

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 2018. The audited financial statements of the Group for the year ended 31 December 2018 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 2018, except for the adoption of the following:

| Description | Effective for annual periods beginning on or after |
|--|---|
| Annual Improvements to MFRS Standards 2015-2017 Cycle | 1 January 2019 |
| MFRS 9 Prepayment Features With Negative Compensation (Amendments to MFRS 9) | 1 January 2019 |
| MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128) | 1 January 2019 |
| IC Interpretation 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| MFRS 16 Leases | 1 January 2019 |

The adoption of the above Amendments and Annual improvements to Standards did not have any material financial impact to the Group except as stated below.

1.1 MFRS 16 Leases

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. MFRS 16 replaces the guidance in MFRS 117 Leases, IC interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases - Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

MFRS 16 introduces a single, on-balance sheet model for lessee which is similar to the accounting for finance leases under MFRS 117. Lessor accounting remains similar to MFRS 117 which continues to be classified as finance or operating lease.

1.1 MFRS 16 Leases (continued)

The Group adopted MFRS 16 using a modified retrospective method. The Group did not restate the comparative information, which continued to be reported under MFRS 117.

The effects of adopting MFRS 16 are as follows :

(a) Leases previously accounted for as operating leases

The Group recognized right-of-use (“ROU”) assets and lease liabilities for those leases previously classified as operating leases. The Group elected to use the exemptions applicable to the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group had also elected to apply the practical expedient for the fixed non-lease components embed in the lease contract, these components were not separated out from lease payments in measuring lease liabilities and capitalized as ROU assets.

The lease liabilities were stated at the present value of the remaining outstanding lease payments, discounted using the incremental borrowing rate at the date of initial application. The group had opted to measure the ROU assets at an amount equal to lease liabilities. The Group applied practical expedient and excluded the initial direct costs from the measurement of the ROU assets at the date of initial application. Hence, there was no financial impact to its retained earnings as at the initial application date.

The ROU assets are depreciated using the straight-line method from the date of initial application to the earlier of the end of useful life of the ROU assets or the end of the lease term. The finance charges are charged to profit or loss. The total lease payments are separated into a principal portion, which is presented within financing activities and finance charges, which is presented within operating activities in the statement of cashflows.

(b) Financial impacts of adoption of MFRS 16

In summary, the financial impacts of adopting MFRS 16 to the opening balances as at 1 January 2019 are as follows :

| 1 January 2019 | | | |
|-------------------------------|--|---|---|
| | As previously reported (RM'000) | MFRS 16 adjustments (RM'000) | After MFRS 16 adjustments (RM'000) |
| Assets | | | |
| Right-of-use assets | - | 8,837 | 8,837 |
| Liabilities | | | |
| Current lease liabilities | - | 2,606 | 2,606 |
| Non-current lease liabilities | - | 6,231 | 6,231 |
| Impact to liabilities | - | 8,837 | 8,837 |

1.1 MFRS 16 Leases (continued)

- (c) Reconciliation of operating lease commitments as at 31 December 2018 to the opening balance of lease liabilities as at 1 January 2019

The operating lease commitments as of 31 December 2018 is reconciled to arrive at the lease liabilities as at 1 January 2019 as follows :

| | RM'000 |
|--|--------|
| Operating lease commitments disclosed as at 31 December 2018 | 5,499 |
| Less : short-term leases and low-value leases recognized on a straight-line basis as expense | (352) |
| | 5,147 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 6% |
| Discounted using the incremental borrowing rate as at 1 January 2019 | 4,910 |
| Add : extension options reasonably certain to exercise | 3,927 |
| Lease liabilities recognized as at 1 January 2019 | 8,837 |

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 2018 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 June 2019.

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 June 2019.

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 June 2019.

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 declared on 29 May 2019 and subsequently paid on 3 July 2019 in respect of the financial year ending 31 December 2019.

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 June 2019 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 June 2019.

11. Capital Commitments

Capital commitments not provided in the interim financial statements as at 30 June 2019 are as follows:

| | RM'000 |
|--|---------------------|
| Approved and contracted for | 5,599 |
| Approved and not contracted for | 4,936 |
| | <hr/> <u>10,535</u> |
| Contracted Commitments are analyzed as follows: | |
| Purchase of Equipment, Building Improvement and System Development costs | <hr/> <u>10,535</u> |

12. Related Party Transactions

Significant related party transactions are as follows:

| RM'000 | Quarter ended | | Year-to-date ended | |
|--------------------|----------------------|------------------|---------------------------|------------------|
| | 30/6/2019 | 30/6/2018 | 30/6/2019 | 30/6/2018 |
| Sales of goods | (7) | 81 | 101 | 171 |
| Purchases of goods | (75,708) | (91,473) | (167,703) | (174,715) |
| Services provided | 189 | 154 | 377 | 308 |
| Services received | (11,879) | (10,354) | (22,579) | (20,564) |
| Royalties expense | (514) | (552) | (1,053) | (1,215) |

