

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 Amway Business Owner (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 MFRS 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 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 campaigns to identify the performance obligation. The Group regards most of the sales transactions consist 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 RM11.6 million for financial period ended 30 September 2018. The cost of premium products has also been reclassified from promotion expenses to cost of sales and increased the cost of sales by RM17 million for financial period ended 30 September 2018.

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 30 September 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 not to be treated as 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 i.e. 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.

The reclassification of personal incentives on volume purchase from cost of sales to reduction of transaction price 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 financial period ended 30 September 2018 by RM 28 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 30 September 2018 increased the revenue of RM 0.03 million for the financial period ended 30 September 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 30 September 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 30 September 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 30 September 2018.

7. Dividend Paid

During the quarter under review, a single tier interim dividend of 5.0 sen net per share, amounting to RM8,219,282 was paid on 19 September 2018 in respect of the financial year ending 31 December 2018.

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 30 September 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 30 September 2018.

11. Capital Commitments

Capital commitments not provided in the interim financial statements as at 30 September 2018 are as follows:

	RM'000
Approved and contracted for	305
Approved and not contracted for	1,649
	<hr/>
	1,954
	<hr/> <hr/>
Contracted Commitments are analyzed as follows:	
Purchase of Equipment, Building Improvement and System Development costs	<hr/>
	305
	<hr/>

12. Related Party Transactions

Significant related party transactions are as follows:

RM'000	Quarter ended		Year-to-date ended	
	30/9/2018	30/9/2017	30/9/2018	30/9/2017
Sales of goods	62	221	233	384
Purchases of goods	(80,822)	(92,936)	(255,537)	(257,780)
Services provided	156	125	464	376
Services received	(10,758)	(9,847)	(31,322)	(28,131)
Royalties expense	(725)	(924)	(1,940)	(2,332)

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

1. Performance Review

(RM'000)	Quarter ended				Changes (%)	Year-to-date ended				Changes (%)
	Before MFRS15 Adjustments 30/09/2018	Effects of MFRS15	After MFRS15 Adjustments 30/09/2018	30/09/2017		Before MFRS15 Adjustments 30/09/2018	Effects of MFRS15	After MFRS15 Adjustments 30/09/2018	30/09/2017	
Revenue	267,625	(7,417)	260,208	243,652	6.8%	739,864	(16,556)	723,308	732,863	(1.3)%
Cost of Sales	(202,237)	4,944	(197,293)	(180,219)	9.5%	(567,854)	10,842	(557,012)	(552,703)	0.8%
Gross Profit	65,388	(2,473)	62,915	63,433	(0.8)%	172,010	(5,714)	166,296	180,160	(7.7)%
Profit Before Tax	22,246	(772)	21,474	19,439	10.5%	43,061	(311)	42,750	52,667	(18.8)%
Profit After Tax	17,702	(554)	17,148	14,952	14.7%	32,789	(204)	32,585	39,174	(16.8)%

Group revenue for the nine months ended 30 September 2018 was 1.3% lower than the same period last year. Revenue 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 RM739.9 million i.e. 1.0% higher than the same period last year.

The higher revenue for the period under review was due to stronger ABOs' momentum towards the conclusion of Performance Year (PY) 2018 driven by the current year's sale and marketing plan in addition to the timing difference of marketing promotions versus the same period last year.

The Group's profit before tax for the nine months ended 30 September 2018 decreased by 18.8% as compared to the same period last year due to higher import cost (primarily attributed to the weaker Ringgit) and increased ABO bonus and sales incentives in line with higher sales, partially offset by lower operating expenses.

1. Performance Review (contd.)

For the three months ended 30 September 2018, group revenue was 6.8% higher than the same period last year. Excluding the adjustment arising from MFRS 15, revenue was RM267.6 million i.e. 9.8% higher than the same period last year due to timing of marketing promotions which resulted in higher comparison for the current period under review, as well as stronger ABO momentum towards the conclusion of PY 2018 in the current quarter.

