

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

5.6.6.4 *Subsidiary and associated companies*

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

5.6.7 LDM

5.6.7.1 *History and business*

LDM was incorporated on 8 March 1997 in Malaysia under the Act as a private limited company. The company's main business activities are provision of skin care services and sales of skin care products.

The Group's involvement in the skin care services started in 1984 with the incorporation of its first skin care centre, Head to Toe Beauty Care Centre in Kuala Lumpur. Head To Toe Beauty Care Centre was established by Melissa M. Chen as a sole proprietor business. In 1985, Melissa M. Chen went into a partnership arrangement with Lim Yee Soon and Kan Kok Chee. In 1992, with the growing customer base, the first LD Centre was incorporated in Bangsar, Kuala Lumpur under a partnership arrangement. The LD Centre was established to target the affluent market.

As at 27 January 2004, the LDM has sixteen (16) LD Centres and one (1) kiosk in Malaysia with a clientele base of approximately 23,000 active customers. These active customers have utilised the services during the last six (6)-month period. As at 27 January 2004, the LD Centres offer two hundred and forty six (246) skin care and body care programmes that are designed to cater for almost all types of skin conditions. In addition, the LD Centres also serve as retail outlets for the skin care and cosmetics product distributed by the Group.

5.6.7.2 *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 LDM 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
08.03.1997	21	Cash (Subscribers' shares)	21
15.01.1999	99,979	Cash	100,000

5.6.7.3 *Substantial shareholder*

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

5.6.7.4 *Subsidiary and associated companies*

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

5.6.8 LDFM

5.6.8.1 *History and business*

LDFM was incorporated in Malaysia under the Act as a private limited company on 23 June 1997.

The principal activity of LDFM is operation of gym and fitness centres. The company has temporarily ceased operation after 31 August 2003.

5. INFORMATION ON THE GROUP (Cont'd)

5.6.8.2 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, all of which have been issued and fully paid-up.

The changes in the issued and paid-up share capital of LDFM 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
23.06.1997	21	Cash (Subscribers' shares)	21
15.01.1999	99,979	Cash	100,000

5.6.8.3 Substantial shareholder

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

5.6.8.4 Subsidiary and associated companies

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

5.6.9 DCCL

5.6.9.1 History and business

DCCL was incorporated in Thailand as a private limited company on 15 July 1999 pursuant to the Civil and Commercial Code.

The principal activities of DCCL are importing and distributing skin care and hair care products, cosmetics and beauty equipment.

The company is primarily a distributor of professional skin care and cosmetic products for the Thailand market. DCCL primarily distributes Dermalogica, Averine, Eve Taylor and Efislim products, which are sourced from DESB. As at 27 January 2004, DCCL serves 173 dealers and LDT.

5.6.9.2 Share capital

The authorised share capital of the company as at 27 January 2004 is BHT16,000,000 comprising 1,600,000 ordinary shares of BHT10.00 each, all of which have been issued and fully paid-up.

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

Date of allotment	No. of ordinary shares of BHT100.00 each allotted	Consideration	Cumulative issued and paid-up share capital BHT
15.07.1999	400,000	Cash (Subscribers' shares)	4,000,000
25.03.2002	1,200,000	Cash	16,000,000

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

5.6.9.3 *Substantial shareholders*

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

Name	No. of ordinary shares of BHT10.00 each	Equity interest held %
Esthetics	798,400	49.9
Aungkana Chaichareonsukasem	319,994	19.9
Dermal Tech (Thai) Co. Ltd	481,600	30.1

5.6.9.4 *Subsidiary and associated companies*

As at 27 January 2004, DCCL does not have any associated company. DCCL has a 99.9%-owned subsidiary company, LDT as at 27 January 2004.

5.6.10 CMSB

5.6.10.1 *History and business*

CMSB was incorporated in Malaysia under the Act as a private limited company under the name of Olvera Corporation Sdn Bhd on 22 July 2002 and subsequently changed its name to CMSB on 29 May 2003.

The principal activity of CMSB is development and distribution of skin care and wellness products.

5.6.10.2 *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 2 ordinary shares of RM1.00 each have been issued and fully paid-up.

The changes in the issued and paid-up share capital of CMSB 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
22.07.2002	2	Cash (Subscribers' shares)	2

5.6.10.3 *Substantial shareholder*

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

5.6.10.4 *Subsidiary and associated companies*

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

5. INFORMATION ON THE GROUP (Cont'd)

5.6.11 BSB

5.6.11.1 History and business

BSB was incorporated in Malaysia under the Act as a private limited company under the name of Cadney Holdings Sdn Bhd on 19 June 2002 and subsequently change its name to BSB on 10 August 2002.

The principal activity of BSB is to apply for, purchase or otherwise acquire any patents, patent rights, copyrights and trademarks. BSB is currently the patentholder of "Belle Lina", "Climelle" and "Bioxil".

5.6.11.2 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 2 ordinary shares of RM1.00 each have been issued and fully paid-up.

The changes in the issued and paid-up share capital of BSB 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
19.06.2002	2	Cash (Subscribers' shares)	2

5.6.11.3 Substantial shareholder

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

5.6.11.4 Subsidiary and associated companies

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

5.6.12 EIGP

5.6.12.1 History and business

EIGP was incorporated in Malaysia under the Act as a private limited company under its present name on 5 January 2004.

The principal activity is trading of FMCG.

5.6.12.2 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 21 ordinary shares of RM1.00 each have been issued and fully paid-up.

The changes in the issued and paid-up share capital of EIGP 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
05.01.2004	21	Cash (Subscribers' shares)	21

5. INFORMATION ON THE GROUP (Cont'd)

5.6.12.3 Substantial shareholders

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

Name	No. of ordinary shares of RM1.00 each	Equity interest held %
Esthetics	21	100.00

5.6.12.4 Subsidiary and associated companies

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

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5. INFORMATION ON THE GROUP (Cont'd)

5.7 PROPERTIES

The properties of the Esthetics Group as at 27 January 2004 are as follows:

No.	Location	Description / existing use	Land area (sq. ft.)	Built up area of building (sq. ft.)	Age of building (years)	Date of issuance of certificate of fitness	Tenure	Net book value as at 31.08.03 (RM)	Encumbrance
<u>DESB</u>									
1.	Wisma Dermal Esthetica No. 54-58 Jalan SS 22/25, Damansara Jaya 47400 Petaling Jaya, Selangor Darul Ehsan	3 contiguous renovated intermediate 4 storey terrace shopoffices.	4,950	15,223	18	17.11.1983	Freehold	2,013,902	Charged to HSBC Bank Malaysia Berhad
	Lot No. PT9153 & 10173, Title No. H.S.(D) 1100 & 2109, Mukim of Sungai Buloh, District of Petaling, State of Selangor	Ground Floor - Tenanted							
	Lot No. PT9154 & 10174, Title No. H.S.(D) 1101 & 2110, Mukim of Sungai Buloh, District of Petaling, State of Selangor	1st to 3rd Floor - Occupied by owner							
2.	Lot No. PT9155 & 10175, Title No. H.S.(D) 1102 & 2111, Mukim of Sungai Buloh, District of Petaling, State of Selangor	Condominium unit with 4 bedrooms and 2 bathrooms - Vacant	N/A	1,628	9	29.05.1998	Freehold	330,772	Nil
	D'Village Condominium (Villa Putra) Unit 33B-19-1, Jalan Tun Ismail Kuala Lumpur								
	Master title held under: GRN 41990 Lot No. 46, Bandar Kuala Lumpur, Wilayah Persekutuan								

