

chairman's letter

(2004 annual report)



D E A R S H A R E H O L D E R S

By any measure, 2004 was an outstanding year for Amway. Having achieved a record growth in its last financial year, I am glad to share that Amway was able to build on that success to close Fiscal Year 2004 on another record high. This is a remarkable feat that reflects Amway's tremendous staying power which has witnessed your Company growing 25 years out of its 28-year presence in Malaysia. Buoyed by the country's steady economic climb despite certain major world events that threatened to derail full global market recovery and rising domestic consumer confidence, Distributors were able to conduct their business in a nurturing environment. Providing the thrust for your Company's growth in an increasingly competitive environment, Amway Distributors have never been more motivated and determined to build the Amway Business. I have repeatedly acknowledged that the accomplishments of Amway Distributors inspire both pride and enormous appreciation.

Leveraging on the strong partnership with Distributors, your Company undertook several key initiatives during the year to grow its market share and incentivise Distributor productivity. Your Company's strategy was to invest in strategic initiatives that would lay the foundation for future growth. These initiatives included aggressively introducing new products and promotions, enhancing the Sales Incentive Programmes (SIPs) to motivate and reward Distributors and boosting our service levels to Distributors through the expansion of our infrastructure, creating more awareness for our product brand names and shaping a service-oriented culture among our employees.

RESULTS

As a result of these initiatives, we saw growth in many areas of the business. There was an increase in the number of renewed Distributors and Distributor productivity markedly increased. Additionally, the number of qualifiers for the SIPs and the Amway Leadership Seminar (ALS) which took place in Tokyo grew from the previous year. Finally, there was an overall rise in the Core Distributor Force to 161,000. All of these factors contributed to the highest year of sales revenue ever in the history of your Company at RM456.4 million, an 8% increase over Fiscal Year 2003. In fact, we are encouraged by the increasing number of applications in the last four months of Fiscal Year 2004 which we hope will lead to an

upward trend in the new fiscal year. Investments, however come with a cost, and our operating expenses have had to bear the pressure of funding the initiatives that were put in place during the year to spur growth in the years to come. With the inevitable increase in operating expenditure coupled with an increase in the cost of goods purchased from our principal supplier, profit before tax marginally declined by 2% to RM72.4 million compared with the previous year. To use an analogy to put this into proper perspective, the decrease in pre-tax profit can be compared to a prick from an inoculation these investments bring that will not only strengthen the health of your Company, but be a boost in the arm for further growth.

Hence, for the year in review, I am glad to announce that your Board of Directors is recommending a fourth quarter interim dividend of 7.5 sen per share, giving a total gross dividend of 50 sen for the whole year, including a special dividend of 20 sen announced in the third quarter. This will amount to a total pay-out of RM59,179,000 net of tax.

OPERATIONS

During the year, your Company took a concerted and conscientious effort to strengthen its leadership position against the onslaught of increasing competition. With more than 480 direct selling licenses issued in the country, the

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need to defend our market share becomes critical in the face of competition. To expand our presence and to make our products more accessible to Distributors and customers, your Company expanded its geographical reach by opening a Regional Distribution Center (RDC) each in Sibu and Melaka. The excitement level was pushed further by the introduction of 18 new products, including product revisions in the year. ARTISTRY™, Amway's range of cosmetic and skin care products, provided one of the marketing highlights of the year with the launch of ARTISTRY TIME DEFIANCE™ Intensive Repair Serum (IRS), an anti-ageing product that contains an advanced new technology which promises to repair the appearance of ageing in 14 nights. Together with NUTRILITE™, Amway's range of food supplements, sale from these power brands contributed significantly to overall sales. This augurs well for your Company as our long-term strategy is to focus on the beauty and wellness business.

To help support the increase in business volume, your Company upgraded its IT infrastructure and enhanced the Amway2u.com website, including tying-up with Maybank and Public Bank which allows Distributors who have accounts in either of these banks to make payments for purchases of AMWAY™ products on-line. This means that Distributors can conduct their business anytime, anywhere as long as they have access to the internet. The success of Amway2u.com is a story worth telling again. When we launched the website in July 2001, we were unsure if Distributors would use it, let alone embrace internet technology to perform their transactions. Three years later, the results point to a growing confidence and usage by Distributors to place their orders and make payments on-line, a very productive utilization of their time. For Fiscal Year 2004, the value of orders placed over Amway2u.com made up 50% of annual national sales, up from Fiscal Year 2003's 29%, clearly sending positive signals that our business continues to stay current with the times.