The Group's profit before tax for the period under review increased by 10.5% as compared to the same period last year due to higher sales, favorable foreign exchange impact on cost of sales and 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:

Nature	Quarter ended 30/9/2018 RM'million	Year-to-date ended 30/9/2018 RM'million
The recognition of ABO personal incentive on volume purchase as a reduction of transaction price and it reduced revenue and cost of sales	(10.7)	(27.9)
Net change in provision for sales return which reduced revenue	(0.1)	(0.1)
Net change in provision for sales discount which reduced revenue	(0.1)	(0.2)
Assessment of timing of revenue recognition from sign up and renewals which reduced revenue	(0.6)	0.0
Reclassification of the transaction price and the cost of the premium products for purchase with purchase (PWP) promotion which was previously treated as subsidies element in the promotion expenses:		
Transaction price had been reclassified and increased revenue	4.1	11.6
<u>Cost had been reclassified and increased the cost of sales</u>	<u>5.8</u>	<u>17.0</u>
<u>Net reduction of promotion expense</u>	<u>(1.7)</u>	<u>(5.4)</u>
Total impact to Profit Before Tax	(0.8)	(0.3)

2. Comparison with the Preceding Quarter's Results

	Current Quarter*	Immediate Preceding Quarter*	Changes
	30/09/2018 (RM'000)	30/06/2018 (RM'000)	
Revenue	260,208	227,779	14.2%
Cost of Sales	(197,293)	(175,426)	12.5%
Gross Profit	62,915	52,353	20.2%
Profit Before Tax	21,474	10,307	108.3%
Profit After Tax	17,148	7,462	129.8%

*With MFRS 15 adjustment

For the three months ended 30 September 2018, Group revenue increased by 14.2% compared to the preceding quarter due to positive response towards the sales and marketing plans driven by the conclusion of PY 2018 and the start of the new PY 2019 in the current quarter.

Profit before tax increased by 108.3% as compared to the preceding quarter due to higher sales and lower operating expenses driven by ABO events held in the preceding quarter. These were partially offset by higher ABO bonus in line with higher sales.

3. Commentary on Prospects for the Current Financial Year

On the strength of third quarter sales, the Board is optimistic that in comparison to last year's sales, this year's sales will be flat based on both the array of product launches and major marketing promotions. Additionally, it is anticipated that profit for the fourth quarter will rebound from a challenging first nine months. Management will continue to focus on implementing strategies to manage operating costs to improve profit margin.

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 ended			
	Before MFRS15 Adjustments 30/09/2018	Effects of MFRS15	After MFRS15 Adjustments 30/09/2018	30/09/2017
Tax charges/(credits) comprise:				
Current income tax	6,617	-	6,617	(3,551)
Deferred tax	(2,073)	(218)	(2,291)	8,038
Total	4,544	(218)	4,326	4,487

5. Income Tax Expense (cont'd)

RM'000	Year-to-date ended			
	Before MFRS15 Adjustments 30/09/2018	Effects of MFRS15	After MFRS15 Adjustments 30/09/2018	30/09/2017
Tax charges/(credits) comprise:				
Current income tax	14,513	-	14,513	7,059
Deferred tax	(4,241)	(107)	(4,348)	6,434
Total	10,272	(107)	10,165	13,493

The effective tax rate of the Group for the current quarter and financial year-to-date 30 September 2018 was lower than the statutory tax rate mainly due to tax overprovision for prior year.

Effect of MFRS15 adjustments for the current financial year-to-date 30 September 2018 is mainly due to increase of deferred tax assets, which is contributed by net negative MFRS15 financial impact on profit before tax.

6. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 14 November 2018.

7. Group Borrowings and Debt Securities

There were no borrowings or debt securities as at 30 September 2018.

8. Material Litigation

There was no material litigation as at 14 November 2018.

9. Dividends

- i) A third single tier interim dividend of 5.0 sen net per share has been declared on 14 November 2018.
- ii) For the previous year corresponding quarter, a third single tier interim dividend of 5.0 sen net per share was declared on 15 November 2017.
- iv) In respect of deposited securities, entitlement to the third single tier interim dividend will be determined based on shareholders registered in the record of depositors as at 30 November 2018. The payment date will be on 12 December 2018.

9. Dividends (cont'd)

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.
- ii) Second single tier interim dividend of 5.0 sen net per share.
- iii) Third 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 RM17,148,000 by the number of shares in issue of 164,385,645.

11. Notes to the Statements of Comprehensive Income

RM'000	Quarter ended		Year-to-date ended	
	30/9/2018	30/9/2017	30/9/2018	30/9/2017
Depreciation of property, plant and equipment	1,629	1,703	4,887	5,117
Allowance/(reversal) for inventory obsolescence	732	(825)	2,511	4,049
Inventories written off	416	360	459	261
Allowance/(reversal) of trade receivables	71	(185)	305	(179)
Realized foreign exchange loss/(gain)	17	(25)	(244)	(179)
Unrealized foreign exchange (gain)/loss	(607)	779	(496)	(358)
Interest income	(1,594)	(1,264)	(4,291)	(4,052)
Loss/(gain) on disposal of plant and equipment	(5)	(520)	(5)	(516)
Property, plant and equipment written off	-	3	6	15

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 30 September 2018.