

**SUSTAINABILITY
STATEMENT
2018**

SUSTAINABILITY STATEMENT

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SUSTAINABILITY STATEMENT

CHAIRMAN'S MESSAGE

Dear Stakeholders,

As a responsible and ethical organisation, we strive to strengthen the local economy, build corporate transparency, promote products that improve community well-being, invest in human capital development and mitigate any negative impact our operations may have on the surrounding environment. In order to realise our corporate vision to bring the greatest value and pride to our customers, business parties, employees and shareholders, we have embarked on this journey to embed sustainability throughout our value chain.

Building leadership and governance to provide a strong and clear direction for the Company towards sustainability is essential. In FY2018, we adopted a governance structure to create accountability for matters pertaining to sustainability across Hai-O's main business segments, key departments and management. This new, more distinct leadership will help us to successfully implement new policies, guidelines and frameworks for sustainability.

Our continuous efforts to build resilience amongst vulnerable communities, encourage education and create economic opportunities for local entrepreneurs reflect our commitment to improve the well-being of society at large. Since 2010, we have been organising the Ai Hua Jiao fund raising campaign in collaboration with Sin Chew Daily. It is a charity concert that features emerging artists of varying ages and the funds raised are channelled towards selected schools to develop their facilities and infrastructure. The 21st Century Smart Classrooms, launched in 2017 is yet another programme we organised to foster quality education.

We recognise the invaluable contribution of our employees and distributors towards business growth which has cultivated a steadfast spirit within the Company to flexibly identify and consistently overcome business environment changes. Hai-O's diverse and inclusive workplace stimulates and benefits everyone while at the same time makes us better prepared for tomorrow's challenges and opportunities.

Through our business operations, we have created job opportunities and a platform for entrepreneurial excellence, particularly the Multi-Level Marketing ("MLM"). As of 30 April 2018, our MLM membership grew to 153,000 in strength. We are pleased to see our team growing and to have a positive impact on their social and economic well-being.

Environmental sustainability is a key component of our strategy. By reducing the use of polystyrene, replacing incandescent lighting with LED, practicing 3R (reduce, reuse and recycle) and promoting environment-friendly products, we are committed to protect the environment while running our day-to-day operations. In the years to come, we intend to scale up these initiatives and regularly monitor our environmental impact and performance.

We believe in the short, medium and long-term benefits of corporate sustainability, both for the business and our stakeholders. As we embark on this journey to strengthen our commitment to sustainability, we aim to identify opportunities for sustainable growth and actively engage our stakeholders. Our confidence lies in the fact that despite whatever efforts made, it must be done in good faith, creating shared value for business and society while building continuous engagement with the community.

Tan Kai Hee
Group Executive Chairman

We are pleased to present our inaugural sustainability statement. It captures Hai-O Enterprise Berhad's ("Hai-O" or "Company") efforts to actively engage our stakeholders, to identify aspects of our business that impact sustainable growth and to embed sustainability throughout our value chain. This statement is in line with the amendments to the Main Market Listing Requirements on sustainability reporting issued by Bursa Malaysia Securities Berhad in October 2015. Furthermore, the economic, environmental and social disclosures mentioned in this statement are based on the Global Reporting Initiative ("GRI") G4 guidelines.

SCOPE AND BOUNDARY

The scope of this statement extends to the main operations of Hai-O:

- MLM
- Wholesale
- Retail
- Manufacturing

REPORTING PERIOD

The reporting timeline is from 1 May 2017 to 30 April 2018 (FY2018) unless otherwise specified.

SUSTAINABILITY STATEMENT (CONT'D)

OUR COMMITMENT TO SUSTAINABILITY

By embracing business opportunities and managing risks, cherishing our people and executing our social and environmental responsibilities to deliver sustainable stakeholder value, we strive to build a strong and resilient business

We recognise that aligning our long-term interests with those of our stakeholders is the path to corporate sustainability. Our commitment to sustainability is built across 5 key areas - economy, governance, product, people and planet.

| | | |
|---|---|---|
| <p>ECONOMY</p>  <p>To contribute to the sustainable growth of the local economy and to create business opportunities for entrepreneurs.</p> | <p>GOVERNANCE</p>  <p>To foster corporate transparency and lay the foundation for strong and sound leadership.</p> | <p>PRODUCT</p>  <p>To provide safe and high-quality products that cater to improving the well-being of our customers.</p> |
| <p>PEOPLE</p>  <p>To create a corporate culture that champions safety, good conduct, skill development and community engagement.</p> | <p>PLANET</p>  <p>To strengthen our efforts towards protecting the environment when carrying out our business operations.</p> | |

In 2015, the United Nations developed the Sustainability Development Goals ("SDG") under the aegis of "Transforming our World: the 2030 Agenda for Sustainable Development". These SDGs were ratified by 193 member states, including Malaysia and became the blueprint by which governments and businesses chart out their targets for sustainable growth.



SUSTAINABILITY STATEMENT (CONT'D)

OUR COMMITMENT TO SUSTAINABILITY (CONT'D)

Out of the 17 SDGs, we have selected 6 that reflect our ongoing initiatives and practices to embed sustainability throughout our value chain. These include *SDG 1: No Poverty*, *SDG 3: Good Health and Well-Being*, *SDG 4: Quality Education*, *SDG 8: Decent Work and Economic Growth*, *SDG 12: Responsible Consumption and Production* and *SDG 16: Peace and Justice Strong Institutions*.



SUSTAINABILITY STATEMENT (CONT'D)

LEADERSHIP FOR SUSTAINABILITY

Creating accountability and sound leadership to steer the company towards greater sustainability

The short, medium and long-term impact of a business on the economy, the environment and society at large is a key consideration in recognising its performance in terms of sustainability. Essentially, the focus goes beyond financial performance and corporate social responsibility. In order to effectively manage and realise our commitment to integrate sustainability throughout our value chain, we have developed a governance structure as shown below. The Sustainability Steering Committee ("SSC") is led by the Group Managing Director and the Group Executive Director. While the SSC comprises of the General Managers of our main business segments (i.e Wholesale, MLM and Retail), the Sustainability Working Committee ("SWC") is made up of key personnel from business support units and general management.



At the apex of the governance structure is the Board of Directors ("the Board") and its key role is to endorse the Company's sustainability strategy and commitment statement, as well as to issue final approval of the sustainability report and its contents.

The roles and responsibilities of the SSC and SWC are as follows:

SSC

- Proposes the sustainability strategy to the Board
- Reviews the material sustainability matters identified and prioritised by the SWC
- Engage the departments involved in the SWC and oversees the progress of the sustainability initiatives and projects that are in place across the different departments

SWC

- Undertakes sustainability initiatives aligned with the Company's strategy for sustainability
- Records and manages data that reflects the Company's year-on-year performance against economic, environmental and social sustainability parameters
- Identifies and prioritises the material sustainability matters that are relevant to the Company and the stakeholders

SUSTAINABILITY STATEMENT (CONT'D)

STAKEHOLDER ENGAGEMENT

Building strong lines of communication with our stakeholders across key aspects of our business

Across all our business operations, we strive to maintain a constant line of communication with our stakeholders, both at a formal and informal level. It is through this practice of open communication that the Company is able to build a trustworthy relationship with and amongst its stakeholders.

