

## 8. ACCOUNTANTS' REPORT

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*(Prepared for inclusion in this Prospectus)*



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The Board of Directors  
Esthetics International Group Berhad  
(formerly known as Esthetics International Berhad)  
No. 58, Jalan SS22/25  
Damansara Jaya  
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Selangor

12 February 2004

Dear Sirs/Madam

### **Esthetics International Group Berhad (“Esthetics”) Accountants’ Report**

This report has been prepared by Messrs. KPMG, an approved company auditor, for inclusion in the Prospectus to be dated 20 February 2004 in connection with:

- i) bonus issue of 95,259,980 new ordinary shares of RM0.50 each via capitalisation of retained profits to be credited as fully paid-up on the basis of approximately 68.04 new ordinary shares of RM0.50 each for every 1 existing Esthetics share.
- ii) offer for sale of 6,660,000 existing ordinary shares of RM0.50 each at an offer price of RM0.75 per ordinary share to approved Bumiputra investors.
- iii) public issue of 23,340,000 new ordinary shares of RM0.50 each in Esthetics International Berhad (hereinafter referred to as “Esthetics” or “the Company”) at an issue price of RM0.75 per ordinary share ; and
- iv) the listing of and quotation for Esthetics’s entire enlarged issued and paid-up share capital on the Main Board of the Malaysia Securities Exchange Berhad (“MSEB”).



KPMG, a partnership established under the  
Malaysian law, is the Malaysian member  
firm of KPMG International, a Swiss cooperative.

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 1 General information

#### 1.1 Background

Esthetics was incorporated in Malaysia on 29 October 1996 as a private limited company under the Companies Act, 1965. The Company converted its status to a public limited company on 17 May 2002 for the purpose of the listing scheme as set out in Section 1.3. On 27 November 2003, the Company changed its name to Esthetics International Group Berhad and has since assumed its present name.

The principal activity of Esthetics is that of investment holding. The principal activities of the subsidiaries are disclosed in Section 1.4.

#### 1.2 Share capital

At the date of this report, Esthetics' authorised share capital was RM100 million consisting of 200 million ordinary shares of RM0.50 each and its issued and paid-up share capital is RM48.330 million comprising of 96.660 million ordinary shares of RM0.50 each.

The movements in the authorised share capital since its incorporation date to the date of this report are as follows:

Date of increase/creation	Number of ordinary shares of RM1.00 each	Resultant balance RM
29.10.1996	100,000	100,000
10.12.1997	900,000	1,000,000

  

Date of increase/creation	Number of ordinary shares of RM0.50 each	Resultant balance RM
9.6.2003	2,000,000*	1,000,000
28.10.2003	198,000,000	200,000,000

\* On 9 June 2003, the Company had split its ordinary shares of RM1.00 each into two (2) ordinary shares of RM0.50 each.

The details of the changes in the issued and fully paid-up share capital of Esthetics since its incorporation date to the date of this report are as follows:

Date of allotment	Number of ordinary shares of RM1.00 each	Issue price per ordinary share RM	Purpose	Total issued and paid-up share capital RM
Upon incorporation	3	1.00	Subscribers' shares	3
15.7.1997	7	1.00	Cash	10
10.12.1997	700,000	1.00	Cash	700,010

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 1.2 Share capital (continued)

Date of allotment	Number of ordinary shares of RM0.50 each	Issue price per ordinary share RM	Purpose	Total issued and paid-up share capital RM
9.6.2003	1,400,020*	0.50	Share split	700,010
28.10.2003	95,259,980	0.50	Pursuant to capitalisation of retained profits on the basis of approximately 68.04 new ordinary shares of RM0.50 each for every 1 existing ordinary share held	48,330,000
To be allotted	23,340,000	0.75	Proposed public issue	60,000,000

\* On 9 June 2003, the Company had split its ordinary shares of RM1.00 each into two (2) ordinary shares of RM0.50 each. Consequently, the Company existing number of ordinary shares prior to the share split comprising of 700,010 ordinary shares of RM1.00 each was increased to 1,400,020 ordinary shares of RM0.50 each.

Upon completion of the public issue, the issued and paid-up share capital of Esthetics would be increased to RM60,000,000 comprising 120,000,000 ordinary shares of RM0.50 each.

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 1.3 Listing scheme

In conjunction with the listing of and quotation for the entire issued and paid-up share capital of Esthetics on the Main Board of the MSEB, Esthetics will undertake the following:

#### 1.3.1 Bonus issue

Bonus issue of 95,259,980 new ordinary shares of RM0.50 each via capitalisation of retained profits to be credited as fully paid-up on the basis of approximately 68.04 new ordinary shares of RM0.50 each for every 1 existing Esthetics share. The bonus issue was implemented on 28 October 2003.

#### 1.3.2 Public issue

Offer for sale of 6,660,000 existing ordinary shares of RM0.50 each at an offer price of RM0.75 per ordinary share to approved Bumiputra investors.

Public issue of 23,340,000 new ordinary shares of RM0.50 each at an issue price of RM0.75 per ordinary share to the Malaysian public, approved Bumiputra investors and eligible employees and business associates of Esthetics. The gross proceeds from this Public Issue will amount to RM17.505 million and will be utilised in the following manner:

Utilisation	Amount RM'000
Capital expenditure	
■ Establishment of six (6) new Corporate-owned skin care centers ("Corporate Centres")	2,500
■ Refurbishment of twelve (12) existing Corporate Centres	1,000
■ Investment in information technology facilities	1,500
■ Establishment of skin care centers in Hong Kong	1,500
■ Construction of corporate office and warehouse building	2,500
	9,000
Launching of the fast moving consumer goods ("FMCG") products	2,000
Overseas business expansion – Hong Kong	500
Advertising and promotional expenses for Esthetics Group's products	1,500
Working capital	2,005
Estimated listing expenses	2,500
<b>Total</b>	<b>17,505</b>

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 1.4 Information on subsidiaries and associate companies

As at the date of this report, the Group comprises Esthetics, the following subsidiaries and an associate company, of which all are incorporated in Malaysia as private limited companies under the Companies Act, 1965, other than Esthetics International (HK) Ltd. and Dermal Concept Co. Ltd. which were incorporated in Hong Kong and Thailand, respectively. The details of the subsidiaries and associated company at the date of this report and their principal activities are as follows.