5. INFORMATION ON THE GROUP (Cont'd)

No.	Location	Description / existing use	Land area (sq. ft.)	Built up area of building (sq. ft.)	Age of building (years)	Date of issuance of certificate of fitness	Tenure	Net book value as at 31.08.03 (RM)	Encumbrance
<u>DESB (Cont'd)</u>									
3.	Lot No. LG47, The Summit Subang USJ, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan Master title held under: HS(D) 118886, PT 5, Pekan Subang Jaya, District of Petaling, Selangor	Retail Lot - Tenanted	N/A	583.27	3.5	19.06.2002	Freehold	686,814	Nil
4.	Lot No. G30, The Summit Subang USJ, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan Master title held under: HS(D) 118886, PT 5, Pekan Subang Jaya, District of Petaling, Selangor	Retail Lot - Tenanted	N/A	583.27	3.5	19.06.2002	Freehold	686,814	Nil
5.	No. 130, Jalan Batu Unjur 1, Bayu Perdana, 41300 Klang, Selangor Darul Ehsan H.S.(D) 44076 No. P.T. 41324, Mukim of Klang, District of Klang, Selangor	Intermediate 4 storey terrace shopoffice Ground & 1st Floor - Tenanted 2nd & 3rd Floor - Occupied by owner	1,496	6,000	4	20.01.1998	Freehold	546,686	Nil

5. INFORMATION ON THE GROUP (Cont'd)

No.	Location	Description / existing use	Land area (sq. ft.)	Built up area of building (sq. ft.)	Age of building (years)	Date of issuance of certificate of fitness	Tenure	Net book value as at 31.08.03 (RM)	Encumbrance
DESB (Cont'd)									
6.	No. 132, Jalan Batu Unjur 1, Bayu Perdana, 41300 Klang	Intermediate 4 storey terrace shopoffice	1,496	6,000	4	20.01.1998	Freehold	546,686	Nil
	H.S.(D) 44075 No. P.T. 41323, Mukim of Klang, District of Klang, Selangor	Ground - 2nd Floor - Tenanted							
		3rd Floor - Occupied by owner							
7.	Atheneum At The Peak Condominium B10-06 Puncak Atheneum, Jalan Wangsa 5A, Bukit Antarabangsa, 68000 Ampang, Selangor Darul Ehsan	Condominium unit with 3 bedrooms and 2 bathrooms. Tenanted	N/A	1,366	5	15.03.1996	Freehold	189,984	Nil
	Master title held under: GRN 55384 Lot 14448 Seksyen 2, Bandar Ulu Kelang, District of Gombak, Selangor								
8.	Lot No. 11, Bukit Jelutong Industrial Land Shah Alam, Selangor Darul Ehsan	Vacant land for development	143,312.4	-	N/A	N/A	Freehold	10,031,565	Charged to Malayan Banking Berhad
	H.S.(D) 142705 PT 17650, Mukim of Damansara, District of Petaling, Selangor								
9.	GF-06, Ground Floor, Bayan Shopping Mall Penang	Shoplot Construction work in progress	N/A	463	N/A	N/A	99 years lease expiring in 01.12.2095	392,976	Charged to HSBC Bank Malaysia Berhad
	H.S.(D) 10015 PT 4671, Mukim 12, District of Barat Daya, Pulau Pinang								

5. INFORMATION ON THE GROUP (Cont'd)

No.	Location	Description / existing use	Land area (sq. ft.)	Built up area of building (sq. ft.)	Age of building (years)	Date of issuance of certificate of fitness	Tenure	Net book value as at 31.08.03 (RM)	Encumbrance
<u>DESB (Cont'd)</u>									
10.	GF-07, Ground Floor, Bayan Shopping Mall Penang	Shoplot Construction work in progress	N/A	467	N/A	N/A	99 years lease expiring in 01.12.2095	399,420	Charged to HSBC Bank Malaysia Berhad
	H.S.(D) 10015 PT 4671, Mukim 12, District of Barat Daya, Pulau Pinang								
<u>ECSB</u>									
11.	GF-20, Ground Floor, Bayan Shopping Mall Penang	Shoplot Construction work in progress	N/A	657	N/A	N/A	99 years lease expiring in 01.12.2095	739,124	Nil
	H.S.(D) 10015 PT 4671, Mukim 12, District of Barat Daya, Pulau Pinang								
12.	Unit C-6-6 Palmville Resort Condominium Bandar Sunway, Petaling Jaya, Selangor Darul Ehsan	Condominium with 4 bedrooms and 2 bathrooms Tenanted	N/A	1,415	4	22.03.1996	99 years lease expiring in 01.04.2097	304,352	Nil
	Master title held under: PN 8617 Lot 38159 & PN 8619 Lot 44, Bandar Sunway, District of Petaling, Selangor								

The above properties have not been revalued for purpose of the flotation exercise. All the abovementioned properties do not have any breach of land use conditions.

5. INFORMATION ON THE GROUP (Cont'd)

Save as disclosed below, none of the other properties have any restriction-in-interest:

- (i) The restriction-in-interest for GF-06, Ground Floor, Bayan Shopping Mall, Penang, GF-07, Ground Floor, Bayan Shopping Mall, Penang and GF-20, Ground Floor, Bayan Shopping Mall, Penang is that the properties shall not be partitioned, transferred, mortgaged, leased, sub-leased or disposed of in any way without the written consent of the State Authority; and
- (ii) The restriction-in-interest for Unit C-6-6 Palmville Resort Condominium, Bandar Sunway, Petaling Jaya is that the property shall not be transferred, leased or charged without the permission of the State Authority.

Save as disclosed below, the Group has not acquired any properties in the two (2) years preceding the date of this Prospectus:

Parties	Particulars of properties	Date of acquisition	Consideration RM
Lorna Elsina Theseira	GRN 17897, Double Storey Semi-Detached Corner House Lot 593, Seksyen 5, Mukim Bandar George Town, District Timur Laut, Pulau Pinang	4 June 2003	1,300,000

5. INFORMATION ON THE GROUP (Cont'd)

Brief particulars of the tenancy

Registered Owner	Location	Tenant	Period/term	Monthly rental rate (RM)
DESB	Wisma Dermal Esthetica No. 54-58 Jalan SS 22/25 Damansara Jaya 47400 Petaling Jaya, Selangor Darul Ehsan	Public Finance Berhad	1.9.2001 to 31.8.2004	10,500
DESB	D'Village Condominium (Villa Putra) Unit 19-3D2/I/F Jalan Tun Ismail Kuala Lumpur	Vacant	-	-
DESB	Athenaeum At The Peak Condominium B10-06 Puncak Athenaeum Jalan Wangsa 5A, Bukit Antarabangsa, 68000 Ampang Selangor Darul Ehsan	Nazlina bt Mohd Nazli	1.6.2003 and 31.5.2004	700
DESB	Lot No. G30 The Summit Subang USJ, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan	Ng Kheng Seng	1.9.2003 to 31.8.2004	3,000
DESB	Lot No. LG47 The Summit Subang USJ, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan	Metro Optical Group	1.11.2001 to 30.10.2004	4,083
DESB	No. 130 Ground Floor Jalan Batu Unjur 1, Bayu Perdana, 41300 Klang	Lee Kim San	1.8.2003 to 31.7.2005	2,200
DESB	No. 132 Ground & 1st Floor, Jalan Batu Unjur 1, Bayu Perdana, 41300 Klang	Lee Kim San	1.8.2003 to 31.7.2005	2,600
DESB	No. 132, 2nd Floor Jalan Batu Unjur 1, Bayu Perdana, 41300 Klang	Lee Kim San	1.4.2003 to 31.7.2005	400
DESB	No. 130, 1st and 2nd Floor Jalan Batu Unjur 1, Bayu Perdana, 41300 Klang	Low Chee Seng	1.5.2003 to 30.04.2005	800
ECSB	Unit C-6-6 Palmville Resort Condominium, Bandar Sunway, Petaling Jaya	Miguel Angel	1.4.2002 to 31.3.2004	2,000

5. INFORMATION ON THE GROUP (Cont'd)

5.8 APPROVALS, MAJOR LICENSES AND PERMITS

The main licenses and permits held by the Group required for the purposes of conducting its business are listed below:

