
5. INFORMATION ON THE GROUP

5.1 HISTORY AND BUSINESS

Esthetics was incorporated in Malaysia under the Act on 29 October 1996 as a private limited company under the name of Esthetics International Sdn Bhd. Subsequently on 17 May 2002, it was converted into a public limited company. It subsequently assumed its present name on 27 November 2003.

Esthetics' initial foray in the skin care business started when Melissa M. Chen, its co-founder set up her first skin care centre at Imbi Plaza, Kuala Lumpur in 1984. The sole proprietorship was known as HTTBC. As the business expanded, in 1985, HTTBC was moved to a bigger premise in KL Plaza, Kuala Lumpur. In the same year, Lim Yee Soon and Kan Kok Chee were invited to be partners of Melissa M. Chen. Consequently, HTTBC was converted from a sole proprietorship enterprise into a partnership entity.

In 1990, the second skin care centre, HTT (PJ) was established at Wisma Atria, Petaling Jaya, Selangor.

Backed by the entrepreneurial drive and experience of the Promoters in skin care business, in 1989, Esthetics Group managed to secure its first exclusive distributorship to distribute Dermalogica range of professional skin care products in Malaysia. Over the years, the Esthetics Group has further secured the exclusive distributorships to distribute Dermalogica range of professional skin care products in Thailand, Singapore, Indonesia, Vietnam, Brunei, Cambodia, Hong Kong and Philippines from DI. DI is an internationally renowned skin care manufacturer from the USA. In 1989, DESB was incorporated and made the import/export as well as distribution arm of the Group in relation to the Dermalogica range of professional skin care products. The business arrangement with DI has also entitled the Group to use the Leonard Drake mark for its professional skin care services centres.

With its new corporate identity and market position, in 1992, Melissa M. Chen and her co-founders have established their first professional skin care centre known as LDPSC in Bangsar, Kuala Lumpur.

In 1994, HTT (KL) and BLFISB were incorporated as private limited companies for trading in skin care products and provision of skin care services. In 1997, HTT (KL) and BLFISB took over the partnership businesses of HTTBC and Head To Toe Skin Care Centre (PJ) respectively.

In 1997, LDM was incorporated to take over the partnership business of LDPSC. Subsequently, in 1999, the operations of HTT (KL) and BLFISB were consolidated and absorbed into LDM. HTT (KL) ceased operations in 1999 and remained dormant ever since. HTT (PJ) (*now known as BLFISB*) ceased operations in 1999. However, BLFISB began operations again with the opening of its first Belle Lina outlet in Selayang Mall, Kuala Lumpur.

Since 1989, after securing the exclusive distribution rights for the Dermalogica range of skin care products, the Promoters have been aggressively promoting and expanding their business operations. As at 27 January 2004, the Group has a total of twenty-two (22) Professional Skin Care Centres and one (1) kiosk strategically located in the prominent shopping complexes in Penang and Klang Valley. As at 27 January 2004, it also has a total of three hundred and thirty nine (339) appointed local dealers who independently own skin care centre. These local dealers are actively promoting and distributing the Group's skin care and cosmetics products and serving the needs of the end user of its products.

The business operations of the Group have grown rapidly, particularly, within the last five (5) years. In 2000, the Group embarked on its maiden overseas venture by setting up EIHK in Hong Kong to tap on the competitive but fast growing skin care and cosmetics market in Hong Kong and China.

5. INFORMATION ON THE GROUP (Cont'd)

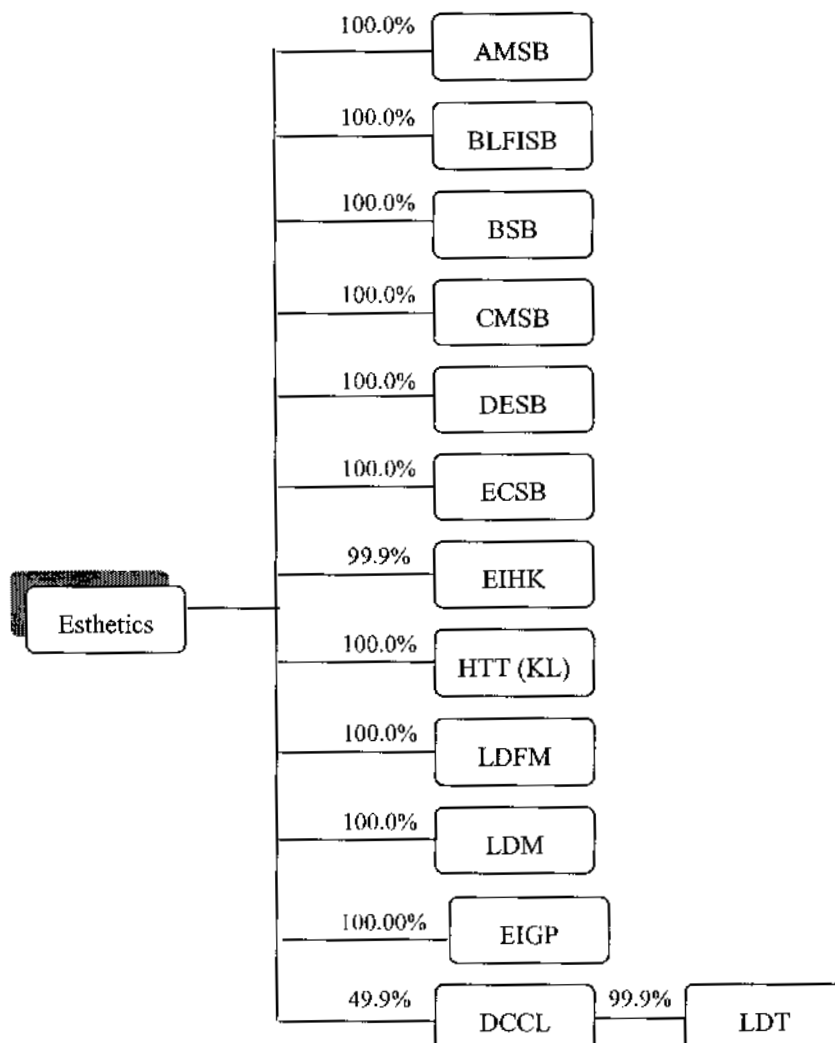
As at 27 January 2004, in addition to the Dermalogica range of skin care products, the Group has secured the exclusive distributor rights from the following:

- (i) Eve Taylor (London) Limited for its range of aromatherapy products in 1992;
- (ii) Nemectron GmbH for its range of Electro-Cosmetic (Beauty) Equipment in 1993;
- (iii) Weyergans High Care AG for its range of beauty equipments in 2003;
- (iv) DANYCARE Medical Beauty GmbH for its range of medical products in 2003; and
- (v) ROS'S ESTHETICA Y ELECTROMEDICINA for its range of beauty equipments in 2003.

In addition, as at 27 January 2004, the Group has launched three (3) in-house brand of products, namely, the Averine range of cosmetics products, Bioxil range of whitening and firming essence and the Efislim range of slimming products (for external application only). This is part of its expansion plan to increase the depth and width of its existing range of products line.

In addition to the LD Centres, Esthetics has embarked on its new marketing concept by franchising the concept to potential entrepreneurs locally as well as overseas. As part of the franchise system development, Esthetics Group has set up its first corporate-owned BL Centre in 2003.

Esthetics is an investment holding company, with subsidiaries and associated companies that are principally involved in the provision of professional skin care services and distribution of skin care products as follows:



5. INFORMATION ON THE GROUP *(Cont'd)*

5.2 FLOTATION SCHEME

The Flotation Scheme, leading to the listing of and quotation for the entire enlarged issued and paid-up share capital of Esthetics on the Main Board of the MSEB, which had been approved by MITI vide its letters dated 18 October 2002 and 2 December 2003, FIC vide its letters dated 3 September 2002 and 29 December 2003 and the SC vide its letter dated 2 October 2003 entails the following:

5.2.1 Bonus issue

Esthetics undertook a bonus issue of 95,259,980 new Esthetics Shares on the basis of approximately 68.04 new Esthetics Shares for each existing Esthetics Shares held, which was capitalised from retained profits based on the audited financial statements of Esthetics for the seven (7)-month financial period ended 31 August 2003 and adjusted for additional dividend declared by its subsidiaries as at 16 October 2003. The bonus issue was completed on 28 October 2003.

The new Esthetics Shares issued ranked *pari passu* in all respects with the then existing Esthetics Shares except that they are not entitled to dividends, rights, allotments and/or distributions declared or paid prior to the allotment thereof.

5.2.2 Offer for Sale

The Offerors will offer a total of 6,660,000 Esthetics Shares representing 5.55% of the enlarged issued and fully paid-up share capital of Esthetics at an offer price of RM0.75 per share to the Bumiputera investors approved by MITI.

