



Hai-O Enterprise Bhd
46th Annual General Meeting
Questions from Shareholders



Hai-O 46th AGM Questions from Shareholders

Q1. What is the post-pandemic outlook for the company?

Answer to Q1:

The uplift of the movement and travel restrictions and the gradual reopening of various economic sectors nationwide as the national vaccination programme progresses well to achieve herd immunity by end of 2021, would definitely provide support for the growth recovery of the Group in near future.

As Hai-O is operating in consumer-oriented businesses, the recovery in consumer sentiments would help retail operators especially those who require physical presence to serve customers like us. Our direct sales business, is always about maintaining warm relationships and connections made via networking.



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Answer to Q1 (cont'd):

Our distributors had during the pandemic mastered the necessary online skills in areas such as training, sales and marketing and networking etc. to closely interact with people both online and offline. The lifting of restrictions would allow our distributors to showcase their enhanced skill and agility to adapt and operate in the new normal.

Various strategies were developed and implemented to maintain business sustainability and continuity of the business growth. While it is almost impossible to accurately predict the future, we remain cautiously optimistic on the prospect of Hai-O given the strong fundamental, trade records and the dedication and team spirit of our distributors and employees that demonstrated the ability to adapt to short term challenges to achieve long term sustainability.



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Q2. What areas of business has the company benefited from the Covid-19 pandemic?

Answer to Q2:

i) The Covid-19 pandemic has inevitably affected many business sectors, both globally and domestically especially the retail industry. The crisis has pushed us to hone our agility and ability to adapt to the changes, enhancing business stability and sustainability to tap new opportunities while managing risks. As we operate under the various stages of MCO, NRP with stringent SOPs, the Company has looked into and implemented various strategies and measures to achieve higher cost efficiency. This included organising events / functions and marketing activities virtually. All these had enabled the Company to enhance its efficiency and improve profitability.



Answer to Q2 (cont'd):

- ii. Consumers have increasingly turned to online shopping during the lockdown and movement restrictions. Recognising this important shift, we have expanded the use of digital platforms in our business operations, social and marketing engagement with stakeholders. The adoption of digitised platforms has also accelerated our online presence in the MLM and Retail segments, enabling us to reach a wider customer base. As a result, our ecommerce sales increased by more than 2 fold in FY2021.

- iii. Increase in demand for essential and health supplements due to higher awareness of health conscious consumers. The Group will focus to develop more affordable range of health products to tap business opportunities and defend our market position as a key essential healthcare player.



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Q3. The Company has declared 1st and 2nd interim dividends of 4 sen and 5 sen per share respectively in FY2021. In addition to the cash dividends, the Board had also declared share dividend of 1 for 26 existing ordinary shares on 4 June 2021. We would like to thank the Board for the generously and the consistent returns to shareholders. However, no further shares buy back undertaken by the Company since the distribution of share dividend and no renewal mandate on share buy-back tabled in this AGM for approval.

The Company has no intention to implement share buy back in future?



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Answer to Q3:

Thank you for your feedback. The Board is conscious of the impact of the pandemic on our shareholders as many of whom may to some extent rely on dividends as extra income. For last FY2021, the payout ratio was 68%, which exceeded the minimum commitment of 50%. The decision by the Board is on the basis that dividends received are of real value to our shareholders after considering the economic environment, current FD rates, financial performance and Company's capital position.

The Company is currently undertaking the corporate proposal on internal re-organisation. The implementation of share exchange for Hai-O Enterprise Berhad's shares with BESHOM's shares is anticipated to complete by end of 2021.

Hence, any share buy-back now is not practical. BESHOM, the new listed entity will continue to adopt the same policies and best practices that are currently practiced by Hai-O. The share buy-back proposal, if relevant will be taken by BESHOM, at a later date. BESHOM will continue to build a sustainable value for its shareholders.



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Q4. As noted in Annual Report, the Internal Reorganisation is expected to complete by 3QFY2022. This is not in line with the initial estimated timeline. What causes the delay?

Answer to Q4:

The High Court of Malaya has on 23 July 2021 sanctioned the Company's Scheme of Arrangement under the Proposed Internal Reorganisation with conditions. The Company will proceed with the necessary steps to implement after the AGM as no objection was filed by any of our financiers during the conditional period within the one (1) month from the date of the notice served.

The implementation is expected to complete as scheduled.



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Q5. The reduced in operating cost which was helped the higher profit made for the financial year ended 2021. Do you expect to continue enjoy low operating cost in your business operations post pandemic? How much cost saving driven by the rental discount given by landlord?