Issued/Granted to	Authorities	Types of approval/major license/permits	Validity	Equity conditions attached	Status of compliance
LDM (Professional Skin Care Centres)					
- Bangsar Shopping Centre	DBKL	License for business/signboard	31.12.2004	-	-
- 1-Utama	MPPJ	License for business/signboard	31.12.2004	-	-
- Section 14	MPPJ	License for business License for signboard	31.12.2004 Pending*	-	-
- Wisma Atria	MPPJ	License for business License for signboard	Pending* 31.12.2004	-	-
- Taman Maluri	DBKL	License for business License for signboard	Pending* 31.12.2004	-	-
- Plaza Metro	Majlis Perbandaran Kajang	License for business/signboard	31.12.2004	-	-
- Cheras Leisure Mall	DBKL	License for business/signboard	31.12.2004	-	-
- Mid Point	MPAJ	License for business/signboard	31.12.2004	-	-
- Pearl Point	DBKL	License for business/signboard	31.12.2004	-	-
- Ampang Point	MPAJ	License for business/signboard	31.12.2004	-	-
- KL Plaza	DBKL	License for business/signboard	Pending*	-	-
- Mid Valley	DBKL	License for business License for signboard	Pending* 31.12.2004	-	-
- Sunway Pyramid	MPSJ	License for business/signboard	31.12.2004	-	-
- Subang Parade	MPSJ	License for business/signboard	31.12.2004	-	-
- Bukit Raja	Majlis Perbandaran Klang ("MPK")	License for business License for signboard	Exempted 31.12.2004	-	-
- Bukit Jambul	MPPP	License for business/signboard	31.12.2004	-	-
- Gurney Plaza	MPPP	License for business	31.12.2004	-	-

5. INFORMATION ON THE GROUP (Cont'd)

Issued/Granted to	Authorities	Types of approval/major license/permits	Validity	Equity conditions attached	Status of compliance
BLFISB					
- Bukit Tinggi	MPK	License for business License for signboard	Exempted 31.12.2004	-	-
- Sri Hartamas	DBKL	License for business/ signboard	Pending approval	-	-
- Mentari Business Centre	MPPJ	License for business License for signboard	Pending* 31.12.2004	-	-
- IOI Mall	MPSJ	License for business/ signboard	31.12.2004		
- Metro Prima, Kepong	DBKL	License for business/ signboard	Pending approval		
- Selayang Mall	MPS	License for business/ signboard	31.12.2004	-	-
DESB					
- BK Plaza	Majlis Bandaraya Shah Alam	Warehouse permit	31.12.2004	-	-
- Wisma Dermal Esthetica	MPPJ	License for store/ signboard	31.12.2004	-	-

Note:

- * This license expired on 31 December 2003. However, the renewal process requires the licenseholder to await the issuance of a "Notice of License Renewal" by the relevant municipal authority before it may renew its license. In the circumstances, the status of the license renewal is "Pending". The Company undertakes to procure the licenseholder to renew the license upon issuance of the "Notice of License Renewal".

Licenses

- (i) Licenses permitting LDM and BLFISB to carry on the professional skin care products retailing and services business under LD Centres and BL Centres;
- (ii) Licenses to grant permits for storage of goods at warehouse;
- (iii) Licenses to grant permits to play music at LD and BL Centres;
- (iv) Licenses to grant permits to have advertisements and
- (v) License to grant permits to operate machines.
- (vi) Import license pursuant to the Control of Drugs and Cosmetics Regulations, 1984, to import, to sell by way of retail or wholesale or to supply products approved by DCA.

5. INFORMATION ON THE GROUP (Cont'd)

Pursuant to the Control of Drugs and Cosmetics Regulations, 1984, the Group was required to register all its cosmetic products with the DCA by 1 January 2004. Submission of applications for cosmetic products on or after 1 January 2004 must be registered before they can be manufactured, distributed or imported into Malaysia. On 20 December 2003, the Ministry of Health announced that distributors and manufacturers would have a grace period of six (6) months until the end of June 2004 to register the products provided the submission of applications are made prior to 1 January 2004 (*Source: Ministry of Health*). The Group has submitted all applications for the registration of its entire cosmetics product with the DCA before 1 January 2004 and the Group is awaiting the complete registration of all its cosmetics products.

All LD Centres require licenses to enable them to carry on provision of skin care services and selling of skin care and cosmetic products business. All the other LD Centres have obtained the necessary licenses for business operation.

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

5.9 INDUSTRY OVERVIEW

5.9.1 Overall global and Malaysian economy

The Global economy

The world economic performance in the first half of 2003 took a dive on account of the war in Iraq and the outbreak of the Severe Acute Respiratory Syndrome ("SARS"). With the end of the Iraq war and containment of SARS, global economic performance in the second half of 2003 is expected to improve, supported by indications of an upturn in the major economies towards the end of the second quarter. The expected return of investor and consumer confidence, resulting from accommodative monetary policies and fiscal easing in major economies, will further boost demand. However, there exist downside risks arising from continued global current account imbalances, inadequate structural reforms in some economies and securities concerns in several parts of the world.

In a global economic environment weighed down by uncertainties and lacklustre global demand, the concern in all international front continues to focus on the need to stimulate economic growth and maintain financial stability. At the same time, countries are increasingly looking towards regional and bilateral arrangements to spur trade and economic growth.

Global economic growth for the second half of 2003 is projected to be gradual but firm. Growth in major economies will also be supported by better performance in Asia and the impact of SARS fades out. With stronger export growth benefiting from pent-up demand pushing up consumption and the positive impact of stimulus packages introduced by many countries in the region, the pace is expected to gain momentum. The momentum from growth in the second half of 2003 is expected to be sustained into 2004, when world growth is expected to reach 4.1%.

On a less optimistic note, downside risks remain for the outlook for 2004. Geopolitical tensions and sporadic militant acts will continue to pose security risks and impact on worldwide travel and the hospitality industry. Though the USA had in the early May 2003 declared an end to the major conflict in Iraq, the longer-than-expected reconstruction of the country as evidenced by the on-going pockets of resistance, is also a cause of concern. A delayed or faltering recovery in the US could also cloud the present optimism and derail the much-anticipated recovery in the rest of the world.

(Source: Economic Report 2003/2004)

The Malaysian economy

After experiencing sluggish growth in 2001, the Malaysian economy rebounded strongly in 2002. Higher growth in 2002 bolstered optimism for a stronger economic performance in 2003 in anticipation of an improved world economic outlook. The prospect for a global economic recovery was, however, affected by recent geopolitical developments, in particular the war in Iraq, sporadic incidences of militancy and outbreak SARS. During the second quarter, consumer and business sentiments in regional economies were particularly affected by the anxiety of a probable prolonged and widespread SARS epidemic that curtailed transport and tourism-related activities besides trade and investment flows.

Against this adverse global environment and concerns of further weakening of the already sluggish global economy, the Government has put in place a package of broad-based pro-growth measures in May 2003. The Package of New Strategies, apart from providing immediate relief for the SARS-affected sectors, was to address structural and organisational issues towards sustaining economic growth in the medium and longer term. The strategic measures introduced boosted confidence necessary to stimulate domestic consumption and investment. In addition, the short war in Iraq and the quick containment of SARS provided the much-needed relief for the economy to ride over the difficult times and remain on track to a firmer growth trajectory.

5. INFORMATION ON THE GROUP (Cont'd)

Malaysia's sound economic fundamentals and expansionary fiscal and accommodative monetary policies, supplemented Government's proactive stimulus package, have helped to sustain high growth in the real GDP. After expanding 4.5% in the first half and with prospects of sustained growth in the second half and with prospects of sustained growth in the second half of 2003, the economy is set to achieve its targeted growth of 4.5% in 2003, higher than the 4.1% achieved in 2002.

The economy is expected to be driven by stronger domestic demand reinforced by a modest pick-up in external demand in the second half 2003. Exports will continue to be buoyed by global economic recovery and the upturn in electronics, especially in information technology-related products and equipment. On the domestic front, consumer spending continues to pick up, on account of favourable export earnings and high commodity prices, positive wealth effect from better stock market performance as well as rising consumer confidence. All sectors registered positive growth with manufacturing and services driving the economy.