Company	Date of incorporation	Issued and paid-up share capital	Effective interest %	Principal activities
<b>Subsidiaries of Esthetics</b>				
Dermal Esthetica Sdn. Bhd. (DESB)	10.2.1989	RM 600,000	100	Importing and distributing of skin care products and beauty equipment and operating a beauty training center.
Leonard Drake (M) Sdn. Bhd. (LDM)	8.3.1997	RM 100,000	100	Providing professional skin care services and sales of related products.
Esthetics Concept Sdn. Bhd. (ECSB)	20.6.1994	RM 100,000	100	Letting of motor vehicles and property.
Leonard Drake Fitness Sdn. Bhd. (LDFM)	23.6.1997	RM 100,000	100	Operation of gym and fitness center. It temporarily ceased operations.
Esthetics International (HK) Ltd. (EIHK)	2.6.2000	HKD 2,000,000*	95*	Distribution of skin care and health care products.
Averine (Malaysia) Sdn. Bhd. (AMSB)	25.10.1995	RM 103	100	Trading of cosmetic products.
Head To Toe Skin Care Centre (KL) Sdn. Bhd. (HTTKL)	30.9.1994	RM 103	100	Dormant.
Belle Lina Franchise International Sdn. Bhd. (BLFISB)	21.10.1994	RM 104	100	Providing professional skin care services and sales of related products.

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## 1.4 Information on subsidiaries and associate companies (continued)

Company	Date of incorporation	Issued and paid-up share capital	Effective interest %	Principal activities
<b>Subsidiaries of Esthetics</b>				
Clinelle (M) Sdn.Bhd. (CMSB) (formerly known as Olvera Corporation Sdn. Bhd.)	22.7.2002	RM2	100	Development and distribution of skin care and wellness products.
Beuxstar Sdn. Bhd. (BSB) (formerly known as Cadney Holdings Sdn Bhd.)	19.6.2002	RM2	100	Dormant.
EIG Pharma Asia Pacific Sdn. Bhd.	5.1.2004	RM21	100	Trading of fast moving consumer goods.
<b>Associate company</b>				
Dermal Concept Co. Ltd. (DCCL)	15.7.1999	BHT 16,000,000	49.9	Importing and distributing skin care and hair care products, cosmetics and beauty equipment.

\* EIHK has two (2) classes of shares, i.e. ordinary shares of HKD1.00 each and preference shares of HKD1.00 each. Esthetics' equity interests in the two (2) classes of shares are tabulated as follows:

	Issued and paid up	Esthetics' effective interest	
	HKD	Number of shares	%
Ordinary shares	1,700,000	1,699,999	99.99
Preference shares	300,000	200,000	66.67
<b>Total</b>	<b>2,000,000</b>	<b>1,899,999</b>	<b>95</b>

EIHK's preference shares rank *pari passu* with its ordinary shares except that the holders of such preference shares are not entitled to vote at any general meeting. Accordingly, Esthetics equity interest of 95% was derived at based on the combined total of all classes of shares in issue.

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**8. ACCOUNTANTS' REPORT (Cont'd)**


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**1.5 Financial statements and auditors**

The present financial year end of the Esthetics Group is 31 January. Set out below is a summary of the financial period/years under review for which the results and financial position have been presented in this report; and that statutory accounts were prepared together with the names of auditors of such period/year are also indicated:-

<b>Company</b>	<b>Period/year end</b>	<b>Auditors</b>
Esthetics	Years ended 31 January 1999 to 2003 Period ended 31 August 2003	KPMG
DESB	Years ended 31 January 1999 to 2003 Period ended 31 August 2003	KPMG
LDM	Years ended 31 January 1999 to 2003 Period ended 31 August 2003	KPMG
ECSB	Years ended 31 January 1999 to 2003 Period ended 31 August 2003	KPMG
LDFM	Years ended 31 January 1999 to 2003 Period ended 31 August 2003	KPMG
HTTKL	Years ended 31 January 1999 to 2003 Period ended 31 August 2003	KPMG
BLFISB	Years ended 31 January 1999 to 2003 Period ended 31 August 2003	KPMG
AMSB	Years ended 31 January 1999 to 2003 Period ended 31 August 2003	KPMG
EIHK*	2 June 2000 (date of incorporation) to 31 January 2001 Years ended 31 January 2002 and 2003 Period ended 31 August 2003	Che and Ngan (Hong Kong)
CMSB	22 July 2002 (date of incorporation) to 31 January 2003 Period ended 31 August 2003	KPMG
BSB	19 June 2002 (date of incorporation) to 31 January 2003 Period ended 31 August 2003	KPMG

The accounts for the period/years under review for the purpose of this report as shown above were reported upon by the respective auditors without any qualification.

\* EIHK's principal place of business is in Hong Kong

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 1.6 Dividends

Esthetics and its subsidiary companies have not declared or paid any dividend for the past five (5) financial years ended 31 January 1999 to 2003 and period ended 31 August 2003, except for DESB, LDM, HTTKL and HTTPJ.

Details of dividends paid by DESB for the relevant financial periods under review are as follows:

Financial year	Gross dividend rate %	Net dividend paid RM'000
31 January 2001	116.66	504
31 January 2002	116.66	504
31 January 2003	333.33	1,440

Subsequent to 31 August 2003, the company declared and paid a gross interim dividend of approximately 8,948%. The dividend amount less taxation is RM38.655 million.

Details of dividends paid by LDM for the relevant financial periods under review are as follows:

Financial year	Gross dividend rate %	Net dividend paid RM'000
31 January 2001	700	504
31 January 2002	700	504
31 January 2003	1,000	720

Subsequent to 31 August 2003, the company declared and paid a gross interim dividend of approximately 13,806%. The dividend amount less taxation is RM9.940 million.

Details of dividends paid by HTTPJ for the relevant financial periods under review are as follows:

Financial year	Gross dividend rate %	Net dividend paid RM'000
31 January 2000	168,269	126

Details of dividends paid by HTTKL for the relevant financial periods under review are as follows:

Financial year	Gross dividend rate %	Net dividend paid RM'000
31 January 2000	97,087	72

### 1.7 Accounting Policies and Standards

The accounting policies adopted in the preparation of this report are set out in Section 3.1 and is consistent with the accounting policies normally adopted by Esthetics and its subsidiaries.

The financial information presented in this report is based on the audited financial statements of Esthetics and its subsidiaries, which have been prepared by the Directors in accordance with applicable approved accounting standards.



## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2 Financial performance

## 2.1 Esthetics Group

## Historical performance

The following financial information of Esthetics Group are based on the audited financial statements of Esthetics Group for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

## 2.1.1 Consolidated results

	<-----Year ended 31 January----->					7 months period ended 31 August 2003
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	RM'000
Revenue	24,997	34,006	44,502	56,374	65,575	34,813
Profit before depreciation and interest	8,336	9,960	14,211	17,206	19,300	9,126
Depreciation	(1,100)	(1,237)	(1,720)	(2,248)	(2,246)	(1,206)
Interest expense	(1,226)	(511)	(118)	(16)	(5)	(5)
Interest income	13	9	28	347	461	145
Operating profit	6,023	8,221	12,401	15,289	17,510	8,060
Share of loss in associated company	-	(52)	(73)	(187)	(215)	(160)
Profit before taxation	6,023	8,169	12,328	15,102	17,295	7,900
Tax expense	(317)	(2,316)	(4,151)	(4,547)	(5,653)	(2,437)
Profit after taxation	5,706	5,853	8,177	10,555	11,642	5,463
Minority interest	(96)	-	-	(18)	(31)	(9)
Net profit for the year	5,610	5,853	8,177	10,537	11,611	5,454
Number of ordinary shares of RM1.00 each in issue (‘000)	700	700	700	700	700	-
Number of ordinary shares of RM0.50 each in issue (‘000)	-	-	-	-	-	1,400
Earnings per share (RM)						
- Gross	8.47	11.67	17.61	21.55	24.66	9.66#
- Net	8.01	8.36	11.68	15.05	16.59	6.68#