Our key stakeholder groups include employees, customers, distributors, vendors and suppliers, certification and regulatory bodies, local communities, shareholders and investors and media. The tables below highlight the main areas of interest of the stakeholder groups as well as the approaches and methods by which we engage them.

| Stakeholder Groups | Focus Areas | Engagement Approaches | Outcomes |
|---------------------|---|--|---|
| Employees | <ul style="list-style-type: none"> • Career development and advancement • Work-life balance • Employee health and safety • Employee benefits | <ul style="list-style-type: none"> • Performance appraisal • Regular health screening and check-up • Team building activities • Training and internship programmes | <ul style="list-style-type: none"> • Anniversary dinner and festive gathering • Hai-O Higher Educational Aid and Academic Excellent Awards • Loyalty and Outstanding Performance Awards • Incentive trips (local and overseas) • Kelab Muhibbah Hai-O • Hai-O Human Resource Online |
| Customers | <ul style="list-style-type: none"> • Food safety • Product quality and branding • Customer-company relationship • Customer service and complaints resolution • Pricing and promotion | <ul style="list-style-type: none"> • Feedback and enquiry forms • Social media platforms • Customer Relations Management • Product standards and certifications • Corporate website | <ul style="list-style-type: none"> • Customer satisfaction survey • Hai-O Chain Store Friendship Member • Credit application and evaluation • Product liability insurance |
| Distributors | <ul style="list-style-type: none"> • Enhancement of distribution platform • Market demand for Hai-O products • Product quality and pricing • Product development and innovation • MLM entrepreneurship | <ul style="list-style-type: none"> • Marketing plan • Product promotions • Incentive trip campaigns • Training and workshops • Events and conferences • Feedback and surveys | <ul style="list-style-type: none"> • E-newsletter, e-sales kit and e-registration • Annual survey form • Diamond Night • Overseas incentive trip • Crown Diamond Manager Conference • SM/SSM Recognition Night |

SUSTAINABILITY STATEMENT (CONT'D)

STAKEHOLDER ENGAGEMENT (CONT'D)

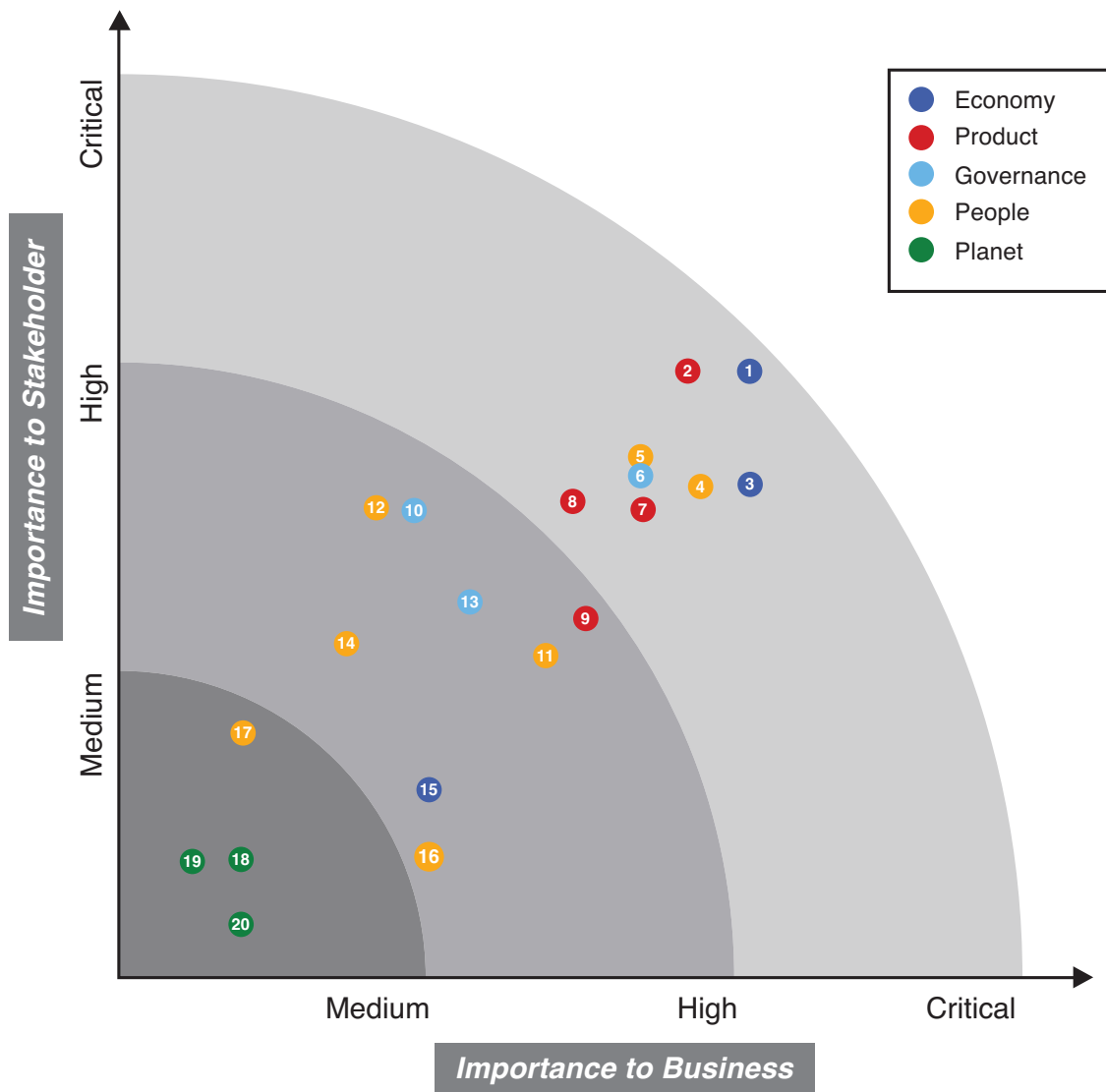
| Stakeholder Groups | Focus Areas | Engagement Approaches | Outcomes |
|--|--|---|---|
| Vendors and Suppliers | <ul style="list-style-type: none"> • Food safety • Product quality and branding • Customer-company relationship • Customer service and complaints resolution • Pricing and promotion | <ul style="list-style-type: none"> • Audits and evaluation • Meetings and trade fairs • Factory visits | <ul style="list-style-type: none"> • Vendor meetings to gauge satisfaction • Vendor registration screening |
| Certification and Regulatory Bodies | <ul style="list-style-type: none"> • Regulatory compliance • Approval and permits • Standards and certifications | <ul style="list-style-type: none"> • Meetings and consultations • Training programmes and dialogues • Audits and verification | <ul style="list-style-type: none"> • Factory visits and monitoring • External Consultant • ISO, HACCP, SAMM, GMP, HALAL and US FDA certification |
| Local Communities | <ul style="list-style-type: none"> • Quality of health and education • Indirect economic impact • Environmental impact of operations • Community well-being | <ul style="list-style-type: none"> • Community engagement and outreach programmes • Donations and sponsorships • Social and cultural activities | <ul style="list-style-type: none"> • Hai-O Foundation • Kelab Muhibbah Hai-O • Ai Hua Jiao Fund Raising Programme • 21st Century Smart Classrooms Programme • Health talks • Joy 4 Klang - Run or Ride • Blood donation campaign |
| Shareholders and Investors | <ul style="list-style-type: none"> • Financial performance • Regulatory compliance • Corporate governance • Ethical business conduct • Investment and divestment • Internal control and risk management • Board composition | <ul style="list-style-type: none"> • Meetings and briefings • Financial announcements and reporting • Policies and frameworks • Corporate website | <ul style="list-style-type: none"> • Annual General Meeting • Annual report • Analyst reports • Statutory records • Investor Relations Policy, Whistleblowing Policy, Corporate Disclosure Policy, Dividend Policy |
| Media | <ul style="list-style-type: none"> • Reputation and image • Financial performance • Business updates and corporate news • Public relations | <ul style="list-style-type: none"> • Social media platform • Conference and interviews • Events and functions | <ul style="list-style-type: none"> • Press releases • Media Night • Joint collaboration CSR and cultural events |