The economic outlook for 2004 is envisaged to be favourable. Real GDP growth is expected to gain momentum and register a higher rate of 5.5% to 6% in 2004. Growth is expected to emanate from higher exports on account of continuing improvement in world economic prospects while domestic demand will continue to be driven by pro-growth fiscal and monetary measures. Whilst all sectors are forecast to register higher growth, services and manufacturing will continue to lead GDP growth, contributing 3.1 and 2.2 percentage points, respectively.

The strengthened macroeconomic fundamentals and a more broadly balanced economic structure with emerging new sources of growth will provide foundation for sustained higher growth. Alongside pragmatic macroeconomic management and the pro-growth measures in place to support private sector initiatives, Budget 2004 will further enhance competitiveness and reinforce the resilience of the economy against likely destabilising external factors and garner higher economic growth for the country. The Malaysian economy is, therefore targeted to achieve a stronger GDP growth of 5.5% to 6% for 2004.

(Source: Economic Report 2003/2004)

5.9.2 Services sector

Effective measures to stimulate domestic consumption helped mitigate the adverse impact of Iraq war and SARS and facilitated the services sector to sustain its growth momentum. The sector is expected to continue to expand by 4.2% in 2003. Demand for financial services, telecommunications and transport arising from improved economic prospects, particularly during the second half of the year will support overall growth. Steady pick-up in tourism after the short-lived SARS outbreak and improved consumer sentiment during the second half 2003 further reinforced the sector's growth.

The services sector growth has on average outpaced GDP growth for more than a decade, reflecting the growing demand for services in line with the rapid expansion in other sectors of the economy. Developments in trade liberalisation, emergence of new markets such as China and the East European countries and the proliferation of the information and the communication industry ("ICT") have spurred the consumption of services, particularly in finance, transport and telecommunications. In addition, rising incomes and changing lifestyles have resulted in higher demand for take-away food, entertainment and travel. Furthermore, the Government's policy of maximising the sector's potential, initially to mitigate the services deficit in the balance of payments and later to develop new growth areas, has also contributed to the stronger growth of the sector. Given the strong growth, the share of the services sector to GDP growth has been rising gradually from 46.8% in 1990 to nearly 57% in 2003. The increasing share is reflective of Malaysia's steady progress towards achieving industrial nation status, whose services sector generally accounts for 60% to 70% of GDP.

(Source: Economic Report 2003/2004)

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

5.9.3 Services sub-sectors

The services sector encompasses the following industries:

- wholesale and retail trade, hotels and restaurants;
- finance, insurance, real estates and business services;
- transport, storage and communication;
- government services;
- electricity, gas and water; and
- other services.

According to the Department of Statistics, the provision of all types of beauty services including professional skin care services is categorised under other services sub-sector. In addition, as the wholesale and retail trade, hotels and restaurants sub-sector account for a significant proportion of similar business nature in consumer-based products and services, it will be included as a reference to provide an indication of the performance of the skin care and cosmetic industry.

The provision of professional skin care services is classified as a sub-sector of the other services sector. On the other hand, the marketing and distribution of skin care and cosmetic products are categorised as part of the wholesale and retail trade, restaurants and hotels sub-sector.

5.9.3.1 *Wholesale and retail trade, hotels and restaurants sub-sector*

Rising income as well as policy measures aimed at increasing domestic consumption have contributed to the growth of the wholesale and retail trade, hotel and restaurants sub-sector. The sub-sector is estimated to register a moderate growth of 2.1% in 2003 compared with 2.6% in 2002, due to the negative impact of SARS during the second quarter 2003. Fortunately SARS was short lived and while some retailers suffered losses, others experienced a boon. The month-long mega sales in August and during the festival season from October to December 2003 is expected to further boost retail sales.

5.9.3.2 *Other services sub-sector*

The Other services sector is estimated to grow at a rate of 4.2% (2002: 4.6%). The private healthcare industry has undergone a strategic change, with its focus now on health tourism. Towards this end, a National Committee for the Promotion of Health Tourism was set up to spearhead the growth of this industry. To date, there are thirty three (33) participating private hospitals catering to patients from Brunei Darussalam, Indonesia, Vietnam, Singapore, Bangladesh and Saudi Arabia.

(Source: Economic Report 2003/2004 and Bank Negara Malaysia Annual Report 2002)

5.9.4 Skin care and cosmetic industry

From 1998 to 2002, the value of imports of perfumery, cosmetics and toiletries increased at an average annual rate of 8.1%, amounting to a total of RM795.0 million in 2002. USA and Thailand were the major exporters, which contributed 18.2% and 17.8% respectively. This is followed by France and Hong Kong at 9.8% and 9.3% respectively.

In 2002, the import value of beauty or make-up preparations and preparations for the care of the skin increased by 7.5% in 2002, amounting to a total of RM369 million.

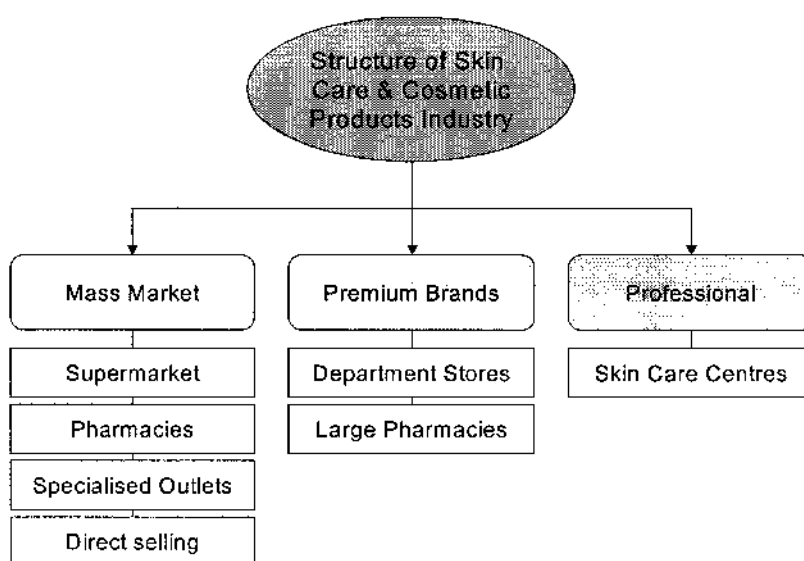
5. INFORMATION ON THE GROUP (Cont'd)

The average monthly household expenditure on toiletries (including skin care and cosmetic products) grew at an average annual rate of 18.6% between 1993/94 and 1998/99. In addition, the export value of perfumery, cosmetic and toiletries grew at an average annual rate of 13.6% from 1998 to 2002.

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

5.9.4.1 Industry structure

The skin care and cosmetic industry comprises three main sectors where each focuses on different target markets and distribution channels. The structure of skin care and cosmetic industry is depicted as follows:



5.9.4.2 Mass markets

A large majority of the skin care products catering to the mass market comprise of brands including, amongst others, Nivea, L’Oreal, Simple, Johnson and Johnson, Neutrogena, Ponds Institute and Eversoft. These products are primarily targeted at the lower-end of the market. Most of the mass market skin care products are available in, amongst others, pharmacies, supermarkets, specialised retail outlets, convenience stores and direct selling.