# The results were annualised to calculate the earnings per share

**8. ACCOUNTANTS' REPORT (Cont'd)**

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**2.1.1 Consolidated results (continued)**

*Notes:*

- (i) The Group tax charge was low for the financial year ended 31 January 1999, as business income was not subject to tax in view of the tax waiver year for 1999. The effective tax rates of Esthetics Group for years ended 31 January 2000 to 2003 and financial period ended 31 August 2003 were higher than statutory tax rate due to certain expenses being disallowed for taxation purposes and no group relief available for losses incurred by certain subsidiary companies.*
- (ii) There were no extraordinary or exceptional items for the financial years/period under review.*
- (iii) Gross earnings per share has been calculated based on profit before taxation after minority interest and net earnings per share has been calculated based on net profit attributable to shareholders of the Company over the number of shares in issue.*

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.1.2 Consolidated balance sheets

	←----- 31 January ----->					31 August
	1999	2000	2001	2002	2003	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	24,925	24,725	23,794	23,098	21,538	21,995
Investment	-	122	150	-	186	26
Expenditure carried forward	17	20	-	-	-	-
Current assets	8,050	9,455	19,246	25,255	39,273	42,233
Less: Current liabilities	(9,329)	(9,073)	(11,272)	(6,351)	(7,292)	(4,978)
Net current (liabilities) /assets	(1,279)	382	7,974	18,904	31,981	37,255
	23,663	25,249	31,918	42,002	53,705	59,276
Financed by :-						
Share capital	700	700	700	700	700	700
Reserves	16,714	22,567	30,730	41,220	52,833	58,273
Shareholders' funds	17,414	23,267	31,340	41,920	53,533	58,973
Deferred and long term liabilities	6,249	1,982	488	7	67	189
Minority interest	-	-	-	75	105	114
	23,663	25,249	31,918	42,002	53,705	59,276
Number of shares in issue ('000)	700	700	700	700	700	1,400
NTA per ordinary share (RM)	24.88	33.24	44.90	59.89	76.48	42.12

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.2 Esthetics

## Historical performance

The following financial information of Esthetics is based on the audited financial statements of Esthetics for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

## 2.2.1 Summary of results

	<-----Year ended 31 January----->					7 months period ended 31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Revenue	-	275	1,400	1,400	3,000	-
(Loss)/Profit before depreciation and interest	(6)	266	1,384	1,343	2,963	(7)
Interest income	-	-	-	36	-	-
(Loss)/Profit before taxation	(6)	266	1,384	1,379	2,963	(7)
Less: Tax expense	-	(74)	(388)	(389)	(831)	-
Net (loss)/profit for the year	(6)	192	996	990	2,132	(7)
Number of ordinary shares of RM1.00 each ('000)	700	700	700	700	700	-
Number of ordinary shares of RM0.50 each	-	-	-	-	-	1,400
Net (loss)/earnings per share (RM)	(0.01)	0.27	1.42	1.41	3.05	(0.01)#

# The results were annualised to calculate the earnings per share

## Notes:

- (i) There is no revenue in 1999 as no dividends were declared by subsidiaries. For period ended 31 August 2003, no dividends have been declared or paid by the subsidiaries.
- (ii) Tax expense is in respect of tax on dividend income received from subsidiaries.
- (iii) There were no extraordinary or exceptional items for the financial years/period under review.

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.2.2 Summarised balance sheets

	←----- 31 January ----->					31 August
	1999	2000	2001	2002	2003	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Investment in subsidiaries	900	900	1,879	1,831	1,831	1,831
Investment in associate	-	174	174	174	712	712
Current assets	-	3	7	863	2,457	2,524
Less: Current liabilities	(213)	(198)	(185)	(3)	(3)	77
Net current (liabilities)/assets	(213)	(195)	(178)	860	2,454	2,447
	687	879	1,875	2,865	4,997	4,990
Financed by :-						
Share capital	700	700	700	700	700	700
(Accumulated losses)/ Retained profits	(13)	179	1,175	2,165	4,297	4,290
	687	879	1,875	2,865	4,997	4,990
NTA per ordinary share (RM)	0.98	1.26	2.68	4.09	7.14	3.56

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 2.3 DESB

#### Historical performance

The following financial information of DESB is based on the audited financial statements of DESB for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

#### 2.3.1 Summary of results

	←----- Year ended 31 January ----->					7 months period ended 31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Revenue	14,521	21,190	28,363	39,314	40,972	21,906
Profit before depreciation and interest	4,840	6,648	9,845	13,370	12,656	6,256
Gain on disposal of property, plant and equipment	102	51	-	256	3	233
Depreciation	(466)	(542)	(611)	(863)	(717)	(427)
Interest expense	(1,022)	(502)	(118)	(16)	(5)	(5)
Interest income	13	9	13	306	460	234
Profit before taxation	3,467	5,664	9,129	13,053	12,397	6,291
Less: Tax expense	33	(1,644)	(2,718)	(4,088)	(3,890)	(1,964)
Net profit for the year	3,500	4,020	6,411	8,965	8,507	4,327
Number of ordinary shares of RM1.00 each ('000)	600	600	600	600	600	600
Net earnings per share (RM)	5.83	6.70	10.68	14.94	14.18	12.36#

# *The results were annualised to calculate the earnings per share*

#### Notes:

- (i) *The credit taxation charge in 1999 was due to a deferred tax reversal during the year under review. No income tax charge as a result of tax waiver year. For years ended 31 January 2000 to 2003 and period ended 31 August 2003, the effective tax rate is higher than statutory rate due to disallowed items.*
- (ii) *There were no extraordinary or exceptional items for the financial years/period under review.*

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 2.3.2 Summarised balance sheets

	←----- 31 January ----->					31 August
	1999	2000	2001	2002	2003	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	19,972	19,860	18,678	17,586	17,120	17,381
Investment in quoted shares	-	-	100	-	-	-
Current assets	6,628	7,834	16,194	19,741	31,096	34,323
Less: Current liabilities	(5,990)	(7,106)	(9,851)	(3,940)	(7,572)	(6,544)
Net current assets	638	728	6,343	15,801	23,524	27,779
	<u>20,610</u>	<u>20,588</u>	<u>25,121</u>	<u>33,387</u>	<u>40,644</u>	<u>45,160</u>
Financed by :-						
Share capital	600	600	600	600	600	600
Retained profits	14,171	18,191	24,097	32,559	39,626	43,953
Shareholders' funds	<u>14,771</u>	<u>18,791</u>	<u>24,697</u>	<u>33,159</u>	<u>40,226</u>	<u>44,553</u>
Deferred and long term liabilities	5,839	1,707	424	228	418	607
	<u>20,610</u>	<u>20,588</u>	<u>25,121</u>	<u>33,387</u>	<u>40,644</u>	<u>45,160</u>
NTA per ordinary share (RM)	24.62	31.32	41.16	55.27	67.04	74.26