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

1. Performance Review

| | Quarter ended | | Changes | Year -to-date ended | | Changes |
|-------------------|------------------------|------------------------|---------|------------------------|------------------------|---------|
| | 30/06/2019 (RM'000) | 30/06/2018 (RM'000) | | 30/06/2019 (RM'000) | 30/06/2018 (RM'000) | |
| Revenue | 230,773 | 227,779 | 1.3% | 478,264 | 463,100 | 3.3% |
| Cost of Sales | (167,113) | (175,426) | (4.7%) | (355,681) | (359,719) | (1.1%) |
| Gross Profit | 63,660 | 52,353 | 21.6% | 122,583 | 103,381 | 18.6% |
| Profit Before Tax | 24,486 | 10,307 | 137.6% | 38,809 | 21,276 | 82.4% |
| Profit After Tax | 18,491 | 7,462 | 147.8% | 29,106 | 15,437 | 88.5% |

Group revenue for the six months ended 30 June 2019 was 3.3% higher than the same period last year due to positive Amway Business Owner (ABO) momentum toward the sales and marketing plans for Performance Year (PY) 2019, as well as product buy up ahead of price increases effective mid-March and mid-April 2019.

The Group's profit before tax for the six months ended 30 June 2019 increased by 82.4% as compared to the same period last year due to higher sales and lower import cost primarily attributed to favorable foreign exchange impact.

For the three months ended 30 June 2019, group revenue was 1.3% higher than the same period last year. The Group's profit before tax for the period under review increased by 137.6% as compared to the same period last year. These increases were mainly due to similar drivers mentioned in the year-to-date comparative above.

2. Comparison with the Preceding Quarter's Results

| | Current Quarter ended | Preceding Quarter ended | Changes |
|-------------------|------------------------|-------------------------|---------|
| | 30/06/2019 (RM'000) | 31/03/2019 (RM'000) | |
| Revenue | 230,773 | 247,491 | (6.8%) |
| Cost of Sales | (167,113) | (188,568) | (11.4%) |
| Gross Profit | 63,660 | 58,923 | 8.0% |
| Profit Before Tax | 24,486 | 14,323 | 71.0% |
| Profit After Tax | 18,491 | 10,615 | 74.2% |

Group revenue for the current quarter ended 30 June 2019 was 6.8% lower than the preceding quarter due to timing of buy up activities ahead of the products price increase in mid-March and mid-April 2019.

Profit before tax increased by 71.0% as compared to the preceding quarter due to lower ABO bonus and sales incentive in line with lower sales and qualification tracking.

3. Commentary on Prospects for the Current Financial Year

The Board remained optimistic that sales will continue to grow in 2019 driven by positive ABO response towards our sales and marketing plan, as well as the various growth initiatives to support the ABOs in growing their businesses.

Management will continue to focus on strategies to implement various sales and marketing initiatives, as well as ABO experience-related infrastructure to support ABOs. Additionally, Management will continue to address challenges to profitability arising from the aforesaid investment by actively managing operating costs.

4. Financial Forecast or Profit Guarantee

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

5. Income Tax Expense

| | Quarter ended | Year-to-date ended |
|------------------------------|----------------------|---------------------------|
| RM'000 | 30/06/2019 | 30/06/2019 |
| Tax charges comprise: | | |
| Current income tax | 5,853 | 9,792 |
| Deferred tax | 142 | (89) |
| Total | 5,995 | 9,703 |

The effective tax rate of the Group for the current quarter and financial year-to-date ended 30 June 2019 was higher than the statutory tax rate mainly due to certain expenses not deductible for tax purposes.

6. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 21 August 2019.

7. Group Borrowings and Debt Securities

There were no borrowings or debt securities as at 30 June 2019.

8. Material Litigation

There was no material litigation as at 21 August 2019.

9. Dividends

- i) A second single tier interim dividend of 5.0 sen net per share has been declared on 21 August 2019.
- ii) For the previous year corresponding quarter, a second single tier interim dividend of 5.0 sen net per share was declared on 20 August 2018.
- iii) In respect of deposited securities, entitlement to the second single tier interim dividend will be determined based on shareholders registered in the record of depositors as at 11 September 2019. The payment date will be on 26 September 2019.

The total dividend declared for the financial year ending 31 December 2019 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.

10. Earnings Per Share

The basic earnings per share for the current quarter is calculated by dividing the profit for the quarter amounting RM18,491,000 by the number of shares in issue of 164,385,645.

11. Notes to the Condensed Consolidated Statements of Comprehensive Income

| RM'000 | Quarter ended | | Year-to-date ended | |
|--|---------------|------------|--------------------|------------|
| | 30/06/2019 | 30/06/2018 | 30/06/2019 | 30/06/2018 |
| Depreciation of property, plant and equipment | 1,664 | 1,616 | 3,357 | 3,258 |
| Depreciation of right-of-use assets | 696 | - | 1,391 | - |
| (Reversal)/allowance for inventory obsolescence | (21) | 1,380 | 1,665 | 1,779 |
| Inventories written off | 245 | 10 | 576 | 43 |
| Reversal of expected credit loss | (25) | (129) | (115) | (234) |
| Realized foreign exchange loss/(gain) | 67 | 30 | 64 | (261) |
| Unrealized foreign exchange (gain)/loss | (68) | (94) | (20) | 111 |
| Interest income | (1,545) | (1,372) | (3,039) | (2,697) |
| Finance costs | 120 | - | 249 | - |
| (Gain)/loss on disposal of property, plant and equipment | (1) | - | (1) | 6 |
| Property, plant and equipment written off | 23 | - | 25 | - |

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 June 2019.