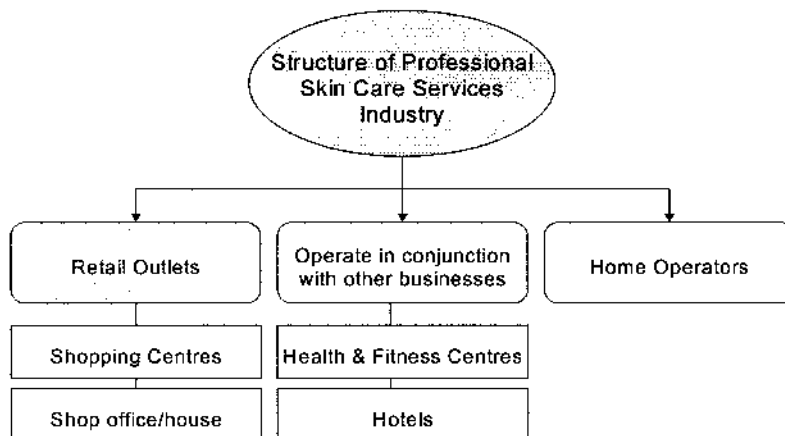
5.9.4.3 Premium brands

This segment comprises premium brands including, amongst others, prominent and worldwide brand names such as Estee Lauder, Elizabeth Arden, Shiseido and Clarins. Apart from skin care products, these brands are well-known for their range of cosmetic products. These brands are mainly targeting at the medium to high end of the market.

5. INFORMATION ON THE GROUP (Cont'd)

5.9.4.4 Professional

These skin care products are mainly available through professional skin care centres. There are many brands in this category, most of which are imported by local agents and distributed locally. The different segments within the professional skin care services industry are depicted as follows:



The professional skin care services industry is segmented into 3 main sectors as follows:

5.9.4.5 Retail outlets

Professional skin care centres usually use some form of specialised skin care products that are only available from authorised professional skin care outlets or are exclusively distributed by the professional skin care centre itself. These outlets are usually operated mostly in shopping centres or shop offices/houses. The larger and more reputable operators usually have a wide networks of professional skin care centres to provide convenience for their customers.

5.9.4.6 Home operators

These operators form the lower tier of market players in this industry. These operators work from home to provide personalised services to a limited client base. In many cases, this group of home operators is able to purchase global or reputable local brand name products for their provision of professional skin care services, thus adding competitive pressure to larger chain operators.

5.9.4.7 Operate in conjunction with other business activities

These operators provide professional skin care services that are either part of, or operate in conjunction with other business activities such as hotels, health and fitness centres and spa centres.

(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)

5.9.5 Demand and supply conditions

Apart from the overall performance of Malaysian economy and skin care and cosmetic industry, the disposal income and population growth of Malaysia citizens as well as seasonality of the products will affect the demand for skin care and cosmetic products.

5.9.5.1 Disposable income and domestic demand

In an environment of increasing external uncertainties, domestic demand has proven to be major contributory factor to economic growth over the past few years. Overall, the economy has become more resilient as domestic demand continues to drive growth in the face of a weak external sector. As business and consumer confidence gains further momentum, boosted by the introduction of the Package of New Strategies towards stimulating the nation's economic growth (Package) in generating economic activities by mobilising domestic sources of growth, domestic demand (excluding changes in stocks) is expected to strengthen by 5% and contribute 4.5% to GDP growth.

After two (2) years of lacklustre performance, private sector expenditure is likely to grow by 4.6% and contribute 2.6 percentage point to GDP growth (2002: 0.4 percentage point), due to sustained consumption and upturn in investment activity. Growing strongly at an estimated 5.8%, public sector expenditure is envisaged to contribute 1.9 percentage point to GDP growth.

Private consumption, which has been resilient despite the negative impact of global uncertainties arising from the Iraq war and the outbreak of SARS, is expected to expand at a faster pace of 5.2% in 2003 compared with 4.4% in 2002. The strong performance is largely supported by higher disposable income arising from more buoyant domestic activities, favourable commodity prices and the positive wealth effect on account of the rising stock market. The introduction of the Package in May 2003, which includes a 2% reduction in contribution to the Employees Provident Fund a half-month bonus to civil servants and a lowering interest rates to encourage consumption are also expected to contribute to strong consumption performance for the year. Improved consumer sentiment is reflected in several key consumption goods, production of household refrigerators and credit card spending, which have increased between 2.1% to 18.5% for the first half of 2003.

With an expected increase in domestic demand, which would result in a higher disposable income, the demand for skin care and cosmetic products is expected to increase correspondingly. In particular, young professionals who have higher purchasing power and are more conscious about their personal appearance will be the major customers for the industry.

(Source: Economic Report 2003/2004)

5.9.5.2 Population growth

The population of Malaysia grew steadily at an average rate of 2.0% per annum from 1996 to 2000. In 2000, the population was estimated at 22.3 million, an increase of 2.0% over the previous year. According to the Eighth Malaysian Plan 2001-2005, population is expected to reach 26 million by year 2005. The current Malaysian population stands at 24 million.

Besides, urban population will grow at an average annual rate of 3.8%. It is expected that urbanisation will increase to 67% by year 2005. The population migration towards urban indicates the continuing increase in concentration of population in the bustling city areas. On top of that, mean household income in Malaysia grew by 5.2% between 1995 and 1999. In 1999, the mean monthly household income reached RM2,472. The increase in affluence of the population will mean greater affordability and consumption of consumer based products and services in general.

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

Malaysia's population is relatively young with 32% of the population are between 20-39 year-old. This age category is the target customer for the industry due to their higher disposable income and consumption level. In particular, the major customers for the skin care and cosmetic industry are predominantly young working professional women.

(Source: Eighth Malaysia Plan 2001-2005, Economic Planning Unit)

5.9.5.3 *Seasonality*

In general, the demand for skin care and cosmetic products are fairly stable throughout the year. Notwithstanding that, there are some expected fluctuations during the festive seasons, sales and promotions periods, and the beginning as well as end of the year.

5.9.6 **Competition**

5.9.6.1 *Skin care products*

Competition among skin care products within Malaysia is intense. In Malaysia, the market is highly fragmented with many different forms of competition and each offer at the very least, the basic product range including, amongst others, cleansers, moisturisers, toners, night cream and eye cream. This is reflected in the three (3) main sectors of the skin care and cosmetic industry, namely mass market, premium brands and professional skin care products.

There are many players in the market primarily because barriers to entry are low. The ease of entry also includes creation of new products and brands without need for technical knowledge, research and development facilities and manufacturing plant. This is because virtually anyone with sufficient working capital would be able to get the product formulated and manufactured by third parties. This ease of entry has encouraged the formation of many new brands in the market both locally and overseas.

5.9.6.2 *Professional skin care services*

Competition for professional skin care services and products is based on a number of factors including, amongst others, quality of products and services, product effectiveness, pricing, facilities and location, value added services such as diagnosis, methodology and application, product brand name and operator market reputation.

Competition among professional skin care services industry in Malaysia is intense. The ease of entry, particularly the low capital requirements, has meant that there are many operators of skin care services in Malaysia. This range from single operators working from home to larger operators with chain outlets located in more expensive shopping centres.

Competition is also predicated by the reputation of the operators of professional skin care centres and the brands of products used. As such, larger chain professional skin care service 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.

At the lower tier level, particularly among operators working from homes, competition is also very intense. Such operators probably are found in most suburbs in Malaysia providing personalised services to their client base. In many cases, this group of home operators is also able to purchase global or reputable local brand name products for use in their provision of skin care services, thus adding competitive pressure to larger chain operators.

(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)*

5.9.7 Industry players

Some of the key players in the professional skin care sector are depicted as follows:-

Professional skin care services

- Tung Pao Sdn Bhd
- Esthetics International Berhad
- Clara International Beauty Group Sdn Bhd
- CN Health and Beauty Group Sdn Bhd
- Lampang Padu Sdn Bhd
- Clarins Sdn Bhd
- Beaubelle Worldwide Sdn Bhd
- JF Beauty Group Sdn Bhd
- PT Mustika Ratu Sdn Bhd
- Bella Skin Care Sdn Bhd
- Excellent Combination Sdn Bhd
- Adonis Beauty Consultants Sdn Bhd

Distributors to professional skin care centres

- Clara International Beauty Group Sdn Bhd
- Esthetics
- Beaubelle Worldwide Sdn Bhd
- JF Beauty Group Sdn Bhd
- Sky Resources Sdn Bhd
- PT Mustika Ratu Sdn Bhd
- Excellent Combination Sdn Bhd
- Societe Francaise De Cosmetiques Sdn Bhd
- Menard Cosmetics (M) Sdn Bhd

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

The competition among key players in the industry is intense. To be a market leader, the operator would need to have substantial funds for setting up retail and services outlets in strategic locations, create brand loyalty, adequate supply of stocks, a large pool of trained therapists and high calibre workers, long term relationships with the principal or suppliers, advertising and promotional programmes etc.

