Amway (Malaysia) Holdings Berhad (Company No : 340354-U)
Notes to the Interim Financial Report – 1st Quarter ended 31 March 2018

A. COMPLIANCE WITH MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134, INTERIM FINANCIAL REPORTING AND BURSA LISTING REQUIREMENTS

1. Basis of Preparation

These condensed consolidated interim financial statements (Condensed Report) have been prepared in accordance with MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

This condensed report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017. The audited financial statements of the Group for the year ended 31 December 2017 were prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The accounting policies and presentation adopted by the Group for the quarterly financial statements are consistent with those adopted in the Group's consolidated audited financial statements for the financial year ended 31 December 2017, except for the adoption of the following:

Description	**Effective for annual periods beginning on or after**
Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards	1 January 2018
Amendments to MFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014)	1 January 2018
MFRS 15 Revenue From Contracts with Customers	1 January 2018
Amendments to MFRS 128 Investments in Associates and Joint Ventures	1 January 2018
Amendments to MFRS 140 Transfers of Investment Property	1 January 2018

The adoption of the above Amendments and Annual improvements to Standards did not have any material financial impact to the Group, except for the adoption of the following MFRSs :

1.1 MFRS 9 Financial Instruments

MFRS 9 brings together all three aspects of the accounting for financial instruments project : classification and measurement, impairment and hedge accounting.

The Group adopted MFRS 9 retrospectively on the initial application date of 1 January 2018 and has elected not to restate comparatives. The Group has performed assessment on these three aspects of this standard.

1.1 MFRS 9 Financial Instruments (continued)

(a) Classification and Measurement

The Group has concluded that the new classification requirement does not have a significant impact on its accounting for its trade and other receivables.

(b) Impairment

Under MFRS 9, the Group is required to record expected credit loss on its trade and other receivables, either on a 12-month or lifetime basis. The Group will apply simplified approach and record lifetime expected losses on its trade receivables.

The trade receivables mainly consist of outstanding balance due from the customers which is repayable by way of monthly instalments within 90 days. These customers are subject to stringent credit review and approval before being granted the facility. When there is any default on the instalment payment, the Group is authorised to deduct the amount from the ABO incentives due to the customers to recover the debts. The Group has concluded that this impairment requirement does not have any impact on its consolidated financial statements.

(c) Hedge Accounting

The Group does not apply hedge accounting and as such the hedge requirements of MFRS9 does not have any impact to its consolidated financial statements.

1.2 MFRS 15 Revenue From Contracts with Customers

MFRS 15 establishes a new five-step models that will apply to revenue arising from contracts with customers. MFRS 15 supersedes the revenue recognition guidance including MFR 118 Revenue, MFRS 111 Construction Contracts and the related interpretations.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. For performance obligations where any one of the above conditions is not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the entity satisfies a performance obligation by delivering the promised goods or services, it creates a contract-based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this gives rise to a contract liability. Revenue is measured at the fair value of consideration received or receivable.

The Group adopted MFRS 15 using modified retrospective method of adoption. The comparative figures were not restated and the cumulative impact arising from the adoption was recognised in retained earnings as at 1 January 2018.

1.2 MFRS 15 Revenue From Contracts with Customers (continued)

The effects of adopting MFRS 15 are as follows :-

(a) Sales of goods

Under MFRS 15, revenue will be recognised when a customer obtains control of the goods. The overall revenue recognition requirements are captured in the steps of the five-step method.

The Group has reviewed its business manual and all other relevant documents to determine the existence of contracts and whether Amway Business Owners (ABOs) are considered as the customers of the Group. It is concluded that all the criteria to qualify as a contract under MFRS 15 are met.

The Group has assessed its sale of goods transactions and reviewed its marketing and promotional campaign to identify the performance obligation. The Group regards most of the sales transactions consists of a single performance obligation to transfer promised goods. This includes the Purchase With Purchase (PWP) and Gift With Purchase (GWP) promotion sales. The Group views these transactions having the same characteristic of bundled sales. As the sales transactions are expected to be the only performance obligation, the Group is not required to determine the allocation of the transaction price. The Group expects the revenue recognition to occur at a point in time when the customers take control of the goods, generally on delivery of the goods. As such, the Group concludes that there is no impact on the timing of revenue recognition for these sales. However, the transaction price of the premium products which was previously treated as subsidies element in the promotion expenses has been reclassified to revenue and increased the revenue by RM2.7million. The cost of premium products has also been reclassified from promotion expenses to cost of sales and increased the cost of sales by RM 4.4 million.