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 2.4 LDM

#### Historical performance

The following financial information of LDM is based on the audited financial statements of LDM for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

#### 2.4.1 Summary of results

	←----- Year ended 31 January ----->					7 months period ended 31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Revenue	16,112	20,797	23,943	27,468	32,355	16,425
Profit before depreciation	2,977	3,207	4,460	4,556	5,492	2,189
Depreciation	(545)	(608)	(1,012)	(1,275)	(1,411)	(693)
Profit before taxation	2,432	2,599	3,448	3,281	4,081	1,496
Less: Tax expense	(130)	(886)	(1,071)	(1,129)	(1,476)	(408)
Net profit for the year	2,302	1,713	2,377	2,152	2,605	1,088
Number of ordinary shares of RM1.00 each ('000)	100	100	100	100	100	100
Net earnings per share (RM)	23.02	17.13	23.77	21.52	26.05	18.65#

# The results were annualised to calculate the earnings per share

#### Notes:

- (i) The effective tax rates for years ended 31 January 2000 to 2003 were higher mainly due to certain expenses being disallowed for tax purposes. No provision for income taxation was made in the accounts for the year ended 31 January 1999 in view of the income tax waiver in 1999.
- (ii) There were no extraordinary or exceptional items for the financial years under review.



## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.4.2 Summarised balance sheets

	←----- 31 January ----->					31 August
	1999	2000	2001	2002	2003	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	3,616	3,610	3,901	4,196	3,129	2,883
Current assets	5,525	5,499	7,816	7,800	10,232	10,633
Less: Current liabilities	(5,605)	(3,722)	(4,551)	(3,182)	(2,802)	(1,979)
Net current (liabilities)/assets	(80)	1,777	3,265	4,618	7,430	8,654
	3,536	5,387	7,166	8,814	10,559	11,537
Financed by :-						
Share capital	100	100	100	100	100	100
Retained profits	3,189	4,902	6,774	8,442	10,307	11,395
Shareholders' funds	3,289	5,002	6,874	8,522	10,407	11,495
Deferred tax liability	247	385	292	292	152	42
	3,536	5,387	7,166	8,814	10,559	11,537
NTA per ordinary share (RM)	32.89	50.02	68.74	85.22	104.07	114.95

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.5 ECSB

## Historical performance

The following financial information of ECSB is based on the audited financial statements of ECSB for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

## 2.5.1 Summary of results

	←----- Year ended 31 January ----->					7 months period ended 31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Revenue	116	88	112	73	73	42
(Loss)/ Profit before depreciation and interest	92	62	71	74	41	(127)
Depreciation	(88)	(86)	(87)	(54)	(40)	(25)
Interest expense	(31)	(9)	-	-	-	-
(Loss)/Profit before taxation	(27)	(33)	(16)	20	1	(152)
Less: Tax expense	12	11	(12)	(16)	(22)	43
Net (loss)/profit for the year	(15)	(22)	(28)	4	(21)	(109)
Number of ordinary shares of RM1.00 each ('000)	100	100	100	100	100	100
Net (loss)/earnings per share (RM)	(0.15)	(0.22)	(0.28)	0.04	(0.21)	(1.87)#

# The results were annualised to calculate the earnings per share

**Notes:**

- (i) The effective tax rate for the years ended 31 January 2002 and 2003 were higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes. Business income for the financial year ended 31 January 1999 was not subject to tax in view of the tax waiver year for 1999. For financial years ended 2000 and 2001, there was no tax charge as ECSB's taxable income was absorbed by available capital allowances.
- (ii) There were no extraordinary or exceptional items for the financial years/period under review.

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.5.2 Summarised balance sheets

	←----- 31 January ----->					31 August
	1999	2000	2001	2002	2003	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1,328	1,242	1,155	1,080	1,072	1,211
Current assets	20	2	27	26	138	218
Less: Current liabilities	(985)	(1,066)	(1,019)	(939)	(1,033)	(1,404)
Net current liabilities	(965)	(1,064)	(992)	(913)	(895)	(1,186)
	363	178	163	167	177	25
Financed by :-						
Share capital	100	100	100	100	100	100
Retained profits/ (Accumulated loss)	101	78	51	55	34	(75)
Shareholders' funds	201	178	151	155	134	25
Hire purchase liability	151	-	-	-	-	-
Deferred tax liability	11	-	12	12	43	-
	363	178	163	167	177	25
NTA per ordinary share (RM)	2.01	1.78	1.51	1.55	1.34	0.25

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 2.6 AMSB

#### Historical performance

The following financial information of AMSB is based on the audited financial statements of AMSB for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

#### 2.6.1 Summary of results

	<----- Year ended 31 January ----->					7 months period ended 31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Profit / (Loss) before and after taxation	-	-	(21)	(3)	(2)	1
Number of ordinary shares of RM1.00 each ('000)	0.1**	0.1**	0.1**	0.1**	0.1**	0.1**

\*\* Representing 103 shares of RM1.00 each

#### Notes :

- (i) No income statement was prepared for the years ended 31 January 1999 and 2000 as the Company had not commenced operations since its incorporation on 25 October 1995. The loss for the financial year ended 2001 is mainly due to the write off of deferred expenditure of RM19,355 as a result of adoption of Malaysian Accounting Standards Board No. 1(MASB 1).
- (ii) The loss before and after taxation for the years ended 31 January 2002 and 2003 were mainly due to administrative expenses incurred. The profit for the period ended 31 August 2003 arose as the Company commenced business during the period.
- (iii) There were no extraordinary or exceptional items for the financial years/period under review.