SUSTAINABILITY STATEMENT (CONT'D)

PRIORITISING OUR MATERIAL MATTERS

Towards building a strong and meaningful strategy for sustainability, it is fundamental that we identify and assess aspects of our business that are relevant to economic, environmental and social sustainability.

To carry out this assessment, the Sustainability Working Committee, along with the key departments within the Company deliberated on the aspects of sustainability within the main categories of economy, product, governance, people and planet as listed in the GRI G4 Guidelines. Accordingly, 20 material sustainability matters were identified and ranked to be of medium, high or critical importance to the Company's business operations as well as its stakeholders. Based on the ranking, we derived the materiality matrix as shown below.



SUSTAINABILITY STATEMENT (CONT'D)

PRIORITISING OUR MATERIAL MATTERS (CONT'D)

The 20 material sustainability matters are aligned to the relevant GRI Indicator, stakeholder group(s) and SDG in the table below.

| Material Sustainability Matters | GRI Indicator | Stakeholder Group (s) | SDG |
|--|----------------------------------|--|-------|
| 1 Economic Performance | Economic Performance | Shareholders and Investors | 8 |
| 2 Product Safety and Quality | Product Responsibility | Customers, Regulatory Bodies, Distributors | 3 |
| 3 Brand and Reputation | Indirect Economic Impacts | Shareholders and Investors, Media | 8 |
| 4 MLM Entrepreneurship | Indirect Economic Impacts | Distributors | 1 |
| 5 Customer Satisfaction | Product and Service Labelling | Customers, Certification and Regulatory Bodies | 3 |
| 6 Corporate Governance and Risk Management | GRI General Standard Disclosures | Certification and Regulatory Bodies, Employees | 16 |
| 7 Product Certification | Product Responsibility | Certification and Regulatory Bodies, Customers | 16 |
| 8 Product Innovation | Indirect Economic Impacts | Customers, Distributors | 9 |
| 9 Manufacturing Certification | Product Responsibility | Certification and Regulatory Bodies | 8 |
| 10 Ethics and Integrity | Anti-Corruption | Regulatory Bodies, Shareholders and Investors, Employees, Distributors | 16 |
| 11 Talent Retention and Leadership Development | Employment | Employees | 8 |
| 12 Employee Well-being | Diversity and Equal Opportunity | Employees | 3 8 |
| 13 Succession Planning | GRI General Standard Disclosures | Shareholders and Investors, Employees | 16 8 |
| 14 Occupational Health and Safety | Occupational Health and Safety | Employees, Regulators | 3 |
| 15 Supply Chain Management | Procurement Practices | Suppliers | 12 8 |
| 16 Training and Development | Training and Education | Employees | 8 |
| 17 Community Engagement | Local Communities | Local Communities | 1 4 |
| 18 Green Product and Packaging | Effluents and Waste | Certification and Regulatory Bodies, Customers | 12 |
| 19 Waste and Recycling | Effluents and Waste | Regulatory Bodies | 12 |
| 20 Energy Consumption | Energy | Regulatory Bodies | 13 7 |

To contribute to the sustainable growth of the economy by creating business opportunities for entrepreneurs



CDM Conference – One of the annual programmes to motivate and instill team spirit.

We believe that in order to meet the long-term expectations of our stakeholders, we should be a financially strong and viable business that is able to adapt to changing market landscapes to remain relevant and profitably grow our revenues year after year. While our financial performance for the reporting period is highlighted from page 92 to 172 in the Annual Report, this section discusses our indirect economic impact.

RECRUITING LOCAL TALENT

As a Malaysian company, we seek to strengthen the local economy by creating employment opportunities and recruiting local talent. Currently, the composition of Hai-O's senior management is 100 per cent Malaysian. We believe that local experienced hires have a better understanding of the retail market trends in Malaysia that are determined by the diversity that exists within the country's multi-racial population.

CREATING OPPORTUNITIES FOR GROWTH

The success of Hai-O's MLM division is credited to the entrepreneurial ingenuity of our distributors. Through employment generation and by providing a platform for skill development and business collaboration, we continue to have a positive impact on the lives of our distributors. This is especially true for our female entrepreneurs who constitute approximately 80 per cent of the team, which as of 30 April 2018 had a total strength of 153,000.

Our subsidiary, Sahajidah Hai-O Marketing Sdn Bhd ("SHOM") handles the MLM segment of our business. As a distributor, product awareness is crucial as they are accountable to the Company as well as to the customers. With digital marketing and e-commerce on the rise, we organised tutorials with Facebook in order to harness this platform during peak shopping seasons.

'Leaders Training' and 'Table Talk' are programmes that we organised to encourage distributors to raise concerns they may have about the Company or the product and to obtain

information from members on the market demand and response. Other than training, we organised informal programmes to instil team spirit and motivate our distributors. 'Hai-O My Choice For Life' was one such programme that had all the participants learning to synchronise and dance together as a team.

Training Programmes (FY2018) = 66

Our distributors are rewarded based on their performance and this includes a monthly bonus, overseas incentive trips and awards. To recognise the contribution of distributors who have excelled and boosted sales, we confer awards at annual events such as Sales Manager/Senior Sales Manager ("SM/SSM") Award Ceremony, Diamond Night and Anniversary Celebration.

SM/SSM Award Ceremony

To recognise Sales Managers and Senior Sales Manager who have achieved the set sales target.

Diamond Night

To recognise Diamond Sales Manager and Double Diamond Manager who have achieved the set sales target.

Anniversary Celebration

To recognise Crown Diamond Managers ("CDM") - who hold the highest position within SHOM's entrepreneurial ranking - for achieving their targets.