Under MFRS 15, the Group must determine whether there is a significant financing component in its contracts. The Group has evaluated and has concluded that there is no element of financing present as the Group’s sale of goods are either on cash terms; or on credit terms of up to 90 days.

For the adoption of MFRS 15, the Group has considered the followings:

(i) Variable consideration

The contracts with customers provide a right of return, option to acquire future goods at discounted price and ABO incentives. Under MFRS 15, because the contract allows the customer to return the goods, the consideration received from the customer is variable. The Group has decided to use the most likely amount method to estimate the goods that will be returned because this method better predicts the amount of variable consideration to which the Group will be entitled. At the date of initial application, the Group made a provision for sales return of RM 0.5 million to reduce the retained earnings as at 1 January 2018. Subsequently, additional provision of sales return of RM0.1million was made to reduce the revenue for the financial period ended 31 March 2018.

1.2 MFRS 15 Revenue From Contracts with Customers (continued)

The sales and marketing plan of the Group includes offering coupons to the ABOs for their future acquisition of goods at discounted price and it gives rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group considered that most likely amount method better predicts the amount of variable consideration. Based on the historical data, the Group adjusted the variable consideration of RM 0.2 million to reduce the retained earnings as at 1 January 2018.

Previously, the Group classified ABO incentives paid to its customers in its Cost of Sales. Under MFRS 15, the Group is required to determine whether the consideration paid or payable to its customers is a payment for a distinct goods or services, a reduction of the transaction price or a combination of both. For the payment to the customers to be treated as something other than a reduction of transaction price, the goods or services provided by the customers must be distinct.

The ABO incentives paid or payable to the customers are broadly categorized into two types ie. group effort related incentives and personal incentives on volume purchase. The Group has carefully evaluated these two ABO incentives and has concluded that personal incentives on volume purchase is a reduction of transaction price, whilst group effort related incentives is a consideration paid to or payable to customers for the provision of distinct services.

Due to the Group's unique nature of sales and marketing plan, the percentage applied to derive the personal incentives on volume purchase is determined by the total purchases made by the customers and their downline and the existing information system was previously designed to cater for this unique requirement. The Group opines that the incremental percentage relates to the purchases made by the downline of the customers shall be excluded from the personal incentives to determine the reduction of transaction price. This reclassification did not have any impact on the retained earnings as at 1 January 2018, however, it reduced the revenue and cost of sales for the period ended 31 March 2018 by RM 8.8 million.

(b) Revenue from sign up and renewals

Under MFRS 15, the Group is required to determine whether the performance obligation is satisfied at a point in time or over time. The Group has carefully evaluated this type of revenue and has concluded that this performance obligation is satisfied over time, hence the revenue will be recognised over time. As the Group has elected to use modified retrospective method, the Group needs to identify the contracts open as at the date of initial application in order to determine the adjustment amount. Based on the initial assessment, the Group adjusted the reduction of revenue of RM 8.1 million against its retained earnings as at 1 January 2018. The subsequent assessment of timing of revenue recognition for this type of service as at 31 March 2018 increased the revenue of RM 0.6 million for the period ended 31 March 2018.

1.2 MFRS 15 Revenue From Contracts with Customers (continued)

In summary, the impacts of adopting MFRS 15 to opening balance as at 1 January 2018 are as follows :-

Statement of financial position

1 January 2018	**As previously reported (RM'000)**	**Retrospective adjustment of MFRS15 (RM'000)**	**After MFRS15 Adjustments (RM'000)**
Assets			
Deferred tax assets	8,545	2,127	10,672
Liabilities			
Contract liabilities	-	8,341	8,341
Trade and other payables	195,261	564	195,826
Impact to liabilities	195,261	8,905	204,167
Equity			
Retained earnings	47,020	(6,778)	40,242

2. Audit Report of Preceding Annual Financial Statements

The audit report of the annual financial statements of the Group for the financial year ended 31 December 2017 was not subject to any qualification.

3. Seasonal or Cyclical Factors

There were no major seasonal or cyclical factors that affected operations.

4. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no items affecting assets, liabilities, equity, net income or cash flows that were unusual because of their nature, size or incidence during the quarter and financial period ended 31 March 2018.

5. Changes in Estimates

There were no changes in the nature and estimates of amounts reported in prior financial years that have had any material effect in the quarter and financial period ended 31 March 2018.