The year also saw a significant move by your Company to purchase two pieces of land near our

existing Headquarters in Petaling Jaya. Your Board of Directors felt that this investment is necessary as the current facilities are stretched to the limit. By building a new Headquarters with bigger facilities, we will be in a better position to provide a higher level of service to Distributors as well as cope with the anticipated growth in our business. Meanwhile, renovations done to the existing Headquarters have helped to reduce congestion and expedited the ordering and picking up of products in a more comfortable environment.

AWARDS AND RECOGNITION

Reputation is prized very highly in the direct selling industry. This is one of the more important criteria upon which Distributors and customers pledge their affinity to take up the business. Therefore, your Company has always lived by the highest standards of ethics, compliance and transparency in line with Amway's fundamental philosophies. In 2004, we continued to receive recognition for being in the vanguard of companies committed to corporate governance. FinanceAsia, a regional finance publication, ranked Amway 8th in two categories, namely: Best Managed Company and Best Corporate Governance. This is indeed an accolade for Amway as the vote was polled from 400 fund managers and analysts from foreign and local financial institutions and fund management companies who selected Amway from a pool of more than one thousand public-listed companies in Malaysia.

Your Company was also a finalist under the Trading and Services category at the KLSE Corporate Awards 2003 held early in the year. The Kuala Lumpur Stock Exchange introduced the award to recognize the continuing commitment of Malaysian public-listed companies in enhancing their corporate conduct and corporate governance practices.

Amway was also ranked 5th out of 75 companies in the 2003 KPMG/The Edge Annual Shareholder Value Awards, an award that recognizes

companies for producing exemplary value for their shareholders. Amway was also placed third under the Consumer Markets sector in the same award.

CORPORATE GOVERNANCE

Your Company has benefited from the dedication of your Board of Directors who has shown their commitment through their consistent support and attendance at Board meetings. As members of the various Sub-Committees, they have provided invaluable input to ensure that your Company practices the highest level of accountability and responsibility to shareholders. The Directors have also participated in professional programmes mandated by the regulators to ensure that your Company complies with the Listing Requirements at all times.

CORPORATE SOCIAL RESPONSIBILITY

After 28 years of giving back to society, Amway's legacy continues with a renewed focus on children, especially in the area of promoting positive mental health. This is a new initiative which will see our long-term commitment to the cause of helping children increase their self-esteem and self-confidence through a series of children's workshops themed "Happy Healthy Minds". With the planning and concept in place, the One By One campaign will be the main thrust of the Company's Corporate Social Responsibility (CSR) platform and an official launch slated in the new fiscal year will officially kick-start the Company's commitment to children, one by one.

OUTLOOK

The country's economic growth for 2005 is expected to be slower compared to 2004 in the midst of high oil prices, rising interest rates and an anticipated cooling of China's economy. To weather that, your Company will carry on with the initiatives that were introduced in Fiscal Year 2004 with the ultimate aim of supporting sales growth. These are costly investments which your

Company is prepared to make to defend our market share as well as to support the Distributors in their retailing and sponsoring efforts. By developing better infrastructures, adding new features to Amway2u.com, creating higher visibility for key brands and establishing a larger physical presence, your Company hopes to provide Distributors a greater edge to compete in a very competitive environment. While our operating margin will continue to be pressured by higher operating expenses as a result of these strategic imperatives, we recognize that these are essential catalysts for growth in the longer term.

APPRECIATION

This year, we have three new faces to the Board of Directors. Professionals from diverse backgrounds, they bring with them a wealth of experience in their respective areas of expertise which will compliment that of the other Board members. Please join me in welcoming Mr Scott Balfour, Encik Abdul Wahab Bin Nasir @ Mohd Nasir and Mr Yee Kee Bing.

I would like to take this opportunity to thank the Board of Directors for their unwavering support and diligent engagement. I believe that your Company has greatly benefited from their insight and guidance.

I wish to applaud Amway Distributors for their continued loyalty, perseverance and dedication to the Amway business. The embodiment of true grit and a keen entrepreneurial spirit is never stronger than in an Amway Distributor. My heartfelt thanks go out also to the management and staff whose endeavour for excellence has yielded another year of amazing achievements.

Last but not least, the Board thanks the government authorities for supporting the direct selling industry and our business partners and shareholders for their support and confidence.

TAN SRI DATUK AHMAD FAROUK

Chairman