SUSTAINABLE PROCUREMENT PRACTICES

To procure sustainably is to engage local suppliers to create economic opportunity for local businesses and to reduce the environmental impact of transporting goods from overseas. Although we have yet to implement a policy to ensure local procurement, about 65 per cent of procurement was expended to local suppliers.

SUSTAINABILITY STATEMENT (CONT'D)

GOVERNANCE

To foster corporate transparency and lay the foundation for strong and sound leadership

The principles and processes that are integral to embedding integrity and transparency into Hai-O's corporate culture are disclosed in the 'Corporate Governance Overview Statement' section of this Annual Report. This section, however discusses how the Company engages its key stakeholders in order to foster the management of risks, ethical conduct and compliance.

TRANSPARENCY AND BUSINESS ETHICS

Hai-O's Code of Ethics and Business Conduct, Whistleblowing Policy and guidelines to avoid any conflict of interest, are clearly stated in the Employee Handbook. The expectations of the Company on these matters are communicated to every new employee on Orientation Day through slides presentation. In FY2018, we recruited 146 new employees inclusive of replacement employees, of which 60 were men and 86 were women. If any change is made to the aforementioned policies or processes, employees are notified by internal circular through email. Furthermore, this handbook is on the HR's internal portal and is available in both English and Chinese, thereby making it more accessible to staff.

On the other hand, the Business Handbook which is meant for the distributors is available in Bahasa Malaysia, Chinese as well as English to cater to the language needs of this stakeholder group's demographic. The Code of Ethics and key aspects of a distributor's role including product exchange, advertising and promotion, data protection and price fixing are included in this handbook. The Marketing Plan is also enclosed in this handbook which states the bonus calculation and rank progression of distributors. The CDM is updated on the Company's plan during the Annual CDM Conference and the CDM Hari Raya gathering. Through such efforts, we aim to keep our stakeholders regularly informed and updated.

We have established very clear and transparent lines of communication with our internal as well as external stakeholders. Shareholders and potential investors are kept abreast of our operations through different methods of periodic reporting which the Company undertakes. This includes the Annual Report, AGM/EGM minutes, Bursa announcements, press releases, Corporate Presentation and Results Update, and Analyst Reports, all of which are made available on the corporate website.

REGULATORY COMPLIANCE

Regulatory bodies and Trade Associations, including the Direct Selling Association of Malaysia, the National Pharmaceutical Regulatory Agency and the Department of Environment form one of our key external stakeholder groups. We prioritise compliance throughout our value chain as we understand the implications and disruption non-compliance can have on the socio-economic and environmental aspects of our business. By virtue of our strict adherence to the laws and regulations of the country that are applicable to our business, there were no material sanctions or penalties incurred by the Group during the reporting period.

Applicable Laws and Regulations include:

- ✓ Companies Act 2016
- ✓ Security Industry Act 1983
- ✓ Capital Markets and Services Act 2007
- ✓ Securities Commission Malaysia Act 1993
- ✓ Securities Industry (Central Depositories) Act 1991
- ✓ Employment Act 1955
- ✓ Personal Data Protection Act 2010
- ✓ Direct Sales And Anti-Pyramid Scheme Act 1993 (Act 500) And Regulations
- ✓ Franchise Act 1998
- ✓ Medicines (Advertisement and Sale) Act 1956
- ✓ Food Act 1983
- ✓ Standards of Malaysia Act 1996 (Act 549)
- ✓ Control of Drugs and Cosmetics Regulations 1984
- ✓ Traditional and Complementary Medicine Act 2016
- ✓ Environmental Quality Act 1974
- ✓ Other applicable laws and regulations relevant to the Group Business operations

Risk management and compliance tie in to the Company's performance on sustainability. Preparing for and managing potential risks - both financial and non-financial - build business resilience, ensure stakeholder's concerns are continuously addressed and reduce the chances of reputational harm.

To create a corporate culture that champions safety, good conduct, skill development and community engagement

Our diverse and talented workforce propels Hai-O to be a successful business. By motivating them, engaging them and understanding their concerns, we build loyalty. Employee feedback is important to us and we conduct surveys once every 3 years on aspects of our business including pay, training, job security and quality of leadership. The next survey is scheduled for 2019.

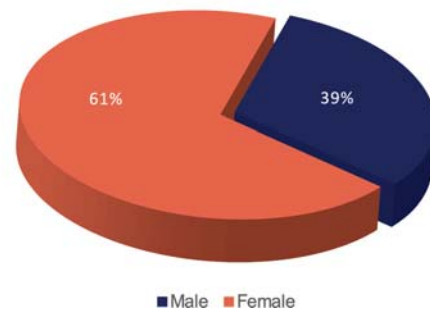
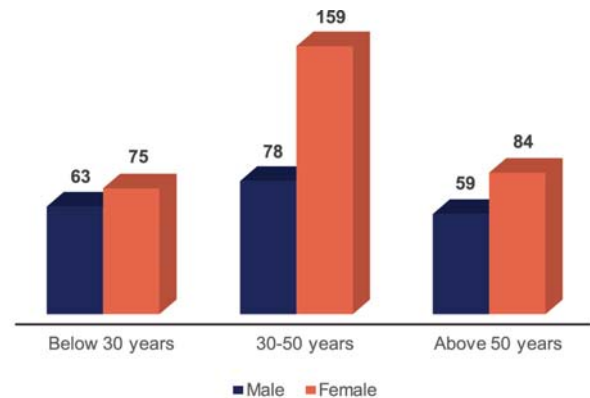
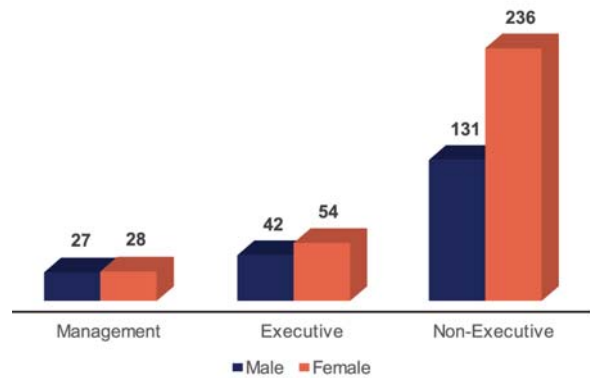
Furthermore, we encourage them to volunteer and support communities that are less fortunate through our community engagement programmes. By doing so, Hai-O's community outreach programmes have a positive impact on both the employees and society at large.

DIVERSITY AND INCLUSIVENESS

We strongly believe that the creation of long-term value is intrinsically linked to the development of human capital, a strategic asset that Hai-O is committed to respect, protect and nurture. By offering our employees a workplace that is safe and conducive, where they can express their capabilities and talent to the fullest, we sustain an effective and dynamic team.

We recruit candidates that have the necessary qualifications, experience, aptitude and are best suited for the job, regardless of gender. This holds true even for the selection of candidates for career advancement within the organisation.

As shown below, female employees make up 61 per cent of our workforce and male employees 39 per cent. It is worth noting that across all 3 employment categories - Management, Executive and Non-Executive - the number of women exceed that of men.