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

5.9.8 Barriers of entry

The barriers of entry into the marketing and distribution of skin care and cosmetic products and professional skin care services are low and this is mainly predicated by the low capital cost requirement for setting-up a small trading establishment to operate in this type of business. However there is a need to have working capital including purchasing of stocks, advertising and promotions.

Similarly, the barriers of entry into the Professional Skin Care Services are low and this is predicated by the ease of entry into the industry at the most basic level as home operators with only basic equipment.

However to set-up a retail outlet in shopping center to provide Professional Skin Care Services would require some capital for the following basic items:

- Renovation and furnishing costs whereby to renovate an average size retail lot of 1,500 square feet would cost approximately RM300,000;
- The cost of basic machinery and equipment is approximately RM50,000 to RM100,000 for an average retail outlet.

In addition, the regulations on the registration of cosmetics commenced on 1st February 2002 may pose some barriers to the new entrants. This will avoid a plethora of product brands and operators in the market. In addition, it will ensure the safety and quality of the products to be consumed by the customers.

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

5.9.9 Government legislation, policies and incentives

Prior to 1 February 2002, registrations of Cosmetic Products, including Personal Care Products were required and limited to the following products:

- Hair Dyes containing phenylenediamine, toluenediamine, salt and derivatives: 1 August 1991; and
- Tooth Whitener containing hydrogen peroxide/carbamide peroxide: 1 February 1996.

However, effective from 1 February 2002, companies that are involved in the manufacturing, importing or distributing of Cosmetic Products, which are under the product classification of Category I and II, are required to register with the DCA.

The enforcement of regulations of Cosmetic Products commenced on 1 January 2004.

On 20 December 2003, the Ministry of Health announced that distributors and manufacturers would have a grace period of six months until the end of June 2004 to register the products provided the submission of applications are made prior to 1 January 2004 *(Source: Ministry of Health)*.

Submission of applications for cosmetic products on or after 1 January 2004 must be registered before they can be manufactured, distributed or imported into Malaysia.

The registration of Cosmetic Products is enacted under the Control of Drugs and Cosmetics Regulations 1984. Generally, the registration of a Cosmetic Product shall be valid for five (5) years.

The authority responsible for the registration and licensing of Cosmetic Products is the Drug Control Authority (DCA). The secretariat to the DCA is the National Pharmaceutical Control Bureau (NPCB), which is responsible for the evaluation and assessment of Cosmetic Products.

5. INFORMATION ON THE GROUP (Cont'd)

According to the DCA, Cosmetic Product refers to any substance or preparation intended to be placed in contact with various external parts of the human body or with teeth and the mucous membranes of the oral cavity, with a view exclusively or mainly to cleaning them, perfuming them, changing their appearance and/or correcting body odours and/or protecting them or keeping them in good condition.

For the purpose of product registration, Cosmetic Products are classified into Category I and II. Category I refers to products that have the potential to be absorbed through the skin mucous membrane. Category II refers to products other than the ones listed in Category I.

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

5.9.10 Prospect of the skin care and cosmetic industry

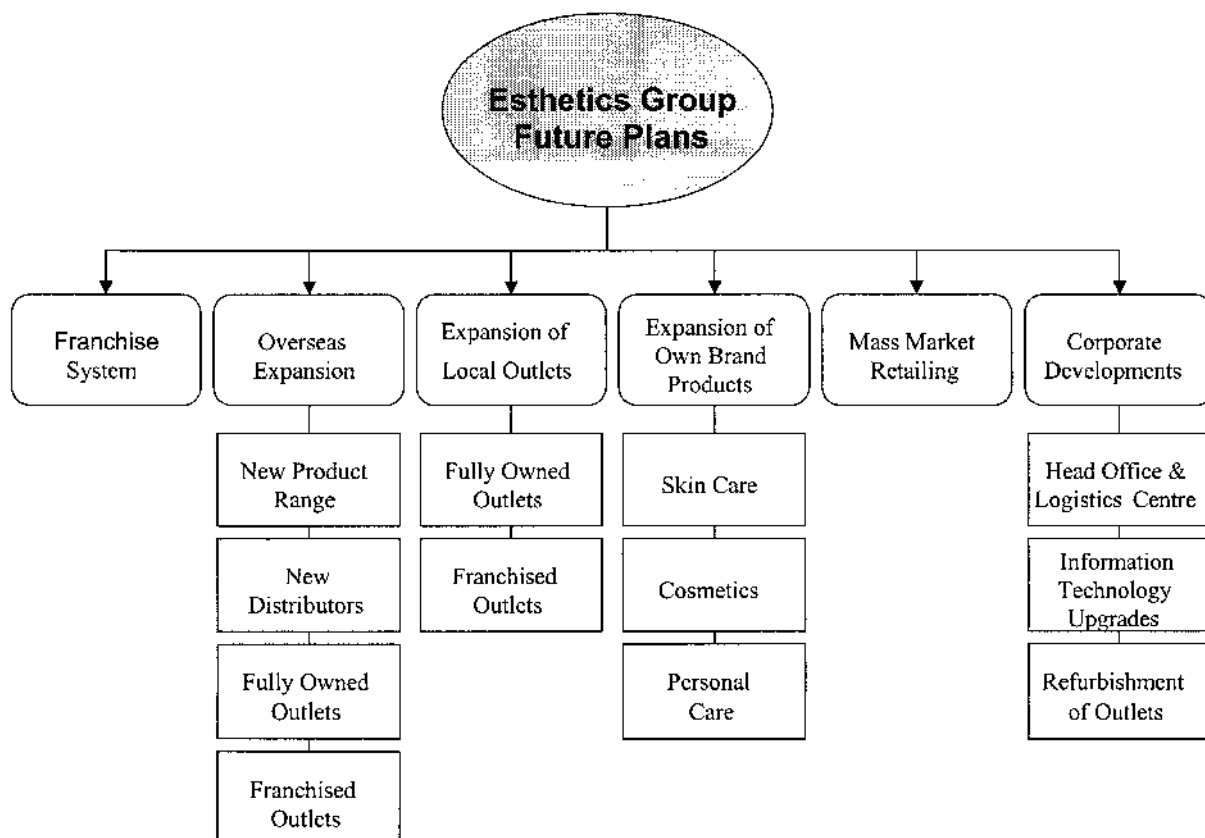
The outlook for the Skin Care and Cosmetics Industry is favourable. The Skin Care and Cosmetics Industry is forecasted to grow at approximately 5% to 8% per annum for the next five (5) years.

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

5.10 FUTURE PLANS AND PROSPECTS

5.10.1 Future plans

The Esthetics Group aims to achieve a continued business growth and a greater business diversification in the future. In summary, the future plans of Esthetics Group are focused in six (6) areas as depicted in the diagram below:



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

5.10.1.1 *Belle Lina* franchise system

In expanding its services base, the Group is embarking on its home-grown franchising system under the trade-mark of, '*Belle Lina, Oasis of Wellness*' (hereinafter "*Belle Lina*"). It is the intention of the Group to market this franchising system both locally as well as overseas. This franchising system is being held under BLFISB, a wholly-owned subsidiary of Esthetics ("Franchising Concept"). The Franchising Concept is created and designed by the Promoters and its management team based on their years of experience in managing and dealing with successful salon chain. Under the Franchising Concept, the franchisees will receive the business model of "*Belle Lina*" which include store set-up and design, site selection, technical training (provision of professional skin care services), operational manuals and business operation training, marketing and management information system support.