5.2.3 Public Issue

In order to facilitate the listing of and quotation for Esthetics Shares on the Main Board of MSEB, Esthetics will undertake a Public Issue of 23,340,000 new Esthetics Shares at an Issue Price of RM0.75 per share representing 19.45% of the enlarged issued and paid-up share capital of Esthetics, and will be allocated in the following manner:

5.2.3.1 *Eligible employees and business associates of the Esthetics Group*

6,000,000 Public Issue Shares representing 5.00% of the enlarged issued and paid-up share capital will be reserved for eligible employees and business associates of the Esthetics Group.

5.2.3.2 *Placement*

8,000,000 Public Issue Shares representing 6.67% of the enlarged issued and paid-up share capital will be placed out to parties to be identified by Esthetics and/or placement agent.

5.2.3.3 *Approved Bumiputera investors*

5,340,000 Public Issue Shares representing 4.45% of the enlarged issued and paid-up share capital will be reserved for Bumiputera investors approved by MITI.

5.2.3.4 *Malaysian Public*

4,000,000 Public Issue Shares representing 3.33% of the enlarged issued and paid-up share capital will be made available for application by the Malaysian Public, of which at least 30% will be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

5. INFORMATION ON THE GROUP *(Cont'd)*

5.2.4 Listing and quotation

Esthetics will seek admission to the official list of the MSEB and the listing of and quotation for the entire enlarged issued and paid-up share capital of Esthetics comprising 120,000,000 Esthetics Shares, on the Main Board of the MSEB.

5.3 APPROVALS

The SC approved the flotation scheme on 2 October 2003, FIC approved the flotation scheme on 3 September 2002 and 29 December 2003 and MITI approved the flotation scheme on 18 October 2002 and 2 December 2003. The conditions imposed by the relevant authorities and the status of compliance are as follows:

Conditions imposed	Status of compliance
<i>SC (letter dated 2 October 2003)</i>	
(i) The utilisation of proceeds is subject to the following:-	
(a) Shareholders' approval is required for any deviation by twenty five percent (25%) or more from the utilisation as determined. If the deviation is less than twenty five percent (25%), appropriate disclosure should be made to the shareholders of Esthetics;	To be complied, if applicable.
(b) Any extension of time from the time frame set by Esthetics requires approval from the Board and to be disclosed in full to the MSEB; and	To be complied, if applicable.
(c) Appropriate disclosure on the status of utilisation is required to be made in the quarterly and annual report of Esthetics until total proceeds have been fully utilised.	To be complied.
(ii) The promoters and substantial shareholders of Esthetics shall not be involved in any other businesses which may give rise to a conflict of interest situation with the businesses of the Esthetics Group. The promoters and directors shall disclose their involvement in the similar/competing businesses with the Esthetics Group in Malaysia or other places in the prospectus.	Complied. Please refer to Section 6.10 of this Prospectus. The confirmation was furnished to the SC on 11 February 2004.
(iii) Hwang-DBS is required to confirm on the allocation of share to directors, eligible employees and business associates are in accordance with the SC Guidelines.	To be complied.
(iv) Esthetics and its subsidiaries shall not involve in any business which is not related to its core businesses within three (3) years from its listing on the MSEB.	Complied. The confirmation was furnished to the SC on 11 February 2004.

5. INFORMATION ON THE GROUP (Cont'd)

Conditions imposed	Status of compliance
(v) Any future transactions between the Esthetics Group and companies connected to the Directors or substantial shareholders of Esthetics must be on arm's length and not on any special term that is detrimental to the Esthetics Group. Such transactions at this juncture, if any, must be fully disclosed in the listing prospectus of Esthetics. In this regard, the audit committee of Esthetics is required to monitor and the Board of Directors of Esthetics is required to report such transactions, if any, in the annual report of Esthetics.	The Directors and substantial shareholders of Esthetics will comply with this condition. Details of existing related party transactions are disclosed in Section 6.9 of this Prospectus.
(vi) Esthetics must disclose the following in the listing prospectus:	Complied.
(a) Analysis of business risk of Esthetics Group;	Please refer to Section 4.3 of this Prospectus for details.
(b) Distribution Agreement and its salient terms;	Please refer to Section 11.8(ii) of this Prospectus for details.
(c) Dependency on Promoters/substantial shareholders of Esthetics and any succession plan;	Please refer to Sections 4.10 and 6.4.2 of this Prospectus for details.
(d) Staff turnover, replacement plan and risks associated with the staff turnover; and	Please refer to Section 4.11 of this Prospectus for details.
(e) Clear definition/ justification for classification as service-based company as opposed to trading company.	Please refer to Section 5.4.2 of this Prospectus for details.
(vii) The following conditions applied in relation to trade debtor:	
(a) Full provisions shall be made in relation to debts with disputed amounts, legal action have been taken and debts which are outstanding for more than six (6) months; and	Complied. The confirmation was furnished to the SC on 29 December 2003.
(b) The directors of Esthetics are required to furnish to the SC with written confirmations that debts outstanding for more than six (6) months will be recoverable and provision for doubtful and bad debts has been made in the accounts and financial forecast in accordance with paragraph (vii)(a) above before the printing of prospectus.	Complied. The confirmation was furnished to the SC on 29 December 2003.
(viii) Promoters/substantial shareholders who hold key management position in Esthetics are required to be in the position for the next three (3) years.	Complied. The confirmation was furnished to the SC on 11 February 2004.

5. INFORMATION ON THE GROUP (Cont'd)

Conditions imposed	Status of compliance
(iv) Distribution Agreement with DI should not have restriction clauses, including pre-approval clauses from DI in relation to shareholding and management control of Esthetics. Esthetics is required to furnish written confirmation to the SC for the compliance of this requirement before the printing of prospectus and full disclosure should be made in the listing prospectus.	Complied. The confirmation was furnished to the SC on 29 December 2003, 7 January 2004 and 28 January 2004.
(x) Esthetics is required to comply fully with the requirements in relation to companies' listing as stated in the SC Guidelines.	To be observed/complied.
(xi) Hwang-DBS is required to furnish the SC with a written confirmation in relation to the compliance with all the terms and conditions above imposed by the SC upon completion of the listing of Esthetics.	To be complied.

MITI (letters dated 18 October 2003 and 2 December 2003)

- | | |
|---|-----------|
| (i) The approval of the SC for the Flotation Scheme is obtained and to comply with the SC Guidelines. | Complied. |
| (ii) The approval of the Foreign Investment Committee is obtained. | Complied. |
| (iii) 12,000,000 shares shall be reserved to Bumiputera investors, whereby its allocation will be determined separately by MITI after the approval of the SC has been obtained. | Complied. |

FIC (letter dated 3 September 2002 and 29 December 2003)

No conditions attached

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5. INFORMATION ON THE GROUP (Cont'd)

5.4 BUSINESS OVERVIEW

5.4.1 Principal activities

Esthetics was incorporated in Malaysia under the Act on 29 October 1996 as a private limited company under the name of Esthetics International Sdn Bhd. Subsequently on 17 May 2002, it was converted into a public limited company. It subsequently assumed its present name on 27 November 2003.

As at 27 January 2004, Esthetics is an investment holding company with eleven (11) subsidiaries and one (1) associated company as depicted below:

Company	Date/Country of incorporation	Equity interest held %	Issued and paid-up share capital RM	Principal activities
<i>Subsidiaries of Esthetics</i>				
AMSB	25.10.1995/ Malaysia	100.00	103	Trading of cosmetics products
BLFISB	21.10.1994/ Malaysia	100.00	104	Operating the corporate owned BL Centres, providing skin care services and sales of skin care products. It is envisaged to commence franchising activities upon the relevant approvals being obtained
BSB	19.06.2002/ Malaysia	100.00	2	Apply for, purchase or otherwise acquire any patents, patents rights, copyrights and trademarks
CMSB	22.07.2002/ Malaysia	100.00	2	Development and distribution of skin care and wellness products
DESB	10.02.1989/ Malaysia	100.00	600,000	Importing and distributing skin care and hair care products, cosmetics and beauty equipment and operating a beauty training centre
ECSB	20.06.1994/ Malaysia	100.00	100,000	Letting of motor vehicle and property
EIHK	02.06.2000/ Hong Kong	Ordinary: 99.99 Preference: 66.67	Ordinary: HKD1,700,000 Preference: HKD300,000	Distribution of skin and hair care and health care products
HTT (KL)	30.09.1994/ Malaysia	100.00	103	Dormant
LDM	08.03.1997/ Malaysia	100.00	100,000	Providing skin care services and sales of skin care products
LDFM	23.06.1997/ Malaysia	100.00	100,000	Operation of gym and fitness centres. It has temporarily ceased operation

5. INFORMATION ON THE GROUP (Cont'd)

Company	Date/Country of incorporation	Equity interest held %	Issued and paid-up share capital RM	Principal activities
<i>Subsidiaries of Esthetics (Cont'd)</i>				
EIGP	05.01.2004/ Malaysia	100.00	21	Trading of FMCG
<i>Associated company of Esthetics</i>				
DCCL	15.07.1999/ Thailand	49.90	BHT16,000,000	Importing and distributing skin care and hair care products, cosmetics and beauty equipment

5.4.2 Group business

The Esthetics Group started off its business as a provider of professional skin care/body wellness services. Over the years, after securing the exclusive distributorship rights for the distribution of Dermalogical range of products in the Territory from DI, the Group has expanded its distribution/marketing network beyond Malaysia to include countries like Singapore, Brunei, Vietnam, Cambodia, Indonesia, Thailand, Philippines and Hong Kong.