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.6.2 Summarised balance sheets

	←----- 31 January ----->					31 August
	1999	2000	2001	2002	2003	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current assets	1	1	1	1	1	1
Less: Current liabilities	(18)	(21)	(22)	(25)	(27)	(26)
Net current liabilities	(17)	(19)	(21)	(24)	(26)	(25)
Expenditure carried forward	17	19	-	-	-	-
	0.1**	0.1**	(21)	(24)	(26)	(25)
Financed by :-						
Share capital	0.1**	0.1**	0.1**	0.1**	0.1**	0.1**
Accumulated losses	-	-	(21)	(24)	(26)	(25)
Shareholders' funds/ (deficit)		0.1**	(21)	(24)	(26)	(25)
NTA per ordinary share (RM)		1.00	(201.11)#	(230.32)#	(253.20)#	(242.25)#

\*\* Representing balance of RM103

# Negative due to deficit in shareholders funds

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.7 HTTKL

## Historical performance

The following financial information of HTTKL is based on the audited financial statements of HTTKL for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

## 2.7.1 Summary of results

	<----- Year ended 31 January ----->					7 months period ended 31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Revenue	156	-	-	-	-	-
Profit/(loss) before depreciation and interest	50	(2)	(5)	(4)	(3)	(2)
Depreciation	-	-	-	-	-	-
Profit/(loss) before taxation	50	(2)	(5)	(4)	(3)	(2)
Less: Tax expense	22	-	-	(10)	-	-
Net profit/(loss) for the year	72	(2)	(5)	(14)	(3)	(2)
Number of ordinary shares of RM1.00 each ('000)	0.1*	0.1*	0.1*	0.1*	0.1*	0.1*
Net earnings per share (RM)	699	(19.42)	(38.83)	(135.92)	(29.13)	(33.29)#

\* Representing 103 shares of RM1.00 each

# The results were annualised to calculate the earnings per share

**Notes:**

- (i) No provision for tax was made in the accounts for financial year ended 1999 in view of the tax waiver year which was gazetted on 8 July 1999.
- (ii) There were no extraordinary or exceptional items for the financial years/period under review.

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 2.7.2 Summarised balance sheets

	<----- 31 January ----->					31 August
	1999	2000	2001	2002	2003	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current assets	148	64	61	47	43	40
Less: Current liabilities	(10)	(0.7)	(2)	(2)	(1)	-
Net current assets	138	64	59	45	42	40
	138	64	59	45	42	40
Financed by :-						
Share capital	0.1#	0.1#	0.1#	0.1#	0.1#	0.1#
Retained profits	138	64	59	45	42	40
Shareholders' funds	138	64	59	45	42	40
NTA per ordinary share (RM)	1,339.81	621.36	572.82	436.89	407.96	389.35

# Representing balance of RM103

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.8 BLFISB

## Historical performance

The following financial information of BLFISB is based on the audited financial statements of BLFISB for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

## 2.8.1 Summary of results

	<----- Year ended 31 January ----->					7 months period ended 31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Revenue	166	-	-	-	127	661
Profit before depreciation	61	(2)	(4)	(5)	24	63
Depreciation	-	-	-	-	(1)	(13)
Profit/(loss) before taxation	61	(2)	(4)	(5)	23	50
Less: Tax expense	24	-	-	(3)	(7)	(15)
Net profit/(loss) for the year	85	(2)	(4)	(8)	16	35
Number of ordinary shares of: RM1.00 each ('000)	0.1**	0.1**	0.1**	0.1**	0.1**	0.1**
Net earnings per share (RM)	817	(19.23)	(38.46)	(76.92)	153	576.92#

\* Representing 104 shares of RM1.00 each

# The results were annualised to calculate the earnings per share

## Notes :

- (i) No tax provision was made for the financial year ended 1999 in view of the tax waiver year. The effective tax rate is high for 2003 due to expenses disallowed for taxation purposes.
- (ii) There were no extraordinary or exceptional items for the financial years under review.



## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.8.2 Summarised balance sheets

	←----- 31 January ----->					31 August
	1999	2000	2001	2002	2003	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	-	-	35	380
Current assets	268	98	94	87	310	1,046
Less: Current liabilities	(43)	(1)	(1)	(2)	(244)	(1,288)
Net current assets / (liabilities)	225	97	93	85	66	(242)
	225	97	93	85	101	138
Financed by :-						
Share capital	0.1**	0.1**	0.1**	0.1**	0.1**	0.1**
Retained profits	225	97	93	85	101	136
Shareholders' funds	225	97	93	85	101	136
Deferred tax liability	-	-	-	-	-	2
	225	97	93	85	101	138
NTA per ordinary share (RM)	2,163	933	894	817	972	1,360

\*\* Representing balance of RM104

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.9 EHK

## Historical performance

The following financial information of EHK is based on the audited financial statements of EHK for the period ended 31 January 2001, years ended 31 January 2002 and 2003, and period ended 31 August 2003.

## 2.9.1 Summary of results

	Period ended 31 January	← Year ended 31 January →		7 months period ended 31 August
	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Revenue	1,561	4,067	5,032	2,623
Profit before depreciation and interest	25	672	1,065	343
Depreciation	(7)	(53)	(74)	(46)
Interest expense	(1)	(82)	(214)	(89)
Interest income	15	4	1	-
Profit/(loss) before taxation	32	541	778	208
Less: Tax expense	-	(94)	(167)	(36)
Net profit for the year	32	447	611	172
Number of ordinary and preference shares of HKD 1.00 each (*000)	2,000	2,000	2,000	2,000
Net earnings per share (RM)	0.03#	0.22	0.31	0.15#

# The results were annualised to calculate the earnings per share

## Notes:

- (i) The effective tax rate in 2002 and 2003 at approximately 17% and 21% respectively were higher than the Hong Kong statutory tax rate of 16.5% mainly due to certain expenses being disallowed for tax purposes. Similarly, effective tax rate of 17.3% is noted for period ended 31 August 2003. No tax was provided in 2001 as the company has no estimated assessable profit for the period.
- (ii) There were no extraordinary or exceptional items for the financial years/period under review.

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.9.2 Summarised balance sheets

	←----- 31 January ----->			31 August
	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Property, plant and equipment	50	229	177	137
Current assets	1,715	4,279	4,912	6,263
Less: Current liabilities	(768)	(3,110)	(3,076)	(4,232)
Net current assets	947	1,169	1,836	2,031
	997	1,398	2,013	2,168
Financed by :-				
Share capital				
ordinary shares	832	832	832	832
preference shares	147	147	147	147
Retained profits	32	479	1,090	1,262
Exchange fluctuation reserve	(14)	(60)	(59)	(73)
Shareholders' funds	997	1,398	2,010	2,168
Hire purchase liability	-	-	3	-
	997	1,398	2,013	2,168
NTA per ordinary share (RM)	0.50	0.70	1.01	1.08

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.10 LDFM

## Historical performance

The following financial information of LDFM is based on the audited financial statements of LDFM for the financial years ended 31 January 1999 to 2003 and for the period ended 31 August 2003.