Answer to Q5:

The lower operating cost arising from the swift strategies and measures taken to mitigate cost are temporary and short term in nature. This included the rental concession by landlords and the lower personnel cost due to shorter operating hours during various phases of lockdowns for the retail segment. In the last FY2021, the total rental waiver granted by our landlords amounted to approximately RM300k.



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Q6. Under the current challenging business environment, why the short-term employee benefits still increase from RM4.7 million in one year ago to RM5.2 million in FY2021?

Answer to Q6:

The employee remuneration is inclusive of performance-link incentive which is correlated with the Group's performance. The amount in FY2021 was higher as compared to last financial year 2020, in tandem with the higher profit recorded in FY2021.



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Q7. CEO MD&A reported that 2 retail stores were closed in FY2021 and 55 stores are in operations.

i. Are the 55 stores owned and operated by Hai-O. If not, how many are "franchised" operated?

Answer to Q7(i):

Out of the total 55 stores, 7 are franchise shops owned by independent franchisees and the 48 stores are operated by Hai-O.

ii. How many of these 55 stores are operating at a loss in FY2021?

Answer to Q7(ii):

Approximately 25% of our retail stores are operating at a loss in FY2021 due to the pandemic.



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Q8. Any plan to increase retail distribution channels? If yes, kindly elaborate.

Answer to Q8:

Expansion of marketing channel would enable our products to reach a wider group of customers. For retail business expansion, we plan to open 1 to 2 new outlets annually. However, the execution plan would also depend on the availability of strategic locations, rental and availability of manpower etc. In view of the pandemic and “new normal” practices, we will emphasise more on the online and e-commerce platforms to boost retail sales. Apart from the above, we are also undertaking ongoing strategies to extend our customer base by opening more accounts via modern trade channels such as hypermarkets, supermarkets and pharmacy chain stores.



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Q9. Since its inception, Hai-O's branding has been perceived as a predominantly Chinese health and food products distributor and retailer. Malaysian Chinese population is expected to shrink below 20% of the total population in the next 10 years. What can Hai-O do to rebrand itself to be perceived as less "Chinese oriented" in order to capture more of the non-Chinese market as how it has successfully done in the MLM business?



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Answer to Q9:

As Malaysia is a multiracial country with a predominant Malay population, we have identified this opportunity and gap in the market and this has led to the formation of Sahajidah Hai-O Marketing (“SHOM”). With 29 years of experience in the direct selling industry, we have emerged to be one of the leading local direct selling companies in Malaysia, comprising of more than 80% Malay and Bumiputera distributors. SHOM plays a vital role in contributing to the Group’s business. It accounts for more than 70% of the Group’s revenue. In line the demography of Malaysia, we will continue to expand our products range by developing more halal products, especially FMCG to cater for the non-Chinese market.



Hai-O 46th AGM Questions from Shareholders

Q10. (a) Segment revenue and profit have been in a downtrend since FY2018. Why is this the case?

(b) In FY2021, the number of MLM members has further dropped to only 89,000, compared to 114,000 in FY2020 and 153,000 in FY2018. What caused this high attrition rate over the past years? Do we expect the size of MLM members will continue to shrink going forward?

(c) What are the strategies to reverse this trend?



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Answer to Q10:

The downtrend in revenue and profit from FY2019 was mainly due to subdued consumer sentiment post the general election (GE14) as consumers turned more cautious and held back their spending amidst political and economic uncertainties. The business environment became more challenging following the outbreak of Covid-19 pandemic with stringent regulatory SOPs imposed by the Government including restricted movements and physical distancing SOPs. This has again disrupted the pace of the domestic economic recovery and dampened the already fragile consumer sentiment.



Answer to Q10 (cont'd):

The spike in distributors membership was attributed to the attractive and large-scale campaigns carried out of the Company, especially the pre-25th anniversary of SHOM in FY2018. The slowdown in members recruitment and lower renewal rate was observed following the imposition of various phases of MCO as the mega events on marketing and recognition which are deemed vital to the MLM business was not allowed to be held physically. In recent years, in order to continuously promote member recruitments & retention, various measures have been carried out including free membership and renewal, attractive gifts for new members, better online shopping experience with improved digital infrastructure and etc. We are constantly running effective promotions and introducing new products to expand our consumer base. Furthermore, with the country slowly moving into an endemic phase and as more activities are opening up, we are slowly resuming physical events and activities.



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Q11. We understanding Hai-O will invest for new IPO for Orgabio Holdings Berhad, can the management explain rationale on such investment?

Answer to Q11:

The proposed investment in Orgabio has taken into consideration its good prospect and growth recorded over the years. The proposed investment is also in line with our strategic policy on the supply chain management and product quality assurance.



THANK YOU

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