At present, both the core activities of the Esthetics Group, namely, the “Professional Services” and “Products/Trading” are complementing each other well. The business involves continuous consultation, motivation and education process to sustain professionally recommended sales of products by the trained beautician/therapists, which is very much part of the total skin care therapies. Hence, there is a high expectation/demand of value-added services involved in the process of product marketing/selling. Thus, the sales from the Professional Skin Care Centres will be categorised under “Professional Services”.

In addition to the trained professionals (that is beauticians/therapists), the marketing and distribution of the Group’s skin care, hair care and cosmetics products are also being undertaken by the appointed local dealers, who are mainly independent salon operators and Overseas Country Sub-distributors who have good product knowledge and vast experience in skin care analysis and treatments.

Further, in order to provide professional skin care services as detailed in Section 5.4.7, the Professional Skin Care Centres source skin care products which are most of the products are Dermalogica range of products to conduct the skin care therapy and body care/wellness therapy programmes.

At present, whilst both the “Professional Services” and “Products/Trading” business segments of the Group are complementing each other well, the Segmental Analysis as set out in Section 7.1.2 of this Prospectus has revealed that “Professional Services” segment takes precedence over the Group’s “Products/Trading” segment in relation to its contribution to the Group’s revenue and segment results (i.e. operating profit). While both the “Professional Services” and “Products/Trading” segments are complementing each other, the Esthetics Group is geared more towards a “Service-based” Group.

At present, the business activities of the Group may be broadly categorised into two (2) segments as follows:

- (i) Professional services and sales of skin care and cosmetics products (“Professional Services”); and
- (ii) Distribution of professional skin care and cosmetic products (“Products/Trading”).

Professional Services comprises of the professional services rendered and related sales in respect of skincare and fitness programs which are undertaken by LDM and BLFISB. Products/Trading comprises of

5. INFORMATION ON THE GROUP (Cont'd)

the distribution of skincare products and beauty equipment which are taken by DESB, EIHK and ECSB, CMSB and EIGP. Other segment mainly comprise of investment holding and dormant companies, namely Esthetics, HTT(KL), AMSB, BSB and LDFM.

A summary of the Group's revenue based on its core business segments for the seven (7)-month financial period ended 31 August 2003 is set out below:

Business segment	Revenue contribution for 7-month financial period ended 31 August 2003 (RM'000)	Percentage of contribution to the total group revenue (%)
Professional services*	17,369	51
Products/trading#	16,737	49
Others^	14	Neg
GROUP TOTAL	34,120	100.0

Notes:

* *The professional services rendered and related sales in respect of skincare and fitness programs*

The distribution of skincare products and beauty equipment

^ *Include investment holding and dormant companies*

Neg *Negligible*

5.4.3 Products and services

The Group's products and services can be principally segmented as follows:

Products and services	Revenue contribution for 7-month financial period ended 31 August 2003 (RM'000)	Percentage of contribution to the group revenue (%)
Products		
Dermologica skin care	14,789	43.3
Averine cosmetics	938	2.8
Eve Taylor essential oils	417	1.2
Others*	593	1.7
Services		
Professional skin care	17,369	51.0
Others#	14	Neg
TOTAL	34,120	100.0

5. INFORMATION ON THE GROUP (Cont'd)

Notes:

* Include Bioxil range of products and Nemectron equipment and others

Include training and fitness centre

Neg Negligible

5.4.4 Dermalogica product range

The Dermalogica line of professional skin care products was researched and developed by International Dermal Institute based in Los Angeles, USA since its establishment in 1986. International Dermal Institute is an associated company of DI. Their products do not contain any mineral oil, lanolin, artificial colours, fragrance, alcohol or formaldehyde. The Dermalogica skin care products are used in conjunction with Leonard Drake's professional skin care services to provide an effective skin care programme.

As at the 27 January 2004, the range of professional skin care products used, distributed and sold by the Esthetics Group are as follows:

Product types	Number of products within range (Types)
Cleansers	5
Conditioners	5
Moisturizers	4
Masques	3
Specialities	4
Multi Vitamin Power System	4
Medicated Clearing System	2
Environmental Control System	5
Concentrated Boosters	5
Treatment Foundation	8
Solar Defense System	8
Spa Body System	7
Skin Care Kits	7
Hair Care Products	3
TOTAL	70

In addition to the Malaysian market, the Esthetics Group also exports Dermalogica products to Brunei, Singapore, Philippines, Vietnam, Cambodia, Indonesia, Hong Kong and Thailand.

5. INFORMATION ON THE GROUP (Cont'd)

5.4.5 Averine product range

The Averine line of cosmetics was first launched in 1994. The brand was then re-launched with a new packaging in 2001. The Averine collection of professional skincare cosmetics is designed to offer customers a range of cosmetic products, which could be used as a complementary product with the Dermalogica range of professional skin care products. Similarly, Averine's products are non-comedogenic and do not contain any mineral oil, lanolin, fragrance, alcohol or formaldehyde. The range of Averine products include the following:

Product types	Number of products within range (Types)
Moisturising Compact Foundation	4
Daily Wear Moisturising Foundation	5
Silky Smooth Loose Powder	4
Perfect Finish Pressed Powder	6
Natural Radiant Blush	6
Natural Brow Pencil	3
Skin Caring Eyeshadow	27
Skin Caring Eyeshadow Duo	9
Long Wear Eye Liner	2
Defining Eye Liner	2
Perfect Mascara	1
Hydrating Lipstick	5
Daily Lip Moisturiser	1
High Shine Lip Lacquer	3
Sunscreen Sheer Gloss	6
Lip Comfort	16
Lip Care	1
Cover Spot	2
Sheer Perfection	5
Smoothing Compact	4
Hydrating Glosswear	6
Long Wear Lip Liner	6
Natural Colour Lipstick	6
Natural Glow Blush	6
Satin Smooth Foundation	6
TOTAL	142

5. INFORMATION ON THE GROUP (Cont'd)

In addition to the Malaysian market, the Esthetics Group also exports Averine products to Singapore, Indonesia, Hong Kong, Thailand, Vietnam, and United Kingdom.

5.4.6 Eve Taylor product range

The Eve Taylor range of aromatherapy essential oils are developed and manufactured in London, United Kingdom since 1972. These essential oils are designed to be used as part of the skin care programme. The range of Eve Taylor's products include face oils, carrier or base oils, body oils, hydrogels, pure essential oils and diffuser blends. The products come in retail pack size for consumer and in larger packaging for professional use. In addition to the Malaysian market, the Esthetics Group also exports Eve Taylor products to Brunei, Singapore, Indonesia, Hong Kong, Thailand and Vietnam.

5.4.7 Professional skin care services

The professional skin care services are managed under its two (2) wholly-owned subsidiaries, namely, LDM and BLFISB. As at 27 January 2004, the Group has twenty-two (22) Professional Skin Care Centres and one (1) kiosk in Malaysia. For the size and location for each of the twenty-two (22) Professional Skin Care Centres, kindly refer to Section 5.4.16 of this Prospectus.

The Esthetics Group provides professional skin care services to both male and female customers. However, the female customers accounted for 80.0% of the total customers of LDM and Belle Lina professional skin care services as at 27 January 2004.

The professional skin care services can be categorised into two (2) types of services namely facial skin care therapy and body care therapy. As at 27 January 2004, the Esthetics Group has approximately two hundred and forty six (246) skin care and body care programmes that are designed to cater for almost all types of skin conditions.

The facial skin care therapy offers various programmes, amongst others, preventive programmes, corrective programmes, specialised programmes and vital care. To complement the facial skin care therapy, the body care/wellness therapy offers various programmes, amongst others, body therapy programmes, body wraps and scrub and back facial. The wide range of professional skin care services will ensure that the Group will be able to meet the specific needs of its customers.

