fees, and higher expenses incurred in developing the new businesses, e.g., consultancy, legal, overseas travel, rental charges. The rise in finance cost to \$0.1 million in Q1 FY06 from Q1 FY05’s \$0.04 million was in line with the increase in borrowings to support the new business activities.

Overall, the Group has re-channelled resources from non-earning areas to its developing LifeStyle category and have implemented certain measures to contain costs and overheads to improve efficiency.

Unfavourable operating conditions for the Group’s Beauty/Wellness products are likely to prevail over the next two quarters in FY06. In addition, the Group expects to incur additional expenditures for setting up premises and A&P costs to position its new fashion and lifestyle brands prior to launch. In light of the above, the Group expects its financial performance in FY06 to be negatively impacted.

LifeBrandz’ CEO, Mr Michael Wong said, “Our Q1 FY06 results is consistent with our strategy to invest in developing our new Fashion and LifeStyle categories, which entail longer gestation periods and spending upfront to secure the international brand franchises, setting up of premises and positioning. We continue to monitor closely the operating conditions in the beauty and health industry in each country and product category while focusing on building selective brands with a longer-term perspective. At the same time, we remain committed to becoming the regional leader in brand development and management for both our Beauty/Fashion/Wellness and LifeStyle sectors and will continue to pursue medium- and long-term goals to broaden our customer and earning bases.”

LifeBrandz’ business developments under the Fashion and LifeStyle categories remain on track with the opening of Dashing Diva in October, a boutique café and lounge called The Balcony in November, and the scheduled launch of its first international entertainment brand, Ministry of Sound, at Clarke Quay in December 2005. Other LifeStyle projects at various stages of development include Café del Mar, Fashion TV and Bice Restaurant.

Mr Wong said, “We are progressing steadily to the stage when our first cluster of new fashion and lifestyle businesses come to fruition. Despite the lifestyle and entertainment market in Singapore being highly competitive, our confidence in pursuing these businesses has been anchored on several fundamental factors with a long-term

perspective. We believe the potential market will be progressively enlarged as initiatives geared at attracting more tourists to Singapore and for a longer stay kick in. We have secured franchises for internationally renowned brands and fresh concepts which offer totally new experiences for the various segments of the discerning local and tourist market. We are also able to leverage on our core brand management competencies and existing customer base. Last but not least, our 'early mover advantage' has put us in good stead; having embarked on negotiating and securing, at favourable terms and rates, both brand licensing and related leasing deals for choice, high-impact locations in Singapore, before local market sentiments improved markedly or pro-tourism governmental initiatives were confirmed."

As at 31 October 2005, plant and equipment increased to \$2.9 million compared to \$0.9 million as at 31 July 2005, reflecting the Group's investment outlay in the setting up of the premises for new businesses. The increase in trade receivables to \$18.0 million from \$16.4 million was due mainly to sales being recorded at a later date in Q1 FY2006. Subsequent to 31 October 2005, the Group collected \$2.8 million of these trade receivables. The increase in borrowings to \$9.5 million from \$1.6 million as at 31 July 2005 was to support the Group's new businesses. Cash and cash equivalents as at Q1 FY06 stood at \$18.3 million.

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Issued on behalf of LifeBrandz Ltd by WeR1 Consultants Pte Ltd

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