



海鸥企业有限公司

HAI-O ENTERPRISE BERHAD (22544-D)

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18 October 2011

Rita Benoy Bushon
Badan Pengawas Pemegang Saham Minority Berhad
Tingkat 11 Bangunan KWSP
No 3 Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Dear Rita Benoy Bushon,

Thirty-Sixth (36th) Annual General Meeting (AGM) of Hai-O Enterprise Berhad (“Hai-O” or “the Company”)

We refer to your letter dated 12 October 2011.

We are pleased to provide our reply to the questions raised by MSWG as follows:-

Strategic and Financial Matters

1. In response to the authority’s stringent measures governing the MLM industry, Hai-O Marketing Sdn Bhd (“HOM”) had taken the initiative to support the move and had implemented stricter new membership guidelines. Consequently, such initiatives were not taken favourably by our members. Moreover, such adjustments in the market and realignment of business strategies took longer than expected to take effect. The company recognizes the root of the problems and we have put together multiple strategies to combat the problems and the situation has now been stabilized. This can be seen from a relatively consistent sales from quarter to quarter.

In particular, we have been:

- i) Diversifying our product portfolio and introducing consumable products such as beauty, fashion & health food that would give the company recurring sales over the long term for sustainability.
- ii) Revamping our marketing programmes to emphasize on products knowledge and let distributors appreciate the importance of the value of a long term sustainable business.

However, such strategies require time to see its full impact and we also want to ensure our recovery is steady and based on a strong foundation.

2. The purchase of the new land and property at Jalan Kapar which was added to our asset list in FY2011 is for the purpose of setting up our own pharmaceutical factory and warehouse facility. Our pharmaceutical facility has to be upgraded to a higher quality standard in line with the Health Ministry’s requirements. It is also our company’s motto to continuously improve our quality standard for our customers. In addition, the expansion in the production capacity will enable our

manufacturing segment to enjoy economies of scale as well as capacity to secure more orders from our existing and potential OEM customers in the future.

Despite the significant decline in revenue in FY2011 as compared to the previous three fiscal years, the Board is of the opinion that the purchase of the land and building is in the interest of the Company largely because of its strategic location. It is within walking distance from our Head Office and warehouse in Klang. Most importantly, the acquisition of the land and building serves the company's business needs. Besides that, holding land is a good hedge against inflation and for capital gains over the longer term.

3. Currently, the revenue derived from overseas market is minimal. We have penetrated our MLM business into Indonesia two years ago. The sales contribution is still small and is not up to our company's expectation yet mainly due to very stiff competition and red tapes over in Indonesia in registering health food products. We target to improve sales by re-strategizing to include smaller ticket items to suit the Indonesian market which has a lower average income than Malaysia. We are also beefing up our efforts to work with the reliable local agents to expedite the registration process. Meanwhile, for the near term, we plan to stay focus in propping up the Indonesian market to better footing and more favourable results before penetrating into other countries.
4. The RM2.4 million consists of mainly R&D expenses (testing equipment, tools and raw materials etc.) and patent fees for several industrial applications using non-phase heat transmission technology. Like any other technology projects, we realize that R&D may take time to generate any positive results. Amongst the prototypes, we have completed the product development for Pre-cool and Reheat System for Air Handling Units (AHU) and hot water boilers. These products are considered ready for commercialization, and its success will be subject to market acceptance at its infancy stage. The others are still under engineering life testing.

We would put on hold any further R&D investment but instead will focus on marketing of the ready products.

Corporate Governance

1. Corporate Governance Blue Print 2011
 - (i) In the event that we are to re-designate one of our directors as non-independent and non executive director, we still have 3 out of 7 Directors who are independent and non-executive. Thus, we still fulfill the requirement of having at least one third independent Directors in our Board's composition.
 - (ii) The board would take note of MSWG's suggestion to review and put in place the appropriate measures as mentioned above to enhance our Corporate Governance.

2. Disclosure of directors' remuneration

Our Annual Report has adequately met the Bursa listing requirements on the disclosure of the remuneration of directors. The Board would evaluate the needs, sensitivity and appropriateness to disclose the remuneration of each director as recommended by the Malaysian Code on Corporate Governance.

3. We do have a whistle-blowing policy in place which we have recently added the contact details of our Independent Directors. The policy and contact details have been disseminated to all staff and posted on the Company's internal website. In order to promote better Corporate Governance, we would consider to name a senior independent non-executive director amongst the Independent Directors as a single point of contact on the Company's website and the Annual Report.

Thank you.

Yours faithfully,

Hai-O Enterprise Bhd



Tan Kai Hee
Managing Director