A summary of the main types of skin care therapy programmes is as follows:

Therapy program	Benefits
Preventive and Corrective Facial Programmes	Correct and improve the unbalance and premature aging skin condition particularly dehydrated, sensitive, acne and hyper pigmentation skin conditions.
Eye Care Treatment Programmes	Improve skin condition and delay premature aging.
Decollate Facial Programmes	Improve skin condition of the chest and neck area.
Non-surgical Face Lifting Programmes	Advanced anti-aging medical beauty treatments series that improve and delay premature aging and maintain the integrity of the skin conditions.
Advanced Acne Management Programmes	Improve and control the active breakout particularly for teenage and adult acne skin conditions.

5. INFORMATION ON THE GROUP (Cont'd)

A summary of major types of body care/wellness therapy programmes is as follows:

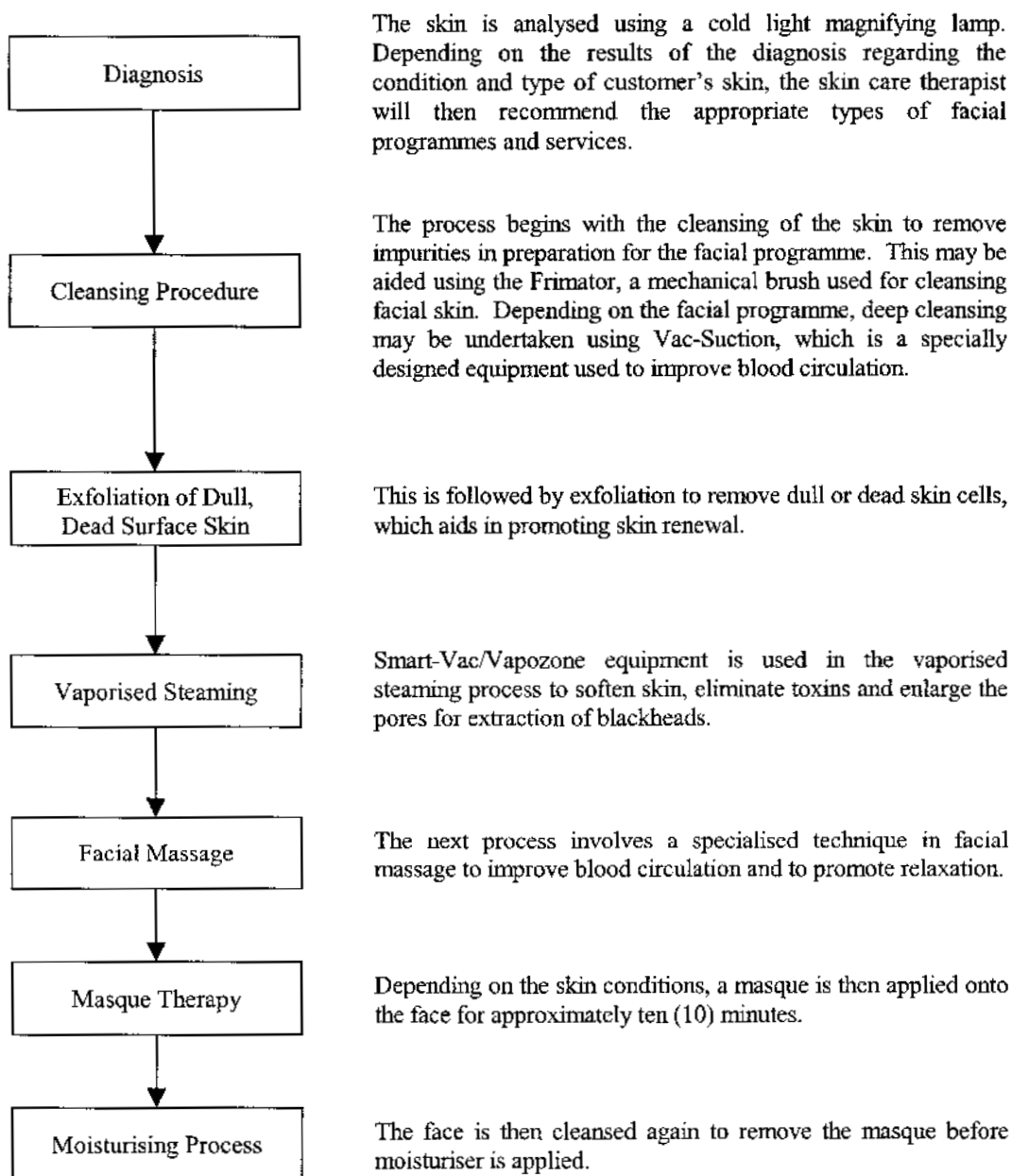
Therapy program	Benefits
Bath Therapy Programmes	Advanced treatment designed to detoxify & revitalize the body stress.
Body Wraps and Scrub	A series of treatment programmes designed to exfoliate, detoxify, moisturize and improve skin texture and alleviate stress.
Breast Care Program	A health prevention programs which are designed to improve circulation, skin texture and skin elasticity.
Stress Reduction Therapy Program	Therapies that designed to soothe body stress, revitalize and restore body balance.
Pressure Therapy	Advanced treatment designed to stimulate lymph circulation for a better health.
Spot Trim and Fit Program	Spot targeted programmes effectively improve a body contour for a better health.
Body Waxing	Hair removal treatment programs effectively remove unwanted hair to achieve silky smooth result.

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5. INFORMATION ON THE GROUP (Cont'd)

5.4.8 Process of providing professional skin care services

The following diagram reflects the typical process of providing professional skin care services to a new customer.



5. INFORMATION ON THE GROUP (Cont'd)

5.4.9 Supporting equipment used in professional skin care services

All facial skin and body care therapy programmes are provided using advanced electro-medical equipment from Germany mainly under the Nemelectron brand. The Esthetics Group is also an authorised distributor of Nemelectron equipment in Malaysia.

Following are some of the equipment that are being used by Professional Skin Care Centres in the process of providing professional skin care services:

Equipment	Functions
Frimator	Mechanical brush for cleansing of the facial skin.
Vapozone	Vaporised steamer to soften skin.
Cold light magnifying lamp	For a thorough skin analysis process.
Vac-Suction	Equipment to aid in deep cleansing of facial skin.
Vac-Spray	Ultra-fine spray of concentrate to hydrate and moisturize the skin.
Beauty Tec	Lifting facial to reduce fine lines, wrinkles and sagging skin.
Hi-frequency "Trianon" White	Improve healing for blemished and acne skin conditions.
Bodyson Ultrasound	Ultrasound treatment with mechanical, thermal or chemical effects to stimulate and improve skin appearance and texture on the body.
Electrobyn CII Freeline	Improves vitality of muscle fibres and complexion radiance.
Ionozon Bath	Oxygen bath therapy.
Hydrobath	Hydro pressure jet underwater therapy.
Body Former 2	Aid the breakdown of fatty deposits and improve tonicity of the muscle, creating a more define body contour and image.
Lumina	Removal of hair on the face or the body for long lasting result.
Slide Styler	Mechanical lymphatic drainage to improve body image.

5. INFORMATION ON THE GROUP (*Cont'd*)

5.4.10 Distribution of skin care and cosmetic products

The distribution operations are carried out by way of its wholly-owned subsidiary companies, namely DESB and EIHK. Since 1989, DESB has been an exclusive distributor of the Dermalogica range of professional skin care products for countries, namely, Malaysia, Hong Kong, Singapore, Thailand, Indonesia, Philippines, Vietnam, Cambodia and Brunei. In addition, DESB also distributes its in-house brands such as Averine (a comprehensive line of cosmetic products which was re-launched in 2001), Efislim (a range of slimming products which was launched in 2001) and Bioxil (a range of whitening and firming essence which was launched in 2002).

Apart from the above, there are other products that are distributed by DESB. These are aromatherapy and essential oils for facial and other applications under the brand name 'Eve Taylor' which DESB has been the distributor since 1992. DESB has been the sole distributor for skin care and body therapy equipment under the brand name of Nemectron GmbH since 1993.

As at 27 January 2004, the Group has an extensive local and regional distribution network for professional skin care and cosmetics products covering the following:

- (i) **Local distribution network**
 - 22 Professional Skin Care Centres
 - 1 kiosk
 - 219 dealers who independently own professional skin care centres
- (ii) **Overseas distribution network**
 - EIHK is responsible for the distribution in Hong Kong
 - DCCL which is responsible for distribution in Thailand
 - 120 dealers who independently own professional skin care centres

5.4.11 Intellectual property, proprietary rights, patents, licenses, brand names, trademarks franchises and technical assistance agreements

Save as disclosed below, the Group does not own any intellectual property, proprietary rights, patents, licenses, brand names, trademarks or franchises and has not entered into any technical assistance agreements.