6. Issues, Repurchases, and Repayments of Debt and Equity Securities

There were no issuances, repurchases, or repayments of debt and equity securities during the quarter and financial period ended 31 March 2018.

7. Dividend Paid

During the quarter under review, the following dividends were paid on 28 March 2018 in respect of the financial year ended 31 December 2017:

i) single tier interim dividend of 5.0 sen net per share amounting to RM8,219,282.

ii) special single tier interim dividend of 7.5 sen net per share amounting to RM12,328,922.

8. Operating Segment Information

As in the prior financial year, the Group operates solely in the direct selling industry and distributes its products in Malaysia and Brunei. The results and total assets of the subsidiary in Negara Brunei Darussalam are insignificant to the Group. Accordingly, information on geographical and business segments of the Group's operations is not presented with the adoption of MFRS 8**.**

9. Events after the Interim Period

There was no material event subsequent to the current quarter and the financial period ended 31 March 2018 up to the date of this report.

10. Effects of Changes in the Composition of the Group

There were no changes in the composition of the Group, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructuring, or discontinued operations during the quarter ended 31 March 2018.

11. Capital Commitments

Capital commitments not provided in the interim financial statements as at 31 March 2018 are as follows:

	RM'000
Approved and contracted for	888
Approved and not contracted for	3,649
	4,537

Contracted Commitments are analyzed as follows:

Purchase of Equipment, Building Improvement and Leasehold Improvement	888

12. Related Party Transactions

Significant related party transactions are as follows:

	Quarter and Year-to-date ended	
RM'000	**31/3/2018**	**31/3/2017**
Sales of goods	90	107
Purchases of goods	(83,242)	(78,332)
Services provided	154	125
Services received	(10,210)	(9,388)
Royalties expense	(663)	(767)

B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE BURSA MALAYSIA SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS

1. Performance Review

	Quarter and Year-to-date ended				Changes
	Before MFRS15 Adjustments 31/03/2018 (RM'000)	Effects of MFRS15 (RM'000)	After MFRS15 Adjustments 31/03/2018 (RM'000)	31/03/2017 (RM'000)	
Revenue	240,878	(5,557)	235,321	237,151	(0.8)%
Cost of Sales	(188,666)	4,373	(184,293)	(180,793)	1.9%
Gross Profit	52,212	(1,184)	51,028	56,358	(9.5)%
Profit Before Tax	10,427	542	10,969	13,313	(17.6)%
Profit After Tax	7,563	412	7,975	9,452	(15.6)%

Group revenue for both the quarter and year-to-date ended 31 March 2018 was 0.8% lower than the same period last year. Sales for the period under review was impacted by the adoption of Malaysian Financial Reporting Standard 15 (MFRS 15) *Revenue from Contracts with Customers*, which was effective for annual period beginning on or after 1 January 2018. Excluding the adjustment arising from MFRS 15, group revenue was RM240,878 i.e. 1.6% higher than the same period last year. The increase was due to positive Amway Business Owner (ABO) momentum towards the new performance year and favorable response toward the sales and marketing plan in Q1 2018.

The Group's profit before tax for the period under review decreased by 17.6% as compared to the same period last year due to lower sales and higher import costs (primarily attributed to the weaker Ringgit), partially offset by lower operating expenses.

The Group adopted MFRS 15 using the modified retrospective method and as such the cumulative impact arising from the adoption was recognized in retained earnings as at 1 January 2018 and comparative figures were not restated.

The MFRS 15 adjustments are summarized as follows :-

- The recognition of ABO personal incentive on volume purchase as a reduction of transaction price and it reduced revenue and cost of sales by RM8.8 million;
- Additional provision for sales return reduced revenue by RM0.1 million;
- The assessment of timing of revenue recognition from sign up and renewals increased revenue by RM 0.6 million;
- The transaction price of the premium products which was previously treated as subsidies element in the promotion expenses has been reclassified to revenue and increased the revenue by RM2.7million. The cost of premium products has also been reclassified from promotion expenses to cost of sales and increased the cost of sales by RM 4.4 million. The net impact of this reclassification adjustment reduced the promotion expenses by RM1.7 million; and
- Net deferred tax impact of MFRS15 increased tax expenses by RM 0.1 million.