In the local scene, the Group is expected to actively sign up the local franchisees once written approval is obtained from the Franchising Department of the Ministry of Entrepreneur Development. An official application for the local Franchise License has been made to the relevant authorities on 30 August 2003 and is currently pending their approval.

For overseas market, the export of the Franchising Concept is pending successful registration of the "*Belle Lina*" trademark in the various countries such as Hong Kong, Thailand, Philippines, Vietnam, Singapore and Indonesia in which Esthetics plans to penetrate. The applications to the various countries have been made since September 2002.

The Board of Esthetics has represented that under normal circumstances, the trademark can be successfully effected within a time-frame of between one (1) to three (3) years from date of application. In the meantime, while awaiting for the registration of the "*Belle Lina*" trademark overseas, the Board will proceed with the launching of its Franchising Concept under an alternative business arrangement.

The Group has commenced discussions with the Overseas Country Sub-distributors in Singapore and Thailand and is in discussions with several potential parties in Indonesia. Upon finalisation of the detailed terms, the Group (via BLFISB) will enter into an agreement ("OCS Agreement") with the respective Overseas Country Sub-distributors to kick start the Franchising business overseas, pending formal trademark registration in the respective countries.

The OCS Agreements will allow the business arrangement to eventually be converted into that of a Master Franchise Agreement between BLFISB (being the franchisor of "*Belle Lina*" trademark) and the respective Overseas Country Sub-distributors with all the attendant terms.

With the Franchising Concept, Esthetics Group will be able to expand its revenue portfolio to include, amongst others, master franchise fee and royalty income. In addition, these Master Franchisees/franchisees will also operate as exclusive distributors for Esthetics' products (that is in-house brand and third party brand). Thus, creating a "win-win" situation for both the Esthetics Group and the Master Franchisees/franchisees. With the exporting of its Franchising Concept overseas, the Esthetics Group would also be able to tap into the less mature market such as Vietnam without having to commit on its own resources such as financial or human.

The Esthetics Group plan to sign-up four (4) Master Franchisees, one each in Thailand, Indonesia, Vietnam and Singapore via the execution of the OCS Agreement with the Overseas Country Sub-distributors (or other potential investors).

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

5.10.1.2 *Expansion of Professional Skin Care Centre*

In addition to the Belle Lina Franchising Concept, the Esthetics Group will continue to set-up more Professional Skin Care Centres in strategic locations throughout Malaysia. This is to enable the Group to have a wider market reach as well as to maintain its market leader position in this sector.

These Professional Skin Care Centres may be established under the trade-name of either "*Belle Lina*" or "*Leonard Drake*".

5.10.1.3 *New treatments/program*

As part of the Esthetics Group's vision of becoming the market leader in the skin care/wellness sector in this region, Esthetics has been continuously exploring the opportunity to develop/introduce new, improved treatment methods and new formulae products to complement and improve its existing service quality. Realising the need to cater for various types of skin's related problems resulting from the hectic and complex lifestyle of the more affluent society, the Group is in the process of introducing a new range of treatment programs that has been developed and launched in Europe since 2001. These treatment programs, amongst others, include blemish treatment, anti-wrinkle and permanent hair removal treatment, cellulite treatment and breast firming. It is envisaged that these new treatment programs will be introduced at twelve (12) of the Professional Skin Care Centres.

5.10.1.4 *Expansion of own-brand products*

As part of Esthetics Group's vision to becoming the market leader as well as brand-owner / distributors of skin care and cosmetics products in the region, the Group has been exploring the opportunity to develop new range of cosmetics, skin care, hair care products under its in-house brand. These products will be introduced under the brandname of "Clinelle".

The new in-house cosmetics and slimming products to be introduced will broaden its existing products lines, thus enable a better selection to its customers at its Professional Skin Care Centres and to the Overseas Country Sub-distributors as well as local dealers. They will all work towards broadening the product base of the Esthetics Group as well as enhancing the Group's bottom line.

5.10.1.5 *Overseas expansion*

To spur its export sales, Esthetics Group has expanded its overseas distribution network for its in-house brand of cosmetics products, namely, Averine, through the appointment of distributor in the United Kingdom (England, Wales, Scotland and Northern Ireland). In addition, the Group is in the process of appointing more distributors in Mexico, Taiwan, China, Australia, the Middle East and other countries. The Esthetics Group will also embark on promoting its new in-house brand products or range of products through its overseas distributors, agents and overseas trade fair.

5.10.1.6 *Mass market retailing*

The Group is moving into a new market segment, that is the middle-income segment and mass retail market.

Basically, two (2) subsidiaries have been incorporated to undertake these tasks. They are EIGP and CMSB. Both are wholly-owned subsidiaries of Esthetics. Whilst CMSB concentrates in developing, marketing and distributing the new range of products under the Group's in-house brand, "Clinelle", EIGP will principally be the marketer and distributor for third party brand and original brand manufacturing ("OBM") products.

For CMSB, it is principally involved in the marketing of high quality products under its own in-house brand "Clinelle" through appointed distributors locally and overseas. Its target market is the middle-income segment.

5. INFORMATION ON THE GROUP (Cont'd)

For EIGP, the distribution channels will be the retail outlets such as pharmacies, supermarket and departmental stores. The target market is the mass retail market.

5.10.1.7 Corporate developments

The Esthetics Group plans to construct a new six (6)-storey office building cum warehouse ("New Corporate Head-Office), which will centralise its warehousing and logistics facilities in Shah Alam, Selangor. To complement its business expansions, in particular, the developments for the mass retail and export markets, logistics is crucial to ensure timely, effective and efficient delivery of products. In addition, with the consolidation of its management operation and warehousing, it is anticipated that it will facilitate better co-ordination and work efficiencies, sharing of resources as well enhancing its cost savings.

In line with the information technology era, the Esthetics Group plans to upgrade its IT facilities, amongst others, hardware, software and networks. The IT upgrades is expected to enhance the effectiveness of the business operations, better decision-making process and good customer services.

Besides expanding its retail outlet network, the Esthetics Group plans to refurbish twelve (12) of its existing Professional Skin Care Centres. The refurbishment of the existing professional skin care centres will enhance its professionalism image and identity. Also, the refurbishment of the retailing displays is expected to generate higher walk-in customer sales for its products and services.

5.10.2 Future prospects

In line with the prospects and growth for the skin care and cosmetic industry, the Directors of Esthetics view the future prospects of the Group to be favourable. This is mainly based on the following:

5.10.2.1 Strong record of growth and financial strength

The business was originated since 1984. With the formal incorporation of the Group on 29 October 1996, it has been generating a promising track record. Even during the peak of the Asian financial turmoil in 1997/98, the Group is still able to report respectable PAT (before adjustment for pre-acquisition profit) of RM2.437 million for the financial year ended 31 January 1998.

The historical performance of the Group is a good indicator of its resilience towards economy recession/financial crisis.

5.10.2.2 Established and wide distribution network

The business operations of the Esthetics Group have grown rapidly, in particular, during the last five (5) years. Its revenue growth over a five (5)-year period from 1999 to 2003 was averaging 36.1% per annum. In sustaining the growth rate of the Group coupled with realising that to succeed in "retail" business, one has to control the distribution channels (not the manufacturing of the products); the management has been aggressive in promoting and expanding their distribution network in both the Malaysian and overseas markets over the past few years.

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

As at 27 January 2004, the Group has a total of three hundred and thirty nine (339) appointed dealers operating throughout Malaysia, Brunei and Hong Kong. These appointed local dealers are mainly independent salon operators. Under the arrangement with Esthetics, they carry and promote Esthetics' range of products, which include, amongst others, Dermalogica, Averine, Efislim, Bioxil and Eve Taylor.

In addition to the locally appointed dealers, its five (5) authorised overseas sub-distributors in Singapore, Vietnam, Indonesia, Thailand and Philippines are servicing the Esthetics Group's overseas markets. In addition, Esthetics has entered the Hong Kong market with the prospect to penetrate the fast-growing market in China.

