



HAI-O ENTERPRISE BERHAD  
(22544-D)



**40<sup>th</sup> Annual General Meeting  
13 October 2015**



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

## Strategic & Financial Matters

Q1) The Group's receivable, distribution expenses and administration expenses growth to 33%, 9.3% and 5.0% respectively in FYE 2015 were not in tandem with growth in the revenue which declined 5.4% in FYE 2015. Please explain.

# Strategic & Financial Matters

## Answer:

(1) The increase in Group's receivables was mainly derived from the wholesale division which registered a sharp increase in its sales volume before GST came into effect on 1<sup>st</sup> April 2015. The sales for wholesale division in Quarter 4 of FY2015 increased by 29% as compared to preceding year's corresponding quarter. Due to the credit term of 90 days, trade receivables had hence increased substantially for the financial year ended 30 April 2015.



**Continue:**

**Answer**

- (1) Increase in distribution and administration expenses in FYE2015 was mainly due to costs escalation in running the business. Higher A&P expenses which included cost of rebranding our MLM business and the expenses incurred in commemoration of Hai-O's 40<sup>th</sup> Anniversary had partly contributed to the increase in distribution and administration expenses.



Q2) As substantial part of the Group's costs are transacted in foreign currencies and its business is generated from its overseas' divisions and thus very much affected by foreign exchange rate fluctuations, please elaborate on the extent of the Group's hedging transactions? How effective and successful has been the Group's hedging operations?

## Answer

(2) Firstly, we would like to clarify that most of our business is generated from the domestic market and not from the overseas' division. The fluctuations in foreign exchange rates, however, have had some impact on our cost of imported goods. In term of hedging, we have maintained some foreign currency accounts to hedge against our short term payment requirements and will from time to time accumulate funds in foreign currencies when the rates are favourable.



**Answer**

**Continue:**

(2) We have also initiated some measures including negotiating with our overseas suppliers for trade settlement in alternative currencies such as Chinese Yuan (RMB). Additionally, we have also reduced import purchases for goods with no immediate market demand and have been looking for alternative sources from local suppliers.



Q3) We noted that there was negative cashflows from investing activities which indicated a substantial increase of CAPEX in FYE 2015. In this regard, what were the Group's investment strategies and the reasons for the increase in CAPEX? Would there be additional CAPEX for FY 2016 and going forward?

## Answer

(3) The Group has adopted a conservative approach in its investments strategies and would prioritize projects or business proposals which are synergistic to the Group and/ or focusing on subject matters that would have potential capital appreciation. The increase in CAPEX in FYE2015 was primarily due to an acquisition of land which we opined would have potential capital appreciation over medium-long term and to hedge against inflation.

**Answer**

**Continue:**

(3) We do not foresee any major CAPEX requirements for FYE2016 except for expansion to be carried out in the ordinary course of business such as opening of retail outlets, acquisition of machinery and equipment and upgrading cost for our hardware and software as well as the business infrastructure. The CAPEX for non-ordinary items would depend on the business opportunities or investment proposals that may arise from time to time.

Q4) In view of the Group's relatively low net gearing ratio of 0.01 times in FYE 2015 which was also largely attributed to the large cash reserve of RM 48.29 million and other investments of RM 56.12 million, would the Board consider raising its gearing instead of solely relying on shareholders' fund for the Group's business expansion? What is the optimal gearing level for the Group?

## Answer

(4) We are conservative in managing the Group's gearing. As an integral part of our business is carried out on cash term basis and as our business model is not capital intensive, we are comfortable to maintain a low gearing ratio and would continue to leverage on internally generated funds and cash reserves for our business expansion.





**Answer**

**Continue:**

(4) We would also take into consideration the expected rate of return of the proposed investment and risk elements against the cost of fund when determining the Group's gearing requirement.



# Thank You

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