2. Comparison with the Preceding Quarter's Results

	Current Quarter			Immediate Preceding Quarter	
	Before MFRS 15 Adjustments 31/03/2018 (RM'000)	Effects of MFRS15 (RM'000)	After MFRS15 Adjustments 31/03/2018 (RM'000)	31/12/2017 (RM'000)	Changes
Revenue	240,878	(5,557)	235,321	251,351	(6.4)%
Cost of Sales	(188,666)	4,373	(184,293)	(187,321)	(1.6)%
Gross Profit	52,212	(1,184)	51,028	64,030	(20.3)%
Profit Before Tax	10,427	542	10,969	17,834	(38.5)%
Profit After Tax	7,563	412	7,975	13,470	(40.8)%

For the three months ended 31 March 2018, Group revenue decreased by 6.4% compared to the preceding quarter mainly attributed to the MFRS 15 adjustments to current quarter's sales, as well as positive momentum towards the new performance year and favorable response for new products launches in the preceding quarter. Excluding the adjustment arising from MFRS 15, group revenue was 4.2% lower than the preceding quarter.

Profit before tax decreased by 38.5% as compared to the preceding quarter due to lower gross profit attributed to lower sales couple with higher ABO bonus, partially offset by lower operating expenses in the period under review.

3. Commentary on Prospects for the Current Financial Year

The Board anticipates an improved economic landscape for the remaining part of the current Financial Year due to the strengthening of the Ringgit, stabilizing of oil prices and forecasting of higher GDP growth forecast. However, it remains unclear as to how quickly this will translate into the strengthening of consumer confidence and purchasing power which may continue to remain under pressure.

Notwithstanding these uncertainties, the Board expects the Group's sales for the remaining year to stabilize in contrast to the 2017 performance.

The Group will continue to proactively focus on strategies to (i) effectively manage operating costs to offset pressure on profitability and (ii) implement various sales and marketing initiatives, as well as ABO experience-related infrastructure to support the ABOs.

4. Financial Forecast or Profit Guarantee

There was no financial forecast or profit guarantee issued by the Group.

5. Income Tax Expense

RM'000	Quarter and Year-to-date ended			
	Before MFRS15 Adjustments 31/3/2018	Effects of MFRS15	After MFRS15 Adjustments 31/3/2018	31/3/2017
Tax charges/(credits) comprise:				
Current income tax	3,455	-	3,455	3,833
Deferred tax	(591)	130	(461)	28
Total	**2,864**	**130**	**2,994**	**3,861**

The effective tax rate of the Group for the current quarter and financial year-to-date 31 March 2018 was higher than the statutory tax rate mainly because certain expenses were disallowed for tax purposes.

Effect of MFRS15 adjustments is mainly due to reduction of deferred tax assets, which is contributed by net positive MFRS15 financial impact on profit before tax.

6. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 16 May 2018.

7. Group Borrowings and Debt Securities

There were no borrowings or debt securities as at 31 March 2018.

8. Material Litigation

There was no material litigation as at 16 May 2018.

9. Dividends

i) A first single tier interim dividend of 5.0 sen net per share has been declared on 16 May 2018.

ii) For the previous year corresponding quarter, a first single tier interim dividend of 5.0 sen net per share was declared on 17 May 2017.

iii) In respect of deposited securities, entitlement to the first single tier interim dividend will be determined based on shareholders registered in the record of depositors as at 1 June 2018. The payment date will be on 13 June 2018.

The total dividend declared for the financial year ending 31 December 2018 as follows:

i) First single tier interim dividend of 5.0 sen net per share.

10. Earnings Per Share

The basic earnings per share for the current quarter is calculated by dividing the profit for the quarter amounting RM7,975,000 by the number of shares in issue of 164,385,645.

11. Notes to the Statements of Comprehensive Income

	Quarter and Year-to-date ended	
RM’000	**31/3/2018**	**31/3/2017**
Depreciation of property, plant and equipment	1,642	1,743
Allowance for inventory obsolescence	399	2,826
Inventories written off	33	17
(Reversal)/allowance of impairment on trade receivables	(105)	10
Realized foreign exchange (gain)/loss	(291)	94
Unrealized foreign exchange loss/(gain)	205	(1,660)
Interest income	(1,325)	(1,529)
Loss/(gain) on disposal of property, plant and equipment	6	(7)
Property, plant and equipment written off	-	9

No other income or loss, including investment income, gain/(loss) on disposal of quoted or unquoted investments or properties, gain/(loss) on derivatives, impairment of assets, or interest expense was recognized for the current quarter or financial year-to-date ended 31 March 2018.