- (i) DESB possesses the trademark "Preco" (TM No. 91/07913), as a 'word and device', registered under Class 3 of the Malaysian Trade Marks Act, 1976.
- (ii) DESB is applying for the registration of "Averine" as a 'word' trademark in Malaysia (Application No. 95/07351). DESB already possesses the trademark "Averine" in France, Singapore, Thailand, Indonesia and the European Community under registration nos. 95/587097, T01/02724A, 494963, 522108 and 002255131 respectively. Presently, it is awaiting the receipt of the Trade Mark Certificates for the registration of this trademark in South Korea. DESB is also applying for the registration of the trademark "Averine" in four other countries, namely, the Philippines, Taiwan, China and the United States of America.
- (iii) DESB possesses the trademark "Efislim" under Class 3 in Thailand and Singapore under registration nos. 500067 and T02/05936H, respectively. DESB is in the process of registering the trademark "Efislim" under Class 3 in Malaysia and China. As at 27 January 2004, it is awaiting the receipt of the Trade Mark Certificate for the registration of this trademark in Hong Kong.

5. INFORMATION ON THE GROUP (Cont'd)

(iv) Esthetics has also applied for the registration of the trademark to its skin care education and training centre, namely "Institute of Esthetics International" in Malaysia and Thailand. As at 27 January 2004, it is awaiting the receipt of the Trade Mark Certificate for the registration of this trademark in Singapore.

(v) BSB possesses the trademark "Bioxil" (TM Nos. T02/14229Z and T02/14234F), under Classes 03 and 05 respectively, of the Singapore Trade Marks Act.

Under Class 03, BSB is in the process of registering the "Bioxil" trademark in Indonesia, Vietnam and China. Presently, it is awaiting the receipt of the Trade Mark Certificates for the registration of this trademark (under Class 03) in Thailand, Hong Kong, Taiwan and Australia.

Under Class 05, BSB is in the process of registering the "Bioxil" trademark in Thailand, Indonesia, Vietnam, Taiwan and China. Presently, it is awaiting the receipt of the Trade Mark Certificates for the registration of this trademark (under Class 05) in Hong Kong and Australia.

(vi) BSB is also in the process of registering the "Clinelle" trademark in Malaysia, Singapore, Hong Kong, Indonesia, Vietnam, the Philippines, Japan, China, Australia, Taiwan, Thailand, the United States of America and Korea.

(vii) BSB possesses the trademark "Belle Lina" under Class 44 in China (Registration No. 00191409). BSB is also in the process of registering the "Belle Lina" trademark in Malaysia (Class 44), Thailand (Class 42), Vietnam (Class 44), the Philippines (Class 42) and Indonesia (Class 44). Presently, it is awaiting the receipt of the Trade Mark Certificates for the registration of this trademark in Singapore (Class 44), Hong Kong (Class 42) and Taiwan (Class 44).

(viii) BLFISB has applied to the Ministry of Entrepreneur Development for the registration of "Belle Lina, Oasis of Wellness" franchise in Malaysia under the Franchise Act, 1998. The application was made on 29 August 2003, through BLFISB's agent, Messrs. Lin Coln and Co. The Application is still awaiting approval from the said Ministry.

5.4.12 Market position and competition

5.4.12.1 Professional skin care services

Competition for professional skin care services and products are based on various factors, amongst others, the quality of products and services, efficacy of products and services, price, accessibility of its facilities, brand name, value added services and market reputation. Competition among professional skin care services is considered intense.

There are many operators of professional skin care services in Malaysia due to the ease of entry, particularly the low capital requirement. These range from single operators that work from home to larger operators with chain outlets located in prime shopping centres.

At the top tier level, large chain professional skin care centre operators have the financial resources and marketing power to promote its services. This would give such operators a distinct competitive advantage in their capability to appeal to a wider market to sustain business growth. The Esthetics Group is one of the operators, which operates in this top tier market segment. The Esthetics Group ranked first among the operators of professional skin care services in terms of turnover in 2002.

(Source: Assessment of the Skin Care and Cosmetics Industry undertaken by Vital Factor Consulting on 12 February 2004)

5. INFORMATION ON THE GROUP (Cont'd)

5.4.12.2 Skin care products

Competition among skin care products within Malaysia is intense. The market is highly fragmented with many different forms of competition, each targeting at different market segments. Majority of the skin care brands are focused on the lower-end of the market as well as the mass market. These skin care products are sold in retail outlets, such as departmental stores or through direct selling. There are a number of players in this sector, amongst others, Avon, L'Oreal and Follow Me. Another segment of the market players are the premium brands, all of which include prominent and established worldwide brand names including, amongst others, Estee Lauder, Clarins, Elizabeth Arden and Shiseido. These brands are mainly focused on the medium to higher end of the market.

Professional skin care products is a sector of its own, whereby products are mainly available through authorised professional skin care centres only. There are also many brands in this market segment, most of which are imported and distributed locally. As at 27 January 2004, Esthetics has an extensive network with a total of three hundred and thirty nine (339) dealers in addition to its twenty-two (22) Professional Skin Care Centres. The Esthetics Group ranked first in terms of turnover among the distributors of skin care products to professional skin care centres in 2002. (Source: *Assessment of the Skin Care and Cosmetics Industry undertaken by Vital Factor Consulting on 12 February 2004*)

The relatively high domestic demand has attracted many local and overseas players into the market, thus creating intense competition. Currently, the skin care industry is not regulated. As such, there is low barrier to entry for skin care and cosmetic industry. The ease of entry has meant a plethora of product brands and operators.

The ease of entry also includes creation of new products and brands without the need for technical knowledge, research and development facilities and manufacturing plants. This is because virtually anyone with sufficient working capital would be able to get the product formulated and manufactured by third parties. The ease of entry has encouraged the formation of many new brands in the market both locally and overseas. Nonetheless, the ease of entry does not guarantee commercial success. Significant resources and expertise are required to make a brand successful in the market.

The Directors believes that the Esthetics Group has competitive advantages over its competitors in terms of the following:

(i) Prime retail locations

All Professional Skin Care Centres are located in major retail complexes in Kuala Lumpur, Selangor and Penang. The relatively high rental for these premium retail areas provides some form of barriers to entry to less financially sound operators. As such, the Esthetics Group is able to attract shoppers in the bustling shopping complexes.

(ii) Quality products and services

The Group maintains high quality standards for its professional skin care services. All Group's therapists have to undergo rigorous training. All new therapists are required to have appropriate certifications to provide skin care therapy. In addition, continuous mandatory in-house training is conducted by the Institute of Esthetics International for its staff to enhance their level of competencies. To maintain consistency in services, the Group has a detailed documentation of its methodology, processes and procedures in facial and body therapy services, which is used as guidelines by all therapists.

5. INFORMATION ON THE GROUP *(Cont'd)*

(iii) Extensive distribution network

The Esthetics Group has an extensive local and overseas distribution network. Its professional skin care centres, local dealers, overseas subsidiary (EIHK) and associated company (DCCL) as well as its sub-distributors covering Hong Kong, Vietnam, Cambodia, Singapore, Indonesia, Thailand, Philippines and Brunei provide the Group with direct access into a ready customer base. As such, these channels provide the Group with opportunities for new products extension and introduction of complementary products and services.

(iv) Market reputation

With approximately fifteen (15) years in the distribution of professional skin care products and approximately nineteen (19) years in the provision of professional skin care services, the Esthetics Group has established itself as one of the major players in the industry. In the East Asian region, except for China, Japan, Korea and Taiwan, the Esthetics Group has been the exclusive regional distributor for Dermalogica line of skin care products since 1989. This established track record has enabled the Group to develop a market reputation as a reliable provider of quality professional skin care products and services.

(v) Advanced facilities and equipment

The Professional Skin Care Centres offers facilities including the use of advanced equipment such as microlifting equipment, body shaping machinery, permanent hair removal equipment, anti-aging equipment and acne treatment equipment.

(vi) Large loyal customer base

Many of the Esthetics Group's dealers for its professional skin care and cosmetics products are long-term customers. Thirteen (13) out of the Esthetics Group's top twenty (20) dealers have been with the Group for more than five (5) years. The long-term customer relationship with its dealers is an evidence of strong customer loyalty. In addition, the Esthetics Group has operated successfully twenty-two (22) Professional Skin Care Centres and one (1) kiosk in Kuala Lumpur, Selangor and Penang. The ability to sustain so many outlets indicates strong customer loyalty.