## 2.10.1 Summary of results

	<----- Year ended 31 January ----->					7 months period ended 31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Revenue	104	288	215	130	224	58
(Loss)/Profit before depreciation	(244)	22	(8)	(143)	(7)	(25)
Depreciation	(1)	(1)	(3)	(3)	(3)	(2)
Net (loss)/profit for the year	(245)	21	(11)	(146)	(10)	(27)
Number of ordinary shares of RM1.00 each ('000)	100	100	100	100	100	100
Net earnings per share (RM)	(2.45)	0.21	(0.11)	(1.46)	(0.1)	(0.46)#

# *The results were annualised to calculate the earnings per share*

**Notes :**

(i) *There were no extraordinary or exceptional items for the financial years/period under review.*

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 2.10.2 Summarised balance sheets

	←----- 31 January -----→					31 August
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Property, plant and equipment	8	12	10	7	4	2
Current assets	116	26	47	23	30	43
Less: Current liabilities	(418)	(311)	(341)	(460)	(474)	(512)
Net current liabilities	(302)	(285)	(294)	(437)	(444)	(469)
	(294)	(273)	(284)	(430)	(440)	(467)
Financed by :-						
Share capital	100	100	100	100	100	100
Accumulated losses	(394)	(373)	(384)	(530)	(540)	(567)
Deficit in shareholders' funds	(294)	(273)	(284)	(430)	(440)	(467)
Net liability per ordinary share (RM)	(2.94)#	(2.73)#	(2.84)#	(4.30)#	(4.40)#	(4.67)#

# Negative due to deficit in shareholders' funds

## 8. ACCOUNTANTS' REPORT *(Cont'd)*



### 2.11 CMSB (formerly known as OC)

#### Historical performance

The following financial information of CMSB is based the audited financial statements of CMSB for the financial period from 22 July 2002 (date of incorporation) to 31 January 2003 and period ended 31 August 2003.

#### 2.11.1 Summary of results

	6 month period ended 31 January 2003	7 month period ended 31 August 2003
	RM	RM
Loss before and after taxation	(3,404)	(2,997)
Number of ordinary shares of RM1.00 each ('000)	2	2
Net loss per share (RM)	(1,702)	(1,499)

**Note:**

- (i) *The Company has not commenced business operations since its incorporation on 22 July 2002.*

#### 2.11.2 Summarised balance sheets

	31 January 2003	31 August 2003
	RM	RM
Current assets	2	2
Less: Current liabilities	(3,404)	(6,401)
Shareholders' funds	(3,402)	(6,399)
Financed by:		
Share capital	2	2
Accumulated losses	(3,404)	(6,401)
Deficit in shareholders' funds	(3,402)	(6,399)
Net liability per ordinary share (RM)	(1,701)	(3,200)

## 8. ACCOUNTANTS' REPORT *(Cont'd)*



### 2.12 BSB

#### Historical performance

The following financial information of BSB is based on the audited financial statements of BSB for the financial the period from 19 June 2002 (date of incorporation) to 31 January 2003 and period ended 31 August 2003.

#### 2.12.1 Summary of results

	7 month period ended 31 January 2003 RM	7 month period ended 31 August 2003 RM
Loss before and after taxation	(31,161)	(9,673)
Number of ordinary shares of RM1.00 each ('000)	2	2
Net loss per share (RM)	(15,581)	(4,837)

#### *Note:*

- (i) *The Company has not commenced business operations since its incorporation on 19 June 2002.*

#### 2.12.2 Summarised balance sheets

	31 January 2003 RM	31 August 2003 RM
Current assets	2	2
Less: Current liabilities	(31,161)	(40,834)
Shareholders' funds	(31,159)	(40,832)
Financed by:		
Share capital	2	2
Accumulated losses	(31,161)	(40,834)
Deficit in shareholders' fund	(31,159)	(40,832)
Net liability per ordinary share (RM)	(15,580)	(20,416)

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 3 Statement of Assets and Liabilities

The following is a detailed statement of assets and liabilities of Esthetics and the Group, which have been prepared for illustrative purposes only and are based on the audited accounts of Esthetics and its subsidiaries as at 31 August 2003.

The proforma statement of assets and liabilities of the Group have been prepared on the assumption that the share issues as mentioned in Section 1.3 of this report had been effected on 31 August 2003 (together with the proceeds utilisation for capital expenditure and listing expenses) and should be read in conjunction with the notes thereon.

	Note	Company audited balance sheet 31 August 2003 RM'000	Group audited consolidated balance sheet 31 August 2003 RM'000	Group proforma consolidated balance sheet after bonus and public issue RM'000
Property, plant and equipment	3.2	-	21,995	30,995
Investments in subsidiaries	3.3	1,831	-	-
Investment in associate	3.4	713	26	26
<b>Current assets</b>				
Inventories	3.5	-	7,418	7,418
Deferred tax		-	30	30
Trade and other receivables	3.6	2,517	23,381	23,381
Cash and cash equivalents	3.7	7	11,404	17,409
		2,524	42,233	48,238
<b>Current liabilities</b>				
Trade and other payables	3.8	77	3,470	3,470
Borrowings	3.9	-	30	30
Deferred revenue		-	717	717
Taxation		-	761	761
		-	4,978	4,978
<b>Net current assets</b>		2,447	37,255	43,260
		4,991	59,276	74,281
<b>Financed by:</b>				
Share capital	3.10	700	700	60,000
Share premium	3.11	-	-	3,335
Reserves	3.12	4,291	58,273	10,643
Shareholders' funds		4,991	58,973	73,978
Minority interest		-	114	114
Borrowings	3.9	-	189	189
		4,991	59,276	74,281
<b>Number of shares outstanding</b> ( '000)		1,400	1,400	120,000
<b>Net tangible assets per share (RM)</b>		3.57	42.12	0.62



## 8. ACCOUNTANTS' REPORT *(Cont'd)*

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### 3.1 Notes to the statement of assets and liabilities

#### 3.1.1 Summary of significant accounting policies

The following accounting policies are adopted by the Esthetics Group and the Company and are consistent with those adopted in previous years except for the adoption of the following:

- (i) MASB 22, Segment Reporting which is applied prospectively;
- (ii) MASB 25, Income Taxes which is applied retrospectively; and
- (iii) MASB 27, Borrowing Costs which is applied retrospectively.

Apart from the inclusion of the new policies and extended disclosures as required by the standards, the adoption of these standards has not had an effect on the financial statements.

#### 3.1.2 Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the following notes and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

#### 3.1.3 Basis of Consolidation

Subsidiary companies are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiary companies are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiary companies are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the Proforma Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill or negative goodwill as appropriate.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

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## 8. ACCOUNTANTS' REPORT (Cont'd)

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### 3.1.4 Investments

Long term investments in subsidiary and associated companies are stated at cost less impairment loss, where applicable.

### 3.1.5 Associates

Associated companies are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associated companies on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

### 3.1.6 Property, plant and equipment and depreciation

Property, plant and equipment (except for freehold land and buildings in progress) are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Freehold land and buildings in progress are stated at cost and not amortised.

#### *Depreciation*

The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Freehold buildings	2%
Condominium	2%
Motor vehicles	20%
Office equipment and fittings	10% - 20%
Tools and equipment	15%
Renovation	10% - 20%

### 3.1.7 Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

### 3.1.8 Inventories

Inventories which consist of trading merchandise, are stated at the lower of cost and net realisable value determined on the first-in-first-out method. Cost include purchase price and costs incidental in bringing these inventories to their present condition and location.

## 8. ACCOUNTANTS' REPORT *(Cont'd)*

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### 3.1.9 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks. For purpose of cash flow statements, cash and cash equivalents are presented net of bank overdrafts, if any.

