



HAI-O ENTERPRISE BERHAD  
(22544-D)



**39<sup>th</sup> Annual General Meeting  
15 October 2014**



# **Reply to Questions from Minority Shareholder Watchdog Group (MSWG)**



## **Strategic & Financial Matters**

Q1) Could the Board share with shareholders their views/thoughts on the developments pertaining to the multi-level marketing and wholesale divisions and their potential impact to the Group, for instance, the government's subsidy rationalisation and the GST to be implemented on 1 April 2015?



## Strategic & Financial Matters

### Answer:

(1) The government's subsidy rationalisation and GST to be implemented in April, 2015 is a national issue which affects every enterprise and individual. Though we expect such exercise will impact us for the short term, given time, the Malaysian society will adjust their spending behavior with the added spiraling costs and manage their expenses efficiently.

With regards to our Group, particularly to the MLM industry, we thought this could be potentially an avenue for us to seize the opportunity by tapping into those looking for alternative income.



Q2) Group revenue for FYE 2014 was down by 4.9% year-on-year and the margin for profit after taxation also declined from 18% to 16.1%.

What concrete measures have been taken to address the Group's deteriorating financial performance and when does the Group expect the contribution from “small tickets” items to fully cushion the drop in sales for “big tickets” items?



## Answer

(2) Even though the overall general sentiment of the market has slowed down, our focus on small ticket items have complemented the contribution from big ticket items. We have been on track in the past 2 years diversifying product portfolio to wider range such as Food & Beverage series, Personal Care series and Nutrition series which are seeing positive contribution in sales. Currently, small ticket items contribute to more than 50% of total revenue in MLM division.

Though the build-up of consumers is gaining traction, it still needs time to develop a sufficient base to generate adequate recurring sales on a long term basis.



Q3) As reported, the decrease in MLM Division's revenue was due to its gestation period of strategy transformation. When is the transformation expected to be fully completed and for the Group to register higher revenue?

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Q3) Despite a considerable decline in revenue from external customers by 10.6% or RM17.7 million, the Division was still able to register a marginal increase in the segment profit to RM30.817 million compared to RM30.31 million in the preceding year. What were the reasons and is the profit expected to significantly improve in FY 2015 and going forward?



## Answer

**3)** As explained, though we are pursuing the growth of business builders, the key long term growth is still consumer driven to generate a broader consumer base for business sustainability on the long term basis. This is still our strategy transformation geared toward top and bottom line achievement for the coming years.

There is no fixed or pre-determined gestation period of transformation. It is an on-going process. The Company will continue to adjust its strategies and its sales composition to maximize profitability.

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**3)** The MLM division is registered a marginal increase in the segment profit despite a decline in revenue by 10.6%. This is due to small ticket items that contributed higher profit margin and lower marketing cost compared to big ticket items which command for higher commission payout. The lower operating expenses in tandem with the proactive cost control measures implemented by the MLM division also contributed to higher profit for the year.

The group remains optimistic to deliver positive results amidst the challenging business environment for the coming year.

## Corporate Governance

MSWG is promoting certain standards of corporate governance best practices in PLCs. In this regard, we hope the Board could address the following:-

- 1) To publish a summary of minutes of the general meetings on the Company's website to be in line with the spirit of transparency and good corporate governance practices based on the ASEAN CG Scorecard to assess the level of CG standards of PLCs in Malaysia.



## **Corporate Governance**

### **Answer:**

- 1 As suggested, we will make available the summary of minutes of the AGM on the Company's website.



# Thank You

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