

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 year ended 31 December 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 year ended 31 December 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 year ended 31 December 2019.

7. Dividend Paid

Dividend paid during the financial year ended 31 December 2019 are as follows:

- i) Fourth single tier interim dividend of 5.0 sen net per share and a special single tier interim dividend of 7.5 sen net per share totaling RM20,548,204 in respect of financial year ended 31 December 2018 were paid on 26 March 2019;
- ii) First single tier interim dividend of 5.0 sen net per share amounting to RM8,219,282 in respect of financial year ended 31 December 2019 was paid on 4 July 2019;
- iii) Second single tier interim dividend of 5.0 sen net per share amounting to RM8,219,282 in respect of financial year ended 31 December 2019 was paid on 26 September 2019; and
- iv) Third single tier interim dividend of 5.0 sen net per share amounting to RM8,219,282 in respect of financial year ended 31 December 2019 was paid on 20 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 year ended 31 December 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 and the financial year ended 31 December 2019.

11. Capital Commitments

Capital commitments not provided in the interim financial statements as at 31 December 2019 are as follows:

	RM'000
Approved and contracted for	7,048
Approved and not contracted for	7,243
	<hr/> <hr/> <u>14,291</u>

11. Capital Commitments (continued)

Contracted Commitments are analyzed as follows:
System Development costs, Building Improvement
and Purchase of Equipment

7,048

12. Related Party Transactions

Significant related party transactions are as follows:

RM'000	Quarter ended		Year ended	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Sales of goods	30	259	129	492
Purchases of goods	(94,412)	(61,338)	(344,172)	(316,875)
Services provided	257	152	907	616
Services received	(10,536)	(12,634)	(43,894)	(43,956)
Royalties expense	(1,343)	(656)	(2,900)	(2,596)

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

1. Performance Review

	Quarter ended		Changes	Year ended		Changes
	31/12/2019 (RM'000)	31/12/2018 (RM'000)		31/12/2019 (RM'000)	31/12/2018 (RM'000)	
Revenue	252,998	248,964	1.6%	966,327	972,272	(0.6%)
Cost of Sales	(190,056)	(174,972)	8.6%	(722,440)	(731,984)	(1.3%)
Gross Profit	62,942	73,992	(14.9%)	243,887	240,288	1.5%
Profit Before Tax	11,500	27,431	(58.1%)	64,551	70,181	(8.0%)
Profit After Tax	11,440	21,925	(47.8%)	51,158	54,510	(6.1%)

Group revenue for the twelve months ended 31 December 2019 declined by 0.6% compared with the same period last year due to softer response to sales and marketing promotions in the third quarter of 2019.

Consequently, the Group's profit before tax for the period under review decreased by 8.0% mainly due to higher selling and administrative (SG&A) and distribution expenses, partially offset by lower import cost benefiting from prior quarters favorable foreign exchange impact.

For the three months ended 31 December 2019, Group revenue was 1.6% higher than the same quarter in previous year due to positive ABO momentum towards the new Performance Year (PY) 2020 and favorable response towards marketing promotions during the quarter. Despite higher revenue, the Group's profit before tax for the three months ended 31 December 2019 dropped by 58.1% compared with quarter four 2018 due to higher import cost arising from unfavorable foreign exchange impact in Quarter 4.

2. Comparison with the Preceding Quarter's Results

	Current Quarter ended	Preceding Quarter ended	Changes
	31/12/2019 (RM'000)	30/09/2019 (RM'000)	
Revenue	252,998	235,065	7.6%
Cost of Sales	(190,056)	(176,703)	7.6%
Gross Profit	62,942	58,362	7.8%
Profit Before Tax	11,500	14,242	(19.3%)
Profit After Tax	11,440	10,612	7.8%

Group revenue for the fourth quarter ended 31 December 2019 increased by 7.6% compared with the preceding quarter due to positive ABO momentum towards the new PY 2020 and favorable response for marketing promotions during the quarter. Despite higher revenue, the Group's profit before tax for the three months ended 31 December 2019 dropped by 19.3% compared to quarter three 2019 due to higher SG&A and distribution expenses.

3. Commentary on Prospects

The Board expects that sales will be flat to marginal growth in 2020 driven by positive ABO momentum towards the new sales incentives plans as well as supported by various attractive marketing plans.

The Group will continue to invest in ABO experience-related infrastructure and sales incentives to support the ABO's business. In addition, with the challenges in rising cost arising from foreign exchange impacts, these will exert pressure on operating margin.

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 ended
RM'000	31/12/2019	31/12/2019
Tax charges comprise:		
Current income tax	2,300	18,928
Deferred tax	(2,240)	(5,535)
Total	60	13,393

The effective tax rate of the Group for the current quarter and financial year ended 31 December 2019 was lower than the statutory tax rate mainly due to overprovision of deferred tax for prior years.

6. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 26 February 2020.

7. Group Borrowings and Debt Securities

There were no borrowings or debt securities as at 31 December 2019.

8. Material Litigation

There was no material litigation as at 26 February 2020.

9. Dividends

- i) A fourth single tier interim dividend of 5.0 sen net per share and a special single tier interim dividend of 7.5 sen net per share have been declared on 26 February 2020.

In respect of deposited securities, entitlement to the fourth single tier interim dividend and the special single tier interim dividend will be determined based on shareholders registered in the record of depositors as at 16 March 2020. The payment date will be on 27 March 2020.

- ii) For the previous year corresponding quarter, a fourth single tier interim dividend of 5.0 sen net per share and a special single tier interim dividend of 7.5 sen net per share were declared on 26 February 2019.

The total dividend declared for the financial year ended 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.
iii) Third single tier interim dividend of 5.0 sen net per share.
iv) Fourth single tier interim dividend of 5.0 sen net per share.
v) Special single tier interim dividend of 7.5 sen net per share.

10. Earnings Per Share

	Quarter ended		Year -to-date ended	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Profit after tax attributable to owners of the parent (RM'000)	11,440	21,925	51,158	54,510
Numbers of shares in issue ('000)	164,386	164,386	164,386	164,386
Basic earnings per share (sen)	6.96	13.34	31.12	33.16

11. Notes to the Condensed Consolidated Statements of Comprehensive Income

RM'000	Quarter ended		Year ended	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Depreciation of property, plant and equipment	731	1,836	6,174	6,723
Depreciation of right-of-use assets	847	-	3,088	-
Amortisation of intangible assets	222	-	222	-
Impairment of goodwill	1,487	-	1,487	-
Allowance for inventory obsolescence	2,007	481	3,436	2,992
Inventories written off	522	277	1,884	736
(Reversal)/ allowance of expected credit loss	(28)	142	(118)	(163)
Bad debts written off	-	400	9	400
Realized foreign exchange loss/ (gain)	18	(39)	86	(283)
Unrealized foreign exchange loss/ (gain)	21	613	(10)	117
Interest income	(1,437)	(1,663)	(6,008)	(5,954)
Finance costs	307	-	688	-
Gain on disposal of property, plant and equipment	(94)	-	(96)	(5)
Property, plant and equipment written off	151	35	180	41

No other income or loss, including investment income, gain/(loss) on disposal of quoted or unquoted investments or properties, gain/(loss) on derivatives was recognized for the current quarter or financial year ended 31 December 2019.