### 3.1.10 Hire purchase

Property, plant and equipment acquired under hire purchase arrangements are capitalised in the financial statements and depreciated over the estimated useful lives as stated in paragraph 3.1.6 above and the corresponding obligations relating to the remaining capital payments are treated as liability. Finance charges are allocated to the income statement using the sum-of-digits method.

### 3.1.11 Liabilities

Borrowings and trade and other payables are stated at cost.

### 3.1.12 Impairment

The carrying amount of the Group and Company's assets, other than inventories (refer paragraph 3.1.8 and financial assets (excluding investments in subsidiaries and associates), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 3.1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### 3.1.14 Foreign currency

#### (a) *Foreign currency transactions*

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

1USD	RM3.80
1SGD	RM2.15

#### (b) *Financial statements of foreign operations*

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rate used in the translation of the financial statements of foreign operations is 1HK\$ to RM0.48.

## 8. ACCOUNTANTS' REPORT *(Cont'd)*

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### 3.1.15 Revenue

The revenue of the Group comprises revenue from sales of trading merchandise and services rendered. The revenue of the Company comprise dividend income.

The revenue recognition policies are as follows:

*a) Trading merchandise sold and services rendered*

Revenue from sale of trading merchandise is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the services at the balance sheet date. The stage of completion is assessed by reference to services performed to date as a percentage of total services to be performed.

*b) Dividend income*

Dividend income is recognised when the right to receive payment is established.

### 3.1.16 Deferred revenue

Deferred revenue represents cash received from customers for services not rendered as at year end.

### 3.1.17 Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred.

## 8. ACCOUNTANTS' REPORT (Cont'd)



### 3.2 Property, plant and equipment

	Cost	Accumulated depreciation	Net book value
	RM'000	RM'000	RM'000
Freehold land and buildings	15,905	851	15,054
Building in progress	1,532	-	1,532
Condominium	349	49	300
Motor vehicles	2,456	1,251	1,205
Office equipment and fittings	3,749	2,743	1,006
Tools and equipment	3,071	1,994	1,077
Renovation	4,994	3,173	1,821
	<u>32,056</u>	<u>10,061</u>	<u>21,995</u>
Capital expenditure to be incurred through utilisation of the Public issue proceeds as indicated in Section 1.3 of this report			9,000
			<u>30,995</u>

The freehold land and buildings in progress with a net book value of RM11,429,582 of a subsidiary company have been charged to the banks as security for credit facilities granted.

Included in property, plant and equipment of the Group are motor vehicles and equipment acquired by certain subsidiaries under hire purchase arrangements with a net book value of RM382,211.

### 3.3 Investment in Subsidiaries

	Audited Company RM'000
Unquoted shares, at cost	1,831

Details of the subsidiaries are set out in Section 1.4 of this report.

### 3.4 Investment in Associate

	Audited Company RM'000	Proforma Group RM'000
Unquoted shares, at cost	713	713
Share of losses in associate company	-	(687)
	<u>713</u>	<u>26</u>

Details of the associate are set out in Section 1.4 of this report.

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**8. ACCOUNTANTS' REPORT (Cont'd)**


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**3.5 Inventories**

	<b>Proforma Group RM'000</b>
Trading merchandise	7,418

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**3.6 Trade and other receivables**

	<b>Audited Company RM'000</b>	<b>Proforma Group RM'000</b>
Trade receivables	-	10,921
Other receivables, deposits and prepayments	990	11,545
Rental deposits	-	915
Due from subsidiaries	1,527	-
	<hr/> 2,517	<hr/> 23,381

Included in the Group's other receivables, deposits and prepayments are:

- (i) an advance made to a third party totaling RM2.97 million, which bears interest at 10% per annum and is unsecured with no fixed terms of repayment;
- (ii) an amount of RM3.96 million relating to proceeds receivable arising from the disposal of investment in unit trust that was received after the financial period; and
- (iii) tax recoverable of RM0.54 million.

The amount due from subsidiaries are non-trade, unsecured, interest free and has no fixed terms of repayment.

**3.7 Cash and cash equivalents**

	<b>Proforma Group RM'000</b>
Cash and bank balances as at 31 August 2003	11,404
Proceeds from public issue	17,505
Less: Estimated listing expenses	(2,500)
Capital expenditure incurred	(9,000)
Balance after public issue and proceeds utilisation	<hr/> 17,409

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**8. ACCOUNTANTS' REPORT (Cont'd)**


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**3.8 Trade and other payables**

	<b>Proforma Group RM'000</b>
Trade payables	833
Other payables and accruals	2,637
	<u>3,470</u>

**3.9 Borrowings**

	<b>Proforma Group RM'000</b>
Current:	
Hire purchase liabilities	<u>30</u>
Non-current:	
Hire purchase liabilities	<u>189</u>

**3.10 Share capital**

	<b>Proforma Group RM'000</b>
Ordinary shares of RM0.50 each	
Authorised – 200 million shares	<u>100,000</u>
Issued and fully paid balance as at 31 August 2003 (1,400,020)	700
Bonus issue of 95,259,980 new ordinary shares of RM0.50 via capitalization of retained profits	47,630
Public issue of 23,340,000 new ordinary shares at an issue price of RM0.75 per share	11,670
Balance after bonus and public issue (120,000,000 shares)	<u>60,000</u>



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**8. ACCOUNTANTS' REPORT (Cont'd)**


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**3.11 Share Premium**

	<b>Proforma Group RM'000</b>
Balance as at 31 August 2003	-
Premium arising from the Public Issue	5,835
Less: Estimated listing expenses	(2,500)
Balance after public issue	<u>3,335</u>

**3.12 Reserves**

	<b>Proforma Group RM'000</b>
Balance as at 31 August 2003	58,273
Capitalisation for the Bonus Issue	(47,630)
Balance after bonus issue	<u>10,643</u>

**3.13 Capital commitments**

	<b>Proforma Group RM'000</b>
Approved and contracted for	<u>1,340</u>

**3.14 Contingent liabilities**

	<b>Proforma Group RM'000</b>
Stand-by credit issued for credit facilities granted to associated company	<u>1,163</u>

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**8. ACCOUNTANTS' REPORT (Cont'd)**


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**3.15 Segmental information**

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group management and internal reporting structure. Inter segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total incurred during the period to acquire segment assets that are expected to be used for more than one period.

***Business segments***

The Group comprises the following main segments:

Professional services and sales	The professional services rendered in respect of skincare and fitness programs and sales of related products.
Product distribution	The distribution of skincare products and beauty equipment.
Others	Investment holding.

***Geographical segments***

The professional services and sales segment of the Group is also operated in Hong Kong apart from its home country, Malaysia.