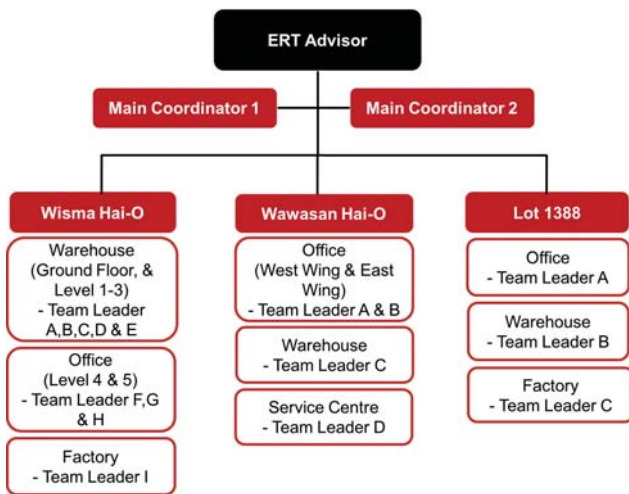


SUSTAINABILITY STATEMENT (CONT'D)

PEOPLE (CONT'D)

ENSURING A SAFE WORKPLACE

Occupational health and safety is an important aspect of our corporate culture in running our day-to-day operations. The measures we have in place to ensure a safe working environment for our employees include the setting up of emergency response teams ("ERT") and a firefighting prevention team. We are in the process of implementing an Occupational Health, Safety and Environment ("OHSE") Committee and are currently drawing up the OHSE guidelines.



Each of the 3 buildings - Wisma Hai-O, Wawasan Hai-O and Lot 1388¹ - has an ERT. A total number of 24 employees are involved in these ERTs, led by an ERT Advisor and supported by two Main Co-ordinators and ERT team leaders of the respective buildings or units.

The other health and safety measures include appointing a Safety Officer at Lot 1388, organising a talk on 'Fire Safety Awareness', a demonstration on 'Firefighting Equipment' at Wawasan Hai-O, attending a course on 'Basic Operational First Aid, CPR and AED', and conducting a fire drill demonstration involving Wawasan Hai-O staff. Despite our efforts to reduce accidents and mishaps at the workplace, we recorded one incident during the reporting period which led to 25.5 hours of loss of work time.

TRAINING AND DEVELOPMENT

Our training programmes are designed to motivate employees to acquire marketable skills, thereby benefiting themselves as well as the Company. As we navigate through a competitive market environment, we recognise the importance of staying abreast of matters concerning business trends and consumer behaviour. The sheer pace at which technology advances, requires us to reskill and learn new ways of marketing and communicating. During the reporting period, we arranged external programmes such as 'Facebook Marketing' and 'Asia IoT Business Platform 2018' for staff whose work is pertinent to these aspects of our business. We also organised in-house programmes such as 'Achieving Results with Focus and Prioritisation' and 'Professional Grooming at Your Workplace'.

The following training programmes that we attended in 2018 pertain to the importance we place on maintaining the standards and certifications relevant to our industry:

- Transition to ISO/IEC 17025:2017
- Introduction to HACCP
- Introduction to ISO 9001:2015
- Basic Training on SAMM MS ISO/IEC 17025:2005 Accreditation

Skills required for leadership development are yet another aspect of training we address regularly. 'HR for Non-HR Manager', 'Key Performance Indicators (KPI) at Work' and 'Effective Business Writing for Leaders' are training programmes that were organised in FY2018 for our employees at management level.

¹ Hai-O's manufacturing plants.

SUSTAINABILITY STATEMENT (CONT'D)

PEOPLE (CONT'D)



Regular Training Courses for retail front-liners and the operations team.



Our employees receive in-house as well external training programmes and the key programmes are highlighted in the table below.

In-house Training

- ✓ Communication Skills
- ✓ Professional Grooming at your Workplace
- ✓ Achieving Results with Focus and Prioritisation
- ✓ Miracles of Excel Formulas and Functions
- ✓ Effective Business Writing for Leaders
- ✓ Stress Management
- ✓ Commercial Contract and Sales of Goods
- ✓ Fire Drill Training
- ✓ Computer Internet Security
- ✓ Key Performance Indicators (KPI) at Work

External Training

- ✓ Audit Committee Conference 2018 – Internal Auditing in the Age of Disruption
- ✓ Bursa Advocacy Session on Corporate Disclosure
- ✓ MCGG and Bursa's Listing Requirements: Towards Meaningful Disclosure
- ✓ What's the Latest on Transfer Pricing
- ✓ Transfer Pricing: Current Practices and the Way Forward with BEPS Proposals
- ✓ Risk Management Programme – I am Ready to Manage Risks
- ✓ Building a Successful Business on Strong Corporate GST Strategy
- ✓ Digital Marketing and Business Transformation Sharing session
- ✓ Success Factors for Manager
- ✓ Personal Data Protection Conference (Akta 709)
- ✓ Facebook Marketing
- ✓ Speak Up and Stand Out
- ✓ Influential Public Speaking and Presentation Skills
- ✓ Mastering Interviewing Skills
- ✓ Basic Occupational First Aid, CPR and AED Training

Our retail staff also receive regular training to learn and upgrade skills required to run Hai-O's retail outlet operations. The supervisor training programmes are conducted on a quarterly basis and a Sales Performance Review Workshop is conducted on a half-yearly basis. The key training programmes that Hai-O's retail staff receive are listed below.

Staff Induction Programme – Fundamentals of Retail Management

Retail Management – Course 1 and 2

Chinese Herbal Medicine Course

Intensive On-the-Job Training

4D-MRA Health Test Machine Training

The total and average hours (hrs) invested across the organisation for training during the reporting period was as shown below.

Total Training Hours

13,312 hrs

Average Training Hours

50 hrs

Management

28 hrs

Executive

21 hrs

Non-Executive

26 hrs

Per Employee

29 hrs

Female

20 hrs

Male

SUSTAINABILITY STATEMENT (CONT'D)

PEOPLE (CONT'D)



Presenting Long Service awards to our loyal staff at Hai-O's 43rd anniversary celebration dinner.

EMPLOYEE RECOGNITION

We recognise the importance of creating a workplace that is conducive and encourage employees to work to their full potential. The minimum wage offered to our workers is in line with the amount stipulated by Malaysia's Minimum Wage Order 2016. Moving beyond the baseline, we provide competitive and fair remuneration packages to our employees that meet the market standard.

The standard set of benefits cover medical, social security, allowances, Hospitalisation and Surgery insurance and Group Personal Accident insurance coverage. The bonus and incentive distribution, among others will take into consideration the job grade, performance and contribution of each employee as well as the Group's overall performance. In addition to these benefits, the Company during the financial year granted 2,189,000 ESOS (Employees' Share Option Scheme) to the Directors and eligible employees of the Company and its subsidiaries.

One of the benefits that every employee is entitled to is the standard discount rate for the purchase of Hai-O products. We issue a Hai-O Friendship Card to employees once confirmed and this card can be used at all our retail chain stores. The purchase quota is subject to the Company's policy.

