



## HAI-O ENTERPRISE BHD ( Co.No. 22544-D)

Quarterly report on consolidated results for the financial period ended 31 October 2008  
The figures have not been audited.

### CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE QUARTER ENDED 31 OCTOBER 2008

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	31/10/2008	31/10/2007	31/10/2008	31/10/2007
	RM'000	RM'000	RM'000	RM'000
Revenue	87,292	80,517	200,202	139,793
Operating expenses	(73,027)	(68,828)	(168,206)	(119,124)
Other operating income	1,251	1,194	2,080	2,025
<b>Operating Profit</b>	<b>15,516</b>	<b>12,883</b>	<b>34,076</b>	<b>22,694</b>
Interest income	300	198	629	331
Finance costs	(478)	(96)	(685)	(197)
<b>Profit before taxation</b>	<b>15,338</b>	<b>12,985</b>	<b>34,020</b>	<b>22,828</b>
Income tax expenses	(4,186)	(3,610)	(9,288)	(6,465)
<b>Profit for the period</b>	<b>11,152</b>	<b>9,375</b>	<b>24,732</b>	<b>16,363</b>
<b>Attributable to:</b>				
Equity holders of the parent	10,889	9,096	24,491	16,159
Minority interest	263	279	241	204
	<b>11,152</b>	<b>9,375</b>	<b>24,732</b>	<b>16,363</b>
<b>Earnings Per Share attributable to equity holders of the parent</b>				
- Basic	13.06	13.55	30.10	24.08
- Diluted	13.35	13.53	30.03	24.03

The Condensed Consolidated Income Statement should be read in conjunction with the audited financial statements for the year ended 30 April 2008 and the accompanying explanatory notes attached to the interim financial statements.

**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS AT 31 OCTOBER 2008**

	<b>AS AT END OF CURRENT QUARTER 31/10/2008 (RM'000)</b>	<b>(Audited) AS AT PRECEDING FINANCIAL YEAR ENDED 30/04/2008 (RM'000)</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
<i>Property, Plant and Equipment</i>	58,245	21,597
<i>Investment properties</i>	28,968	20,922
<i>Prepaid lease payments</i>	1,733	1,751
<i>Investments</i>	2,226	2,741
<i>Goodwill arising from consolidation</i>	85	85
<i>Trade receivables - non current</i>	1,523	1,373
<i>Deferred tax assets</i>	1,813	1,684
	<b>94,593</b>	<b>50,153</b>
<b>Current Assets</b>		
<i>Inventories</i>	45,587	41,374
<i>Trade and other receivables</i>	25,600	25,893
<i>Short term investment</i>	35,583	13,424
<i>Cash and Cash Equivalents</i>	47,850	73,266
	<b>154,620</b>	<b>153,957</b>
<b>TOTAL ASSETS</b>	<b>249,213</b>	<b>204,110</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
<i>Share capital</i>	84,175	83,088
<i>Treasury Shares</i>	(2,442)	(6,291)
<i>Other reserve</i>	5,645	3,797
<i>Retained earnings</i>	77,502	59,978
	<b>164,880</b>	<b>140,572</b>
<b>Minority Interests</b>	<b>5,741</b>	<b>5,500</b>
<b>Total Equity</b>	<b>