The other business segments are operated solely in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 3.15 Segmental information (continued)

Financial period ended 31 August 2003

*Business segments*

	Professional services and sales RM	Product distribution RM	Others RM	Eliminations RM	Consolidated RM
Revenue from external customers	18,060,304	16,752,628	-	-	34,812,932
Inter-segment revenue	-	6,931,499	-	(6,931,499)	-
<b>Total revenue</b>	<b>18,060,304</b>	<b>23,684,127</b>	<b>-</b>	<b>(6,931,499)</b>	<b>34,812,932</b>
<b>Segment result</b>	<b>4,957,482</b>	<b>3,086,082</b>	<b>(6,663)</b>	<b>300,302</b>	<b>8,337,203</b>
Unallocated expenses					(416,451)
<b>Operating profit</b>					<b>7,920,752</b>
Interest income					144,535
Financing costs					(4,950)
Share of losses in associated company					(160,481)
<b>Profit before taxation</b>					<b>7,899,856</b>
Tax expense					(2,436,559)
<b>Profit after taxation</b>					<b>5,463,297</b>
Minority interest					(8,596)
<b>Net profit for the period</b>					<b>5,454,701</b>

## 8. ACCOUNTANTS' REPORT (Cont'd)



As at 31 August 2003	Professional services and sales RM	Product distribution RM	Others RM	Eliminations RM	Consolidated RM
<b>Segment assets</b>					
Investment in associate company	14,987,425	42,967,717	4,354,496	(14,644,507)	47,665,131
Unallocated assets					26,011
					16,563,203
<b>Total assets</b>					64,254,345
<b>Segment liabilities</b>					
Unallocated liabilities	3,823,897	12,564,375	77,000	(11,516,872)	4,948,400
					218,866
<b>Total liabilities</b>					5,167,266
Capital expenditure	836,963	858,168	-	-	1,695,131
Depreciation	733,441	472,318	-	-	1,205,759
<b>Geographical segments</b>					
	<b>Malaysia RM</b>	<b>Overseas* RM</b>	<b>Consolidated RM</b>		
By location of customers:					
Revenue from external customers	30,255,042	4,557,890	34,812,932		
Segment assets by location of assets	36,859,937	10,805,194	47,665,131		
Capital expenditure by location of assets	1,688,808	6,243	1,695,131		

\* Included in the overseas segment is Singapore, Hong Kong and United Kingdom.

## 8. ACCOUNTANTS' REPORT *(Cont'd)*

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### 3.16 Financial instruments

#### **Financial risk management objectives and policies**

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. The Group's policies for managing each of these risks are summarised below.

#### **Credit risk**

The Group's exposure to credit risk arises through its receivables and deposit placements. Management has an informal credit policy in place and the exposure to credit risk is monitored on an ongoing basis through the review of receivables ageing. Deposits are placed only with licensed financial institutions.

At the balance sheet date, the maximum exposure to credit risk is represented by the carrying amount of the receivables shown in the balance sheet.

Included in trade receivables of the Group are balances due from two customers that represents approximately 40% of the total trade receivables as at balance sheet date.

Included in other receivables of the Group is a balance due from a single customer that represents approximately 52% of the total other receivables as at balance sheet date.

#### **Interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in the market interest rates. Interest rate exposure arises mainly from the Group's deposits and these are placed at short term maturities not exceeding twelve months and the effective interest rate at 31 August 2003 is 2.68%

#### **Foreign currency risk**

The Group incur foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The currency giving rise to this are primarily US dollars, Singapore dollars and Hong Kong dollars. The Group does not engage in foreign currency hedging in respect of its foreign currency exposures but the management monitors these exposures on an ongoing basis.

#### **Fair values**

At balance sheet date, the carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values due to the relatively short term nature of these financial instruments.

The carrying amount of hire purchase liabilities are deemed fair value as the effect to present value this fixed rate obligation is not material.

## 8. ACCOUNTANTS' REPORT (Cont'd)



## 4 Proforma Cashflow Statements

The proforma cashflow statement of the Company and the Esthetics Group set out below are based on the audited consolidated financial statements of Esthetics and its subsidiaries for the period ended 31 August 2003.

The proforma cashflow statement of the Company and Esthetics Group have been prepared for illustrative purposes only on the assumption that the Public Issue as mentioned in Section 1.3 (together with the proceeds utilisation for capital expenditure and listing expenses) had been effected on 31 August 2003.

	Proforma Company RM'000	Proforma Group RM'000
<b>Cash flows from operating activities</b>		
(Loss)/Profit before taxation	(4)	7,900
Adjustments for:		
Depreciation	-	1,206
Interest expense	-	5
Interest income	-	(145)
Gain on disposal of property, plant and equipment	-	(233)
Property, plant and equipment written off	-	32
Share of losses in associated company	-	160
Loss on disposal of investment	-	41
Operating (loss)/profit before working capital changes	(4)	8,966
Changes in working capital:		
Inventories	-	1,747
Trade and other receivables	12	(1,492)
Trade and other payables	(3)	(2,054)
Cash generated from operations	5	7,167
Taxation paid	-	(3,260)
<b>Net cash generated from operating activities</b>	<b>5</b>	<b>3,907</b>
<b>Cash flows from investing activities</b>		
Proceeds given to the subsidiaries for capital expenditure	(9,000)	-
Acquisition of investment	-	(4,000)
Proceeds from disposal of property, plant and equipment	-	233
Purchase of property, plant and equipment	-	(10,445)
Interest received	-	145
<b>Net cash used in investing activities</b>	<b>(9,000)</b>	<b>(14,067)</b>
<b>Cash flows from financing activities</b>		
Proceeds from public issue	17,505	17,505
Payment of listing expenses	(2,500)	(2,500)
Repayment of hire purchase	-	(37)
Interest paid	-	(5)
<b>Net cash generated from financing activities</b>	<b>15,005</b>	<b>14,963</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,005</b>	<b>4,803</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2</b>	<b>12,620</b>
<b>Foreign exchange adjustment</b>	<b>-</b>	<b>(14)</b>
<b>Cash and cash equivalents at end of period</b>	<b>6,007</b>	<b>17,409</b>

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**8. ACCOUNTANTS' REPORT (Cont'd)**


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**5 Proforma net tangible assets cover**

Based on the proforma statement of assets and liabilities of the Group as at 31 August 2003 as set out in Section 3 above, the net tangible assets cover will be as follows:

	<b>Proforma Group RM'000</b>
Net tangible assets as per the Group's proforma statements of assets and liabilities	<u>73,978</u>
Number of ordinary shares of RM0.50 pursuant to the Bonus and Public issue	<u>120,000</u>
NTA cover per ordinary share of RM0.50 each (RM)	<u>0.62</u>

**6 Post balance sheet event**

Other than the interim dividends paid by certain subsidiaries and bonus issue made by the Company as disclosed in Sections 1.6 and 1.3.1, respectively, of this report, no events have arisen subsequent to the balance sheet date which would require disclosure in this report.

**7 Audited financial statements**

No audited financial statements of Esthetics and its subsidiary companies have been made up in respect of any period subsequent to 31 August 2003.

Yours faithfully

**KPMG**

Firm Number: AF0758

Chartered Accountants

**KHAW HOCK HOE**

Partner

Approval Number: 2229/04/04(J)