An effective way in which the Company engages its employees is through Kelab Muhibbah Hai-O, a recreation club set up by the employees. The sports and recreation activities organised by the club strengthens team spirit and camaraderie amongst our employees.

At Hai-O, we recognise both high performance and loyalty. Employees, teams and franchisees identified to have excelled in their respective line of work, receive awards. Along with a plaque, these awards include a cash prize and an overseas trip.

| Awards | Frequency | Recipients (FY2018) |
|--|------------|---------------------|
| Best Employee Award | Biennially | 3 |
| Best Company Award | Annually | 1 |
| Best Sales Personnel/ Best Sales Team Award | Annually | 1 |
| Best Performance Award (retail outlet) | Annually | 5 |
| Best Franchisee Award | Biennially | 1 |

Loyalty, on the other hand, is recognised with the *Long Service Award* which is given to employees when they complete 10, 20, 25, 30, 35 and 40 years with Hai-O. They receive a plaque as well as a cash prize that commensurate to the number of years they have worked with the Company.

| Award | Recipients (FY2018) |
|--------------------|---------------------|
| Long Service Award | 29 |

COMMUNITY ENGAGEMENT

As a socially responsible citizen, we strive to have a positive impact on the well-being of our surrounding communities. The establishment of Hai-O Foundation in 2009 reflects our commitment to corporate responsibility. Since its inception, Hai-O Foundation has actively reached out to local communities, particularly the less fortunate as well as supported educational and cultural causes in various ways.



Encouraging Quality Education



Hai-O Foundation committed to organize another 6 Ai Hua Jiao fund raising programmes in 2018.

October 2017: The Ai Hua Jiao fund raising campaign is an ongoing programme organised by Hai-O Foundation along with Sin Chew Daily. This campaign aims to empower the future generations by providing high quality educational infrastructure and facilities. Over the past 8 years, through the Ai Hua Jiao Concert, the Foundation has raised RM73.4 million which benefited 53 Chinese-Medium schools since 2010.



The 21st Century Smart Classrooms Education Programme - another CSR flagship programme by Hai-O to encourage quality education

November 2017: We organised a programme to encourage quality education via the 21st Century Smart Classrooms Education Programme. This programme is a collaboration between Hai-O Foundation and the Selangor State Education Department. Launched in November 2017, its objective is to enhance learning and the teaching process by furnishing classrooms with contemporary education tools and equipment. During the reporting period, 10 primary schools in the district of Klang benefited from this programme. They received innovative classroom equipment and an enhancement to the school facilities. The financial and non-monetary contribution towards this programme was approximately RM200,000 in FY2018.

SUSTAINABILITY STATEMENT (CONT'D)

PEOPLE (CONT'D)



Hai-O Excellent Academic Awards 2018 to recognize the academy excellence of our distributors' children.

“Excellent Academic Awards” 2018: These awards were started by Hai-O to appreciate the success of distributors' children in achieving academic excellence and the commitment of distributors as parents towards their children's achievements. A total of 109 distributors with their children were recipients of this award during the reporting period. 2018 also saw the children of 5 Hai-O employees receiving this award.

Hai-O Higher Educational Aid: Launched in 2014, this aid was introduced to provide financial assistance to employees' child pursuing a degree or postgraduate programme at higher learning institutions. On an annual basis, eligible recipients are entitled to a maximum of RM5,000 per academic year and in FY2018, 15 employees' children were beneficiaries of this aid.



Hai-O Foundation - Providing financial aid to employees' children pursuing a degree or postgraduate programmes.



Supporting Vulnerable Communities



July 2017: Hai-O joined hands with Rumah Nur Kasih Bestari, an organisation set up to provide education to orphans ranging from as young as 2 years old to adolescent teenagers. We celebrated the annual Jamuan Hari Raya with orphans from this organisation and their guardians. There were altogether 20 orphans from Rumah Nur Kasih Bestari and our employees who participated to show our support for the children and the organisation. Towards this celebration, we sponsored meals and paid for their travel expenses to the banquet.

November 2017: Towards providing humanitarian aid to the flood victims, Hai-O Foundation contributed RM100,000. This contribution helped to ease the burden of the flood victims and helped them to remain steadfast and resilient despite vulnerable circumstances.



November 2017: We sponsored and donated towards the '6th Rainbow in My Heart Art Competition 2017- Caring for those with special needs'. Children and adults with special needs such as autism and learning and developmental disabilities were invited to participate. We believe that this competition is a great platform for those with special needs to communicate and express their thoughts through art. This approach is known to help them manage the environment they are in.



February 2018: Kelab Muhibbah Hai-O organised our annual visit to the Klang orphanage – House of Love - where the Kelab and employees donated money and utilities to cover their needs.

SUSTAINABILITY STATEMENT (CONT'D)

PEOPLE (CONT'D)



Spreading Health Awareness
and Community Harmony



Group Chairman, Mr Tan Kai Hee, launched the Blood Donation Campaign 2017.

July 2017: Hai-O and Kelab Muhibbah Hai-O along with Persatuan Hokkien Klang, Angkatan Pertahanan Awam Klang, Angkatan Pertahanan Awam Malaysia Selangor, Angkatan Pertahanan Awam Sg. Pinang and Klang Parade, organised a blood donation campaign. During the campaign, a total of 179 bags of blood were collected and the participants also benefited from health check-ups, dental check-ups and healthcare awareness.

January 2018: Kelab Muhibbah Hai-O along with Angkatan Pertahanan Awam Unit Sg. Pinang, organised the 'Joy 4 Klang - Run or Ride'. The event had more than 2,000 people participating either in the 6km run or the 25km ride. The objective of Joy 4 Klang was to promote social harmony, healthy living, a better understanding of Klang and to encourage people to join the Angkatan Pertahanan Awam.



Flag off - "Joy 4 Klang - Run Or Ride".

To provide safe and high-quality products that cater to improving the well-being of our customers.

We offer a wide range of products including healthcare, food supplements, beauty products, household products and long renowned wellness products. However, in order to win the confidence of our customers to buy our products, we recognise the importance of customer feedback and product certification.

STANDARDS AND CERTIFICATIONS

To ensure that we consistently provide products and services that meet customer expectations and applicable statutory and regulatory requirements, we work towards meeting internationally recognised quality and safety standards for our operations.

| Hai-O Operations | Certification | Description |
|-----------------------|--|-----------------------------------|
| MLM and Manufacturing | ISO 9001:2015 | Quality Management System |
| Manufacturing | Good Manufacturing Practice ("GMP") | Quality Management System |
| | SAMM ² Accreditation (MS ISO/IEC 17025) | Quality Standard for Laboratories |
| | HACCP ³ | Food Safety Management System |

² SAMM stands for Skim Akreditasi Makmal Malaysia

³ HACCP stands for Hazard Analysis and Critical Control Points

In order for the MLM and manufacturing segment of our operations to be ISO, GMP, SAMM as well as HACCP certified, regular audits and inspections are conducted.