(vii) Wide range of products and services

The Group is a provider of a wide range of skin care products and services to its customers. Its professional skin care services offer two hundred and forty six (246) different facial and body therapy programmes as at 27 January 2004 to meet the different skin conditions and requirements of customers. The Group has approximately seventy (70) different types of professional skin care products and approximately one hundred forty two (142) range of cosmetics products as at 27 January 2004. By having such a large range of skin care products and services enables the Group to be able to cater to the total requirements of customers. In addition, its network of twenty-two (22) Professional Skin Care Centres and one (1) kiosk provides customers with the added convenience of a choice of locations.

5.4.13 Distribution, marketing and sales

5.4.13.1 Principal markets

The Esthetics Group's principal markets extend to eight (8) countries excluding Malaysia. They are Singapore, Hong Kong, Vietnam, Indonesia, Thailand, Brunei, Philippines and United Kingdom. These markets are mainly for the distribution of professional skin care products and cosmetics. For the seven (7)-month financial period ended 31 August 2003, local sales contributed to 80.22% of total Group turnover whilst the remaining 19.78% were derived from the overseas market.

5. INFORMATION ON THE GROUP *(Cont'd)*

5.4.13.2 *Marketing strategies*

The Esthetics Group's business activities are supported by its own in-house marketing team within DESB that is responsible for pricing, marketing planning and promotions of the Group's products and services. The Esthetics Group utilises the following marketing and promotional methods to build brands and increase its sales:

- (i) Direct marketing utilising direct mailing of newsletters and promotional offers to attract new customers. These are often targeted at specific high-end residential areas or potential target customers.
- (ii) Tying up with third party providers such as Bonus Link and credit card companies to access new database of customers.
- (iii) Personal endorsements by individual customers detailing the benefits of the products and its usage and applications in press releases or press launches in newspapers and magazines.
- (iv) Product advertisements and product launches in the various newspapers and magazines. To provide additional support to the Esthetics Group's dealers, all advertisements also feature a list of the authorised local dealers and their outlets.
- (v) Holding workshops or events including seminars whereby international trainers are invited to give seminars to customers on various Skin Care issues. In 2002, the Esthetics Group has undertaken more than one hundred (100) workshops in its Skin Care Centres for its customers.

5.4.13.3 *Distribution channel strategies*

The Esthetics Group utilises a combination of direct and indirect distribution channel strategies to market its range of products and services.

The Esthetics Group's direct distribution channels include:-

(i) Own professional skin care services

The Esthetics Group has an established network of twenty-two (22) Professional Skin Care Centres and one (1) kiosk in Malaysia. Some of these have dedicated retailing space in conjunction with a professional skin care centre.

(ii) Overseas sub-distributors

The Esthetics Group has its own overseas distribution offices EIHK in Hong Kong and DCCL in Thailand.

The Esthetics Group's extensive indirect distribution channels includes:

(i) Authorised dealers

The Esthetics Group has approximately three hundred and thirty nine (339) authorised dealers for its products as at 27 January 2004. These authorised dealers also independently own skin care centres.

(ii) Overseas sub-distributors

The Esthetics Group has five (5) overseas sub-distributors responsible for distributing professional skin care products in the countries, including, Singapore, Philippines, Vietnam, Indonesia and Thailand (via DCCL).

5. INFORMATION ON THE GROUP (Cont'd)

The Esthetics Group's extensive distribution network will provide wide sales coverage for its products and services in Malaysia and overseas. In addition, such extensive distribution network also provides the Group with direct access into a ready customer base which will in turn provide the Group with opportunities for new product extension or the introduction of complementary products and services.

5.4.14 Source and availability of raw materials

Raw materials for the Esthetics Group are defined as both human resources as well as skin care products and cosmetics. For further information on human resources, please refer to Section 5.4.19 of this Prospectus.

The Group's suppliers of skin care products and cosmetics are sourced from overseas such as Dermalogica range of products are sourced from USA, Averine range of products are sourced from Italy and Eve Taylor range of products are sourced from United Kingdom.

In order for the Group not to have any disruptions to the supply of the Dermalogica range of products, which is the Group's main range of skin care products for use in its provision of skin care services, the Group has entered into exclusive distributors agreement with DI for a duration of ten (10) years commencing 1 May 2002 with an option to automatically renew for another five (5) years.

The Esthetics Group's Averine range of cosmetics products are manufactured in Italy and the end products are then fully imported in bulk before being repackaged by the Esthetics Group in Malaysia. The Esthetics Group imports its cosmetics mostly through Intercos Malaysia Sdn Bhd, a locally incorporated company. As at 27 January 2004, the Group has not experienced any shortage in supply of cosmetics. Furthermore, as there are many other formulation and manufacturing houses in Europe and other parts of the world, of which the Esthetics Group can easily source from alternative suppliers. As the Averine brand name belongs to the Esthetics Group and there are a number of cosmetics formulation and manufacturing houses in Europe, the dependency on the supply of bulk cosmetics is low. In addition, as the Averine range of products currently represents a small proportion of its revenue and profits, any interruption in the supply of cosmetics will have minimal impact on the Group's overall business.

Other products used in the provision of professional skin care services include Eve Taylor aromatherapy essential oils. The aromatherapy and essential oils used by the Esthetics Group are fully imported from Eve Taylor (London) Limited in the United Kingdom. As with cosmetics, the Eve Taylor's range of products represent a very small proportion of the Esthetics Group's revenue and profits. As such, any interruption in the supply will have virtually a negligible impact on the Group's business.

5.4.15 Quality assurance

The Esthetics Group always places continuing emphasis on providing a range of skin care products and services that consistently meet or exceed the quality expectations of its customers. For quality services assurance, all of its skin care and body care therapists have to undergo extensive and rigorous education and training under its in-house training centre, known as IEI. The trainers of IEI have to be trained according to the standards practised by the International Dermal Institute in USA.

All of Leonard Drake's and Belle Lina's skin care therapists possess accredited certifications from approved local or international authorities. In addition, as part of the Esthetics Group's aim to maintain a high standard of service quality, therapists are also required to attend in-house training courses on regular basis, approximately every two (2) months, at IEI to continuously upgrade their skills and improve on their product knowledge. Training includes, amongst others, technical, product knowledge, on-the-job-training, retailing, image, customer service and company culture.

In terms of product, Dermalogica skin care products had undergone extensive research and product development by the International Dermal Institute in the USA to enhance the skin care products' quality. As a result, Dermalogica skin care products have developed a strong worldwide reputation for its proven quality skin care system and range of products.

5. INFORMATION ON THE GROUP (Cont'd)

5.4.16 Location of operations

As at 27 January 2004, the Esthetics Group has a total of twenty-two (22) Professional Skin Care Centres and one (1) kiosk together with one head office and warehouse in operation. All of the Professional Skin Care Centres are located at rented premises. Details of the location of the Esthetics Group's operation as at 27 January 2004 are summarised as follow:

(i) Professional Skin Care Centres

	Location	Floor area (sq ft)	Manner of occupancy
(A)	<u>LD Centres</u>		
1.	KL Plaza, Block B-1 & B-2, 2nd Floor, 55100 Kuala Lumpur	1,237	Tenancy
2.	The Atria Shopping Centre Lot 1.01 & 1.02, Jalan SS22/23, Damansara Jaya, 47400 Petaling Jaya	1,468	Tenancy
3.	Bangsar Shopping Centre Lot S121, 2nd Floor, Jalan Maarof, 59000 Kuala Lumpur	2,600	Tenancy
4.	Jaya Shopping Centre Lot 3.20 & 3.21. Seksyen 14, Jalan Semangat, 46100 Petaling Jaya	2,465	Tenancy
5.	Ampang Point Shopping Centre Lot M13A, Mezzanine Floor, Jalan Mamanda 3, 68000 Selangor	1,034	Tenancy
6.	Pearl Point Shopping Mall Lot 1.0.58 & 1.0.59, Ground Floor, Jalan Klang Lama, 58000 Kuala Lumpur	973	Tenancy
7.	Mid Point Shopping Centre Unit 2.9, 2nd Floor, Jalan Pandan Indah 1/25, 55100 Kuala Lumpur	535	Tenancy
8.	Cheras Leisure Mall L2-18 & 19, 2nd Floor, Jalan Manis 2, Taman Segar, Cheras, 56100 Kuala Lumpur	841	Tenancy
9.	No. 1, Utama Shopping Centre Lot F7, 1st Floor, No. 1, Lebuhr Bandar Utama, Bandar Utama, 47800 Petaling Jaya	6,145	Tenancy

5. INFORMATION ON THE GROUP (Cont'd)

	Location	Floor area (sq ft)	Manner of occupancy
10.	Plaza Metro Kajang Lot F103, 1st Floor, Kajang, 43000 Selangor	647	Tenancy
11.	Mid Valley Shopping Centre F-066, 1 Jalan Mid Valley, Mid Valley Megamall City, 58000 Kuala Lumpur	1,777	Tenancy
12.	Subang Parade Shopping Centre Lot F08, 1st Floor, No. 5, Jalan SS16/1, 47499 Petaling Jaya	1,129	Tenancy
13.	Taman Maluri Shopping Centre F16, 1st Floor, Jalan Jejaka, Taman Maluri Shopping Centre 55100 Kuala Lumpur	792	Tenancy
14.	Bukit Raja Shopping Centre Lot F48, 1st Floor, Persiaran Bukit Raja 2, Bandar Baru Klang, 41150 Klang	1,121	Tenancy
15.	Bukit Jambul 10E-G, Jalan Rumbia, Sungai Nibong Kecil, 11900 Bayan Lepas, Penang	850	Tenancy
16.	Gurney Plaza 170-1-16 Gurney Plaza, Persiaran Gurney, 10050 Penang	4,322	Tenancy
(B)	<u>BL Centres</u>		
17.	Selayang Mall Shopping Centre Lot F16 & 17, 1st Floor, Jalan SU/9, Taman Selayang Utama, 68000 Batu Caves, Selangor	937	Tenancy
18.	Desa Sri Hartamas No. 32, Ground Floor, Jalan 24/70A, Desa Sri Hartamas 50480 Kuala Lumpur	1,074	Tenancy
19.	Sunway Mentari 18-1, Ground Floor, Block J, Jalan PJS 8/2, 46150 Petaling Jaya, Selangor	1,771	Tenancy

5. INFORMATION ON THE GROUP (Cont'd)

	Location	Floor area (sq ft)	Manner of occupancy
20.	Bandar Bukit Tinggi, Klang No. 55, Ground Floor, Lorong Batu Nilam 1A, Bandar Bukit Tinggi, 41200 Klang, Selangor	1323	Tenancy
21.	IOI Mall, Puchong Lot S12A, 2nd Floor, IOI Mall Batu 9, Jalan Puchong Bandar Puchong Jaya 47100 Puchong Selangor	937	Tenancy
22.	Jusco Metro Prima Lot G01, Ground Floor Metro Prima Shopping Centre No. 1, Jalan Metro Prima 52100 Kuala Lumpur	1,262	Tenancy
(C)	<u>Kiosk</u>		
23.	Sunway Pyramid Shopping Centre Unit G1.13A, Ground Floor, No. 3, Jalan PJS 11/15, Bandar Sunway, 46150 Petaling Jaya	250	Tenancy

(ii) Head office

Location	Floor area (sq ft)	Manner of occupancy
Wisma Dermal Esthetica Nos. 54-58, Jalan SS 22/25, Damansara Jaya, 47400 Petaling Jaya	4,950	Own building

(iii) Warehouse

Location	Floor area (sq ft)	Manner of occupancy
Bangunan Bergman Khor No. 2, Floor, Lot 10 Jalan Astaka U8/84 Seksyen U8, 46150 Shah Alam	9,331	Tenancy

5. INFORMATION ON THE GROUP *(Cont'd)*

5.4.17 R&D capabilities

The Esthetics Group recognises the essential need to undertake R&D to provide it with competitive advantages, thus ensuring its business sustainability and success in the long term. Some of the areas in which R&D are undertaken include professional skin care services, product development and source of alternative raw materials.

5.4.17.1 Professional skin care services

One of the benefits derived from its R&D activities is the development of a comprehensive set of in-house treatment manual ("Treatment Manual"). The Treatment Manuals were largely written based on extensive hands-on experience gained over the years and assessment of the performance of products and treatment techniques on all types of skin conditions. The programmes, which include preventive, corrective and specialised treatments were researched and developed to cater to the diverse needs of its customers. The Treatment Manual comprises of approximately two hundred forty six (246) different skin care programmes as at 27 January 2004 which is currently being offered at its professional skin care centres. The Treatment Manuals serve as an invaluable source of reference document for the Group in the provision of its skin care services. At the same time, the Group also has the capability to modify and customise special programmes for individual customers where necessary.

5.4.17.2 Product development

The Group continuously strives to satisfy its customers' needs and preferences through product R&D. The Group's product development activities comprise of both basic research and product commercialisation research.

The Group's basic research activities are focused on staying abreast with the latest developments in innovative formulation and processing technologies and ingredients. One such example is the development of the Averine cosmetics products. The development of the Averine products are driven by the growing consumer preference and demand for "natural" ingredients in cosmetics, "cosmeceutical" products (a product which combines colour cosmetics and vitamins, herbs and sometimes pharmaceuticals) and products which promotes on anti-aging skin care. Recognising these customer needs, the Averine product was developed with an aim to provide colour and at the same time, skin nourishment and protection. In addition, the Averine products are non-comedogenic, hence do not contain common pore-clogging ingredients that could lead to acne. It is also a hypoallergenic product, hence are less likely, compared with other cosmetics, to cause allergic and irritant reactions.

The Group's product commercialisation research includes customer surveys and product safety and efficacy tests which helps the Group to respond to its consumer needs. This area of research is aimed at obtaining feedback on its products from its existing as well as potential consumers. The Group believes that there is a vital need to develop a better understanding of the beauty and skin care product needs, attitudes, behaviour patterns and lifestyles of its consumers. This would enable the Group to work with development laboratories in formula optimisation and to successfully tailor products that, would help its customers achieve their skin's maximum potential.

5.4.17.3 Alternative ingredients

Factors such as consumer preferences, demographic trends, product properties, competition and government regulations may effect the demand of a particular cosmetic products. Changes in the trends affecting demand for its cosmetic products will result in changes in the usage of particular chemical ingredients from which they are formulated. As such, the Group continuously keeps abreast of the latest global trends and developments in alternative ingredients for cosmetic applications. Working closely with its manufacturers, suppliers and development laboratories, the Group explores the potential effectiveness of alternative ingredients in the improvement of its existing products or in the formulation of a new product to complement its existing collection.

5. INFORMATION ON THE GROUP (Cont'd)

Taking into consideration the substantial cost involved, it is not cost effective for the Group to have a separate R&D team or a separate facility solely for purpose of R&D activities. Instead, the Group's R&D activities as described above are more focused towards using its close relationship with its customers and years of experience in the professional skin care business to identify the needs of its customers. With this understanding, the Esthetics Group will work together with its principals or third party laboratory to develop a product based on the research conducted.

5.4.18 Interruption to operations

The Group did not experience any interruptions in its businesses, which may have had a significant effect on its operations during the past twelve (12) months from the date of this Prospectus.

5.4.19 Employees

5.4.19.1 Workforce

As at 27 January 2004, the Esthetics Group has a total workforce of 325. None of the employees belong to any labour union. The management has a harmonious relationship with its employees and majority of the employees have been with the Group for over three (3) years. There are no labour or industrial disputes between the employees and the management that could have a material adverse financial impact of the Group.

The breakdown of the total number of employees, both local and foreign, and their average length of service in the Group as at 27 January 2004 are as follows:

Category of employees	Number of employees			Average length of service years
	Local	Foreign	Total	
Managerial and professional staff (including Executive Directors)	40	-	40	5
Technical and supervisory	126	1	127	6
Clerical and related occupations	158	-	158	3
Total	324	1	325	

The foreign employee is a permanent staff. Her employment arrangement is the same as the other local employees. She has a working permit and is not in breach of any Immigration Law.

5.4.19.2 Staff training

The Group places great emphasis in training and education on order to constantly improve its employees knowledge of products and services. All the therapists are required to have extensive training programme in skin care treatment and product knowledge and are able to diagnose customers' skin conditions as well as to advise and recommend the appropriate skin care services and products to use.

As such, new recruits have to undergo rigorous training before commencing their services as therapists. In addition, it is mandatory for the therapists to attend training courses every two (2) months at the IEI to continuously upgrading their skills and improving their product knowledge.

Amongst others, the in-house training includes skin care therapy, body therapy, specialised treatment and business management.

5. INFORMATION ON THE GROUP *(Cont'd)*

5.5 SHARE CAPITAL

The authorised share capital of Esthetics as at 27 January 2004 is RM100,000,000 comprising 200,000,000 Esthetics Shares, of which 96,660,000 Esthetics Shares have been issued and fully paid-up.

The changes in the issued and paid-up share capital of the Company since its incorporation are set out below:

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration	Cumulative issued and paid-up share capital RM
29.10.1996	3	1.00	Cash (Subscribers' shares)	3
15.08.1997	7	1.00	Cash	10
10.12.1997	700,000	1.00	Cash	700,010
09.06.2003	1,400,020	0.50	Subdivision of shares	700,010
28.10.2003	95,259,980	0.50	Bonus issue on the basis of approximately 68.04:1	48,330,000

5.6 SUBSIDIARIES AND ASSOCIATED COMPANIES

5.6.1 AMSB

5.6.1.1 *History and business*

AMSB was incorporated in Malaysia under the Act as a private limited company on 25 October 1995.

The principal activity of the company is trading of cosmetic products.

5.6.1.2 *Share capital*

The authorised share capital of the company as at 27 January 2004 is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 103 ordinary shares of RM1.00 each have been issued and fully paid-up.

The issued and paid-up share capital of AMSB since its incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each allotted	Consideration	Cumulative issued and paid-up share capital RM
25.10.1995	3	Cash (Subscribers' shares)	3
15.07.1997	100	Cash	103

5.6.1.3 *Substantial shareholder*

As at 27 January 2004, AMSB is a wholly-owned subsidiary of Esthetics.

5.6.1.4 *Subsidiary and associated companies*

As at 27 January 2004, AMSB does not have any subsidiary or associated company

5. INFORMATION ON THE GROUP (Cont'd)

5.6.2 DESB

5.6.2.1 History and business

DESB was incorporated on 10 February 1989 in Malaysia under the Act as a private limited company. The principal activities of DESB are importing and distributing skin care and hair care products, cosmetics and beauty equipment and operating a beauty training centre. Since 1989, DESB has been the exclusive distributor for Dermalogica products in Malaysia, Brunei, Singapore, Philippines, Indonesia, Hong Kong, Vietnam, Cambodia and Thailand. The business arrangement with DI has also entitled DESB to utilise the brand name of Leonard Drake for its Professional Skin Care Centres. In 1994, DI awarded DESB with the International Distributor of the Year for its outstanding achievements.

In 1994, DESB started the distribution of a cosmetic line under its own brand name, Averine. Averine was later re-packaged and re-launched in 2001. In the same year, in expanding its product range, DESB also began the distribution of a line of slimming products under its own brand name, Eflislim. Currently, DESB is the beneficial owner to the brand names and trademarks of Averine and Eflislim products.

Other products that are distributed by DESB include aromatherapy and essential oils for facial and other application under the brand name of Eve Taylor and skin care and body therapy equipment under the brand name of Nemectron. DESB has been the exclusive distributor for Eve Taylor and Nemectron in Malaysia since 1989 and 1992 respectively.

Currently, DESB distributes its full range of products including Dermalogica, Averine, Eve Taylor and Eflislim to the Malaysian market as well as to overseas countries including Brunei, Singapore, Philippines, Indonesia, Hong Kong, Vietnam, Cambodia, Thailand and United Kingdom. As at 27 January 2004, DESB has 219 authorised dealers located throughout Malaysia.

5.6.2.2 Share capital

The authorised share capital of the company as at 27 January 2004 is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, of which 600,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

The changes in the issued and paid-up share capital of DESB since its incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each allotted	Consideration	Cumulative issued and paid-up share capital RM
10.02.1989	3	Cash (Subscribers' shares)	3
10.10.1991	49,997	Cash	50,000
18.02.1993	50,000	Cash	100,000
06.01.1995	200,000	Settlement of shareholders' advances	300,000
08.10.1997	300,000	Cash	600,000

5.6.2.3 Substantial shareholder

As at 27 January 2004, DESB is a wholly-owned subsidiary of Esthetics.

5. INFORMATION ON THE GROUP (Cont'd)

5.6.2.4 Subsidiaries and associated companies

As at 27 January 2004, DESB does not have any subsidiary or associated companies.

5.6.3 ECSB**5.6.3.1 History and business**

ECSB was incorporated in Malaysia under the Act as a private limited company on 20 June 1994.

The principal activities of ECSB are letting motor vehicles and property.

5.6.3.2 Share capital

The authorised share capital of the company as at 27 January 2004 is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which all have been issued and fully paid-up.

The changes in the issued and paid-up share capital of ECSB since its incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each allotted	Consideration	Cumulative issued and paid-up share capital RM
20.06.1994	3	Cash (Subscribers' shares)	3
09.09.1994	99,997	Cash	100,000

5.6.3.3 Substantial shareholders

As at 27 January 2004, ECSB is a wholly-owned subsidiary of Esthetics.

5.6.3.4 Subsidiary and associated companies

As at 27 January 2004, ECSB does not have any subsidiary or associated companies.

5.6.4 EIHK**5.6.4.1 History and business**

EIHK was incorporated on 2 June 2000 in Hong Kong as a private limited company pursuant to the Companies Ordinance (Chapter 32). The principal activities of EIHK are distribution of skin and hair care and health care products.

The company is primarily a distributor of professional skin care and cosmetic products for both Hong Kong and China markets. Since its inception, EIHK has gained a strong footing in the Hong Kong market. EIHK primarily distributes Dermalogica, Averine, Eve Taylor and Efislim range of products, which are sourced from DESB. As at 27 January 2004, EIHK serves approximately 120 authorised dealers including two (2) independent LD Centre in Hong Kong owned by third party.

5.6.4.2 Share capital

The authorised share capital of the company as at 27 January 2004 is HKD2,000,000 (RM979,200 in equivalent) comprising 1,700,000 ordinary shares of HKD1.00 each and 300,000 preference shares of HKD1.00 each, of which all of the ordinary shares of HKD1.00 each and preference shares of HKD1.00 each have been issued and fully paid-up.

5. INFORMATION ON THE GROUP (Cont'd)

The changes in the issued and paid-up share capital of EIHK since its incorporation are as follows:

Date of allotment	No. of ordinary shares of HKD1.00 each allotted	Consideration	Cumulative issued and paid-up share capital HKD
02.06.2000	1,000,000	Cash (Subscribers' shares)	1,000,000
31.07.2000	700,000	Cash	1,700,000
Date of allotment	No. of preference shares of HKD1.00 each allotted	Consideration	Cumulative issued and paid-up share capital HKD
31.07.2000	300,000	Cash	300,000

5.6.4.3 Substantial shareholders

The substantial shareholders of EIHK as at 27 January 2004 are as follows:

Name	No. of ordinary shares of HKD1.00 each	Equity interest held
Esthetics	1,699,999	99.99
Sim Swee Peng	1	0.01
	1,700,000	100.0
Name	No. of preference shares of HKD1.00 each	Equity interest held
Esthetics	200,000	66.67
Sim Swee Peng	100,000	33.33
	1,700,000	100.0

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, the Group's equity interest is derived at based on the combined total of all classes of shares in issue.

5.6.4.4 Subsidiary and associated companies

As at 27 January 2004, EIHK does not have any subsidiary or associated companies.

5.6.5 HTT (KL)

5.6.5.1 History and business

HTT (KL) was incorporated in Malaysia under the Act as a private limited company on 30 September 1994.

HTT (KL) was involved in the trading of skin care products and providing of skin care services. The company has since 1999 ceased operations and remained dormant thereafter. Its business activities have been transferred to LDM to ensure continuity of its businesses.

5. INFORMATION ON THE GROUP (Cont'd)

5.6.5.2 Share capital

The authorised share capital of the company as at 27 January 2004 is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 103 ordinary shares of RM1.00 each have been issued and fully paid-up.

The changes in the issued and paid-up share capital of HTT (KL) since its incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each allotted	Consideration	Cumulative issued and paid-up share capital RM
30.09.1994	3	Cash (Subscribers' shares)	3
15.07.1997	100	Cash	103

5.6.5.3 Substantial shareholder

As at 27 January 2004, HTT (KL) is a wholly-owned subsidiary of Esthetics.

5.6.5.4 Subsidiary and associated companies

As at 27 January 2004, HTT (KL) does not have any subsidiary or associated companies.

5.6.6 BLFISB

5.6.6.1 Business and history

BLFISB was incorporated in Malaysia under the Act as a private limited company under the name of HTT (PJ) on 21 October 1994 and subsequently changed its name to BLFISB on 22 August 2002.

The principal activities of BLFISB consist of operating corporate BL Centres, provision of skin care services and selling of skin care products. BLFISB opened its first Belle Lina outlet in Selayang Mall, Kuala Lumpur. As at 27 January 2004, BLFISB is operating six (6) BL Centres in the Klang Valley.

5.6.6.2 Share capital

The authorised share capital of the company is as at 27 January 2004 is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 104 ordinary shares of RM1.00 each have been issued and fully paid-up.

The changes in the issued and paid-up share capital of BLFISB since its incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each allotted	Consideration	Cumulative issued and paid-up share capital RM
21.10.1994	4	Cash (Subscribers' shares)	4
15.07.1997	100	Cash	104

5.6.6.3 Substantial shareholder

As at 27 January 2004, BLFISB is a wholly-owned subsidiary of Esthetics.