In addition to the aforesaid distribution channel, the Group has a total of twenty-two (22) Professional Skin Care Centres and one (1) kiosk as at 27 January 2004 to specifically target the retail end-users (that is walk-in customers and its customers at the Professional Skin Care Centres). The Professional Skin Care Centres are strategically located at prominent shopping complexes in Penang, Kuala Lumpur and Selangor providing strong access to more than 23,000 active customers/clients (based on the Group's Customers Database of customers who have used the services of Professional Skin Care Centres within the past six (6) months as of 27 January 2004). They are predominantly young working professional women with age group of between 21 to 40 years old and having high disposable income.

5.10.2.3 Value-add from on-going research and development

In-house skin care and body wellness services

Broadly, the LD Centres offer two (2) types of professional skin care services, namely, the facial skin therapy and body care and wellness therapy. As at 27 January 2004, the Esthetics Group has two hundred and forty-six (246) skin care and body wellness programs which are designed and developed to cater for almost all types of skin conditions as well as to achieve optimum skin and body health. Professional Skin Care Centres specialise in treatment for acne, sensitive and hyper-pigmentation skin conditions.

It is worth highlighting that these professional skin care and body wellness programmes are developed after years of research by a team of senior education managers/tutors led by its Group Chief Executive Officer cum Promoter, Melissa M. Chen. All the professional skin care and body wellness programmes are documented systematically in a Training/Operation Manual, with details such as, timing for each treatment, exact portion of skin care and body wellness products to be applied for each treatment. With the structured Training Manual, customers could expect consistency in treatment services despite being performed by different therapists. The consistency of its treatment quality has set itself as the industry benchmark.

Being a market leader in this industry, the Group places great emphasis in training and continuing education. Regardless of their background, all therapists of the Group are required to undergo a certain period of rigorous training at its in-house training centre, IEI, before commencing work at the Professional Skin Care Centres. IEI conducts courses for its therapists as well as its appointed local dealers on regular basis to up-grade their knowledge and keep them abreast of the latest development in the skin care and beauty industry. The continuing education for its therapists again set itself as the industry benchmark.

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

Own-brand products

In order to succeed in “retailing” business, one has to have control over either the distribution channel or the brand (not the creator or manufacturer of the products). In maintaining its competitiveness in the industry and to reduce its dependency on Dermalogica products, the Esthetics Group has developed its own in-house brand products, which include Bioxil (whitening and firming essence), Averine (cosmetics) and Eflislim (slimming products for external application only).

In line with the Promoters’ vision of positioning the Esthetics Group as a skin health and wellness-based professional skin care salon, the products developed in-house are non-comedogenic and do not contain any mineral oil, lanolin, artificial fragrance, alcohol or formaldehyde. These in-house brand products are well-received by its customers.

These in-house brand products are being distributed locally as well as exported for overseas distribution via its Hong-Kong subsidiary and the authorised Overseas Country Sub-distributors.

5.10.2.4 Experienced management team

The management of Esthetics is led by the Promoters. In the day-to-day business operations, the Promoters are assisted by a team of dedicated, experienced and capable managerial personnel and technical staff. The management team is specialising in different areas, amongst others, human resource, marketing and promotion, training, finance and business development.

5.10.2.5 Strong and cohesive business relationship between DI and Esthetics

Based on the distribution agreement dated 1 May 2002 with DI, the Esthetics Group is granted a ten (10)-year exclusive regional distributorship to import, sell and distribute the Dermalogica products in Malaysia, Singapore, Hong Kong, Thailand, Indonesia, Brunei and Philippines as well as Cambodia and Vietnam. In conjunction thereto, the Group was also given the exclusive right to use the trademark of “Leonard Drake” for professional skin care salons operated within the Territory.

DI is an internationally renowned skin care manufacturer from the USA. The Distribution Agreement is extendable for another five (5) years subject to terms and conditions agreeable between the parties concerned.

There exists a strong and cohesive business relationship between DI and the Esthetics Group.

5.10.2.6 Top tier professional skin care service provider

To-date, the Esthetics Group is positioned as one of the top tier operators within the skin care and cosmetic industry. As a top tier market player, it provides the Esthetics Group with a competitive edge against the small operators in the industry.

The Group strong market positioning is enforced through its core business strategies and marketing activities. Currently, its skin care centres are present in most of the prime shopping malls in the bustling cities namely Kuala Lumpur, Metropolitan Selangor and Penang. The strategic locations have enabled them to capture a large population of affluent consumers. In addition, the Group carries out frequent marketing and promotion activities to enhance its brand equity as well as to continuously attract new customers to consume its products and services.

Nonetheless, the Esthetics Group provides intensive training to its therapists to ensure a consistent and high quality of service is provided to its customers. The in-house training is conducted by its internally operated education centre, IEI.

As such, all the above-mentioned business strategies and marketing activities have differentiated the Esthetics Group from its competitors in the industry.

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

5.10.2.7 *Established reputation for quality skin care products and services*

Over the past thirteen (13) years, Esthetics Group has build a strong market reputation for its quality skin care products and services under the Professional Skin Care Centres and Dermalogica products. The current marketing strengths will help it to retain existing customers and address new market opportunities in product and brand developments. As such, it will have a positive impact in sustaining the business growth and future prospects for the intermediate to long-term period.

5.10.2.8 *Targeting the male market segment*

Presently, the skin care and cosmetic industry is primarily focused on female consumers. Targeting the male market segment is possible as exemplified by the success of men's fragrances in the market. This segment represents significant growth opportunities.

5.11 MAJOR CUSTOMERS

The Esthetics Group's customer base is diverse covering a wide spectrum of Malaysian population, a large number of professional skin care service operators and sub-distributors in five (5) other overseas countries. The Group's customer base is relatively wide spread, which will in turn minimise the dependency on certain customers. The Group's local and regional customers are as described below:

(i) Professional skin care services

The primary target customers for this service are all end-consumers in the local market. As at 27 January 2004, the Esthetics Group, through its wholly-owned subsidiary company, LDM, services approximately 23,000 active customers (*defined as customers who have used LDM's services within the last six (6) months*) in Malaysia.

(ii) Professional skin care products and cosmetics

The Group's professional skin care products, through its subsidiary company, DESB sells to different groups of customers. The major customers are:-

- the end-consumers in the local market through the LD Centre;
- clientele from the three hundred and thirty nine (339) independently own skin care centres;
- overseas sub-distributors in Singapore, Philippines, Vietnam, Indonesia United Kingdom and Thailand; and
- Hong Kong via EHK.

For the seven (7)-month financial period ended 31 August 2003, none of the customers of the Esthetics Group contribute more than 10% of the total revenue of the Group.

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5. INFORMATION ON THE GROUP (Cont'd)

5.12 MAJOR SUPPLIERS

The process of providing professional skin care services involves the use of supporting skin care products. All of the Group's skin care centres use Dermalogica range of professional skin care products exclusively. Apart from skin care products, the Group also sells cosmetics and aromatherapy essential oils. The Group is dependent on finished and semi-finished products, which represent the equivalent of 'raw materials' for them.

As such, the main sources of the finished and semi-finished products purchased by the Group are as follows:

Purchases of main materials	Sources of supply
Skin care products (Dermalogica)	Direct import from USA
Bulk cosmetics (Averine)	Agent in Malaysia but products are imported from Italy
Equipment and machinery (mainly Nemectron, Weyergan and Danycare only)	Mainly direct import from Spain and Germany
Packaging, cosmetics and others	Direct import from Taiwan, Thailand, Korea, Barcelona, France and USA
Essential oils (Eve Taylor)	Direct import from United Kingdom
Slimming preparations (Efislim)	Direct import from USA

Total purchases of the Esthetics Group for the seven (7)-month financial period ended 31 August 2003 is RM13,190,360. Save for the following, there is no supplier that contributes more than ten percent (10%) from the total purchases for the seven (7)-month financial period ended 31 August 2003.

Supplier's name	Amount RM	% of purchase	Length of relationship (years)
Dermal product	11,657,768	88.38	15

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