CUSTOMER HEALTH AND SAFETY

Wholesale - All pharmaceutical products including health supplements and traditional preparations must be registered with the Drug Control Authority ("DCA") of Malaysia before being marketed in Malaysia. Products registered with the DCA have two main features, the registration number (starting with 'MAL') and genuine hologram security label, both of which are available on the packaging. For instance, all our MAL products, including Chinese medicated liquor/tonic, traditional Chinese medicine and external application products are duly observed with Meditag hologram labels on their packaging which is a requirement. This allows our customers to verify the authenticity of the product and to buy from the registered holder.

The National Pharmaceutical Control Bureau⁴ ("NPCB") ensures the quality, safety and efficacy of products for the local market through a registration and licensing scheme. Drug interactions, side effects, shelf life, storage condition, signs and symptoms of overdose are some of the product criteria that NPCB looks into before registering the product.

In order to maintain a valid registration as product registration holders, we fully comply with NPCB's strict rules. Any amendment to our MAL product labels or packaging requires submission to NPCB through QUEST-3⁵ and is subject to approval.

⁴ Pharmaceuticals, traditional and health supplements, cosmetics and veterinary products are regulated by NPCB.

⁵ The Quest3 system is a new enhanced, integrated and computerised system used by the NPCB. It enables the Product License Holder, Manufacturer, Importer and other related users to conduct a secured online transaction for the purpose of product registration, renewal of registration, change of manufacturing site and for application for variation of product particulars such as labelling, packaging sizes and claims.

SUSTAINABILITY STATEMENT (CONT'D)

PRODUCT (CONT'D)

MLM - Within the MLM segment of our operations, all related products are assessed for their health and safety impacts and the assessments are done by professional testing bodies recognised by government agencies. The breakdown by product categories are:

- Cosmetic and Personal Care products with 2 to 3-year shelf life
- Food products with 1 to 3-year shelf life
- Wellness products with 2 to 5-year shelf life

Retail - Herby Natural Nutriments Meal, Zan Black Secret Mixed Cereal Powder, Zan Almond Walnut Cereal Powder, GLOU Glamo 10000 Collagen Drink and Herby Seaweed Drink undergo product inspection and come with a self-assessment report. Framing residue, moisture content, mold fungus, bacteria, PH, colour and lustre, and flavour are some of the product inspection criteria for which these products are assessed.

PRODUCT LABELLING

"Informed choice, much as in the case of nutrition labelling, is hoped to empower people to consume more sustainably" (European Commission, 2008). We believe that product labelling plays an important role in increasing transparency along the food chain and informing the consumer of the safe use of our products.

Hai-O Cordyceps capsules and Min Kaffe are examples of products from Hai-O's retail as well as MLM segment that provides product information to ensure customer awareness relating to product safety and quality.



In fact, the product information on the packaging of products for MLM such as Min Kaffe is made available in 3 languages: English, Chinese and Bahasa Malaysia for the convenience of the customers.



SUSTAINABILITY STATEMENT (CONT'D)

PRODUCT (CONT'D)

CUSTOMER SATISFACTION

Satisfied customers make a significant impact on the Company's bottom line. We distribute customer satisfaction surveys on a yearly basis to garner their feedback on our products and services and to identify which aspect of the business needs improvement.

Customer satisfaction surveys are carried out regularly at training programmes, during overseas incentive trips and at all mega events organised by Hai-O. Besides which, we distribute an annual survey questionnaire which covers key aspects of Hai-O's MLM operations, including:

- Product and distribution
- Activity and events
- Customer service and communication
- Information and e-commerce

In 2017, 348 customers participated in this survey bringing the participation rate to 96.4 per cent. The key results of the survey are as shown below:

| | 1 | 2 | 3 | 4 | 5 |
|---|---|-------|-------|--------|---|
| Most unsatisfactory | | | | | |
| Unsatisfactory | | | | | |
| Average | | | | | |
| Satisfactory | | | | | |
| Very satisfactory | | | | | |
| | | 1-2 | 3 | 4-5 | |
| Product and Distribution | | | | | |
| Product Satisfaction | | 0.59% | 2.35% | 97.06% | |
| Activity and Event | | | | | |
| Courses and Training organised by SHOM | | 0.57% | 7.18% | 92.24% | |
| Customer Service and Communication | | | | | |
| Service Satisfaction from branch and stockist | | 0.30% | 6.65% | 93.05% | |

| Information and E-Commerce | Yes | No |
|---|--------|--------|
| Receiving latest information | 99.69% | 0.31% |
| Satisfaction with information channel | 98.77% | 1.23% |
| Knowing e-commerce with SHOM | 77.33% | 22.67% |
| Purchase products via e-commerce | 48.30% | 51.70% |
| Satisfaction with quality on e-commerce | 75.23% | 24.77% |

Every MLM branch and stockist is given a 'Distributor Memorandum' for customers to fill up should they have any complaints or suggestions. All complaints including those relating to the product are received by customer service and forwarded to the Product Development and Promotions department for further action through the 'Monitoring and Measurement of Product and Non-Conformity Control Procedure'. Through this channel, the total number of product complaints received between May 2017 and April 2018 was 57 and all were resolved.

We continuously seek to establish sustainable and transparent lines of communication between the Company and our customers as their feedback allows us to anticipate their needs and stay one step ahead. During the reporting period, we received 4 complaints from Hai-O's wholesale operation. All the cases were resolved.

In retail, customers can raise concerns and complaints via:

- Hai-O General Email: info@hai-o.com.my
- Hai-O Chain Store Facebook
- Hai-O Chain Store WeChat
- Hai-O Chain Store Customer Service Hotline: 03-3343 8889
- Customer Complaint/Feedback Form

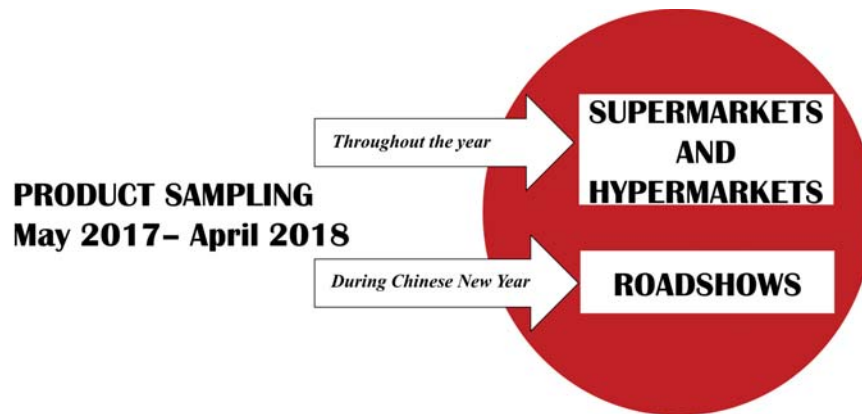
The number of cases that came through these lines during the reporting period was 26, all of which were addressed and resolved in a timely manner.

SUSTAINABILITY STATEMENT (CONT'D)

PRODUCT (CONT'D)

CUSTOMER ENGAGEMENT

Other ways in which we engage with our customers is through activities such as health talks and product sampling. The latter is essentially to allow our target customer to understand and explore the benefits of our products.



The retail segment of our operations provides a membership and loyalty programme to increase our customer's value, organises health talks to enhance public and health knowledge on Traditional Chinese Medicine and provides priority purchase of selected products to members for a limited time period.

In MLM, the distributors and customers are made aware of their rights as consumers through:

- Email: info@hai-omarketing.com.my
- Toll-free 1-800-88-2700 – Specific for product enquiry and is stated in the website and also product billboard
- WhatsApp – Another privilege enjoyed by CDM is access to an exclusive WhatsApp number



The Company website, internal bulletins and Facebook messenger are other channels our customers can use to get in touch with us. In addition to online platforms, we interact with our customers through various types of training, courses and briefings so as to empower our distributors to be more competent and keep them on the cutting edge of industry developments.

To strengthen our efforts towards protecting the environment when carrying out our business operations.

We are keen to mitigate any negative impact on the environment brought on by our operations. Our steps in this direction include improving energy efficiency, reducing waste that enters the landfill and promoting the use of eco-friendly products.

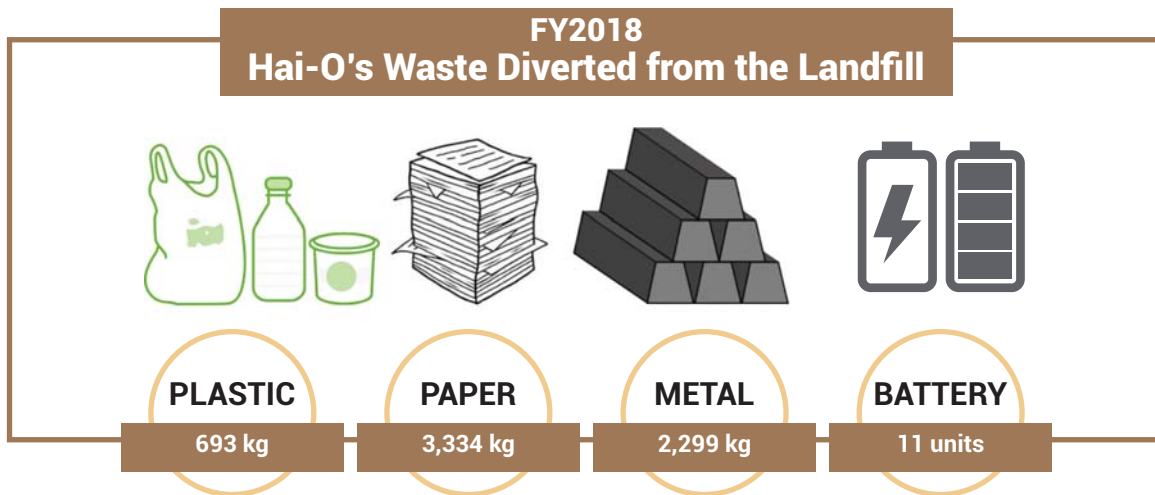
ENERGY EFFICIENCY

In order to reduce the use of incandescent bulbs which are inefficient and contain hazardous mercury, we have begun installing LED lights in stages at our office and manufacturing premises. The latter is free from harmful chemicals, recyclable and energy saving. As of 30 April 2018, the total percentage of LED lights installed at our main buildings, namely, Wisma Hai-O, Wawasan Hai-O and Lot 1388, all of which are located in Jalan Kapar, Klang and Sun Kompleks in Kuala Lumpur respectively was totalling to approximately 30 per cent.

As at FY2018, 7 out of Hai-O's 49 retail outlets were installed with LED lights with an average yearly savings (RM) of 26 per cent per outlet. We plan to install LED lights in the other outlets in stages and to calculate the energy savings to assess the environmental impact of switching to LED.

RECYCLING

At Wisma Hai-O, Wawasan Hai-O and Lot 1388, we practice 3R, i.e. Reduce, Reuse and Recycle. We segregate the waste into plastic, paper and batteries, which are then collected by the respective scrap collectors. During the repair and renovation of our buildings, we salvage the metal scrap which is also collected for reuse.



As per the advice of the Department of Environment ("DOE"), we disposed of the broken medicated glass bottles in a manner that is less detrimental to the environment. Such glass waste collected from our warehouse and that which is returned by customers are disposed at an engineered landfill that is in compliance with the highest requirement of the DOE. During the reporting period, we disposed of 230 kg of glass waste in this way.

Yet another practice we observe in order to reduce wastage is to salvage broken wooden pallets and reuse carton boxes. We are able to repair 3 to 4 broken pallets to make 2 units of wooden pallets for reuse. The carton boxes that we used to pack all the assorted products ordered by customers before sealing and delivering to the customers, are also reused for a couple of cycles as long as it is in good condition.

SUSTAINABILITY STATEMENT (CONT'D)

PLANET (CONT'D)

OTHER GREEN INITIATIVES

Packaging - Within wholesale and retail, we have reduced the use of Polystyrene in packaging. Polystyrene or more commonly known as Styrofoam can be extremely useful and versatile, however, it is also known for its harmful effect on the environment.

We have taken a cautious effort to reduce the use of Styrofoam in product packaging. As a result, the following products no longer have Styrofoam in their packaging:

Hai-O Essence of Chicken with American Ginseng and Cordyceps

Hai-O Essence of Chicken with Ginkgo Biloba and American Ginseng

Eco-friendly Products – The impact of chemical cleaning products on users who have long-term exposures at higher concentrations, can be severe. We acknowledge our ability to improve the well-being of our customers by increasing their accessibility to household products that are less harmful to the environment as well as to the health of the user. For instance, two of our household products - BioCleans Multi-Purpose Cleaner and BioCleans Multi-Purpose Spray - is made from Sea Ion⁶ extract. It is toxin-free, free of preservatives, contains non-toxic foaming agents, has no harmful petrochemicals to human health and environment, and made of natural perfumes, recyclable biodegradable and eco-friendly ingredients.



- ✓ BioCleans Multi-Purpose Cleaner
- ✓ BioCleans Multi-Purpose Spray

Going Paperless – Towards conserving the use of paper and consequently, its wastage, we have taken efforts to encourage e-statements, e-registration and e-sales kit for our distributors. Since 1 January 2016, we have been using e-statements and besides its environmental benefits, we have also noticed a reduction in late, missed and non-delivery hassles.

1 October 2017 saw the introduction of member e-registration. E-registered distributors are now given an e-sales kit instead of hard copy sales kits which has led to savings in terms of resources used, printing cost, staff overheads and postage cost.

CONCLUSION

We recognise the importance of monitoring our year-on-year performance in order to identify gaps and set targets to further solidify our commitment to sustainability. Moving forward, we intend to progressively learn from and improve upon our sustainability initiatives. Hai-O's efforts to execute its social and environmental responsibilities during the reporting period has laid the foundation and set the direction of the Company towards sustainability. Moving forward, we are confident that we will build a strong, sustainable and resilient business.

⁶ Sea Ion passed the EU standard inspection (food category) and is certified as an eco-friendly detergent. The extraction of Sea Ion has been incorporated with the technology of raw extraction by European and The US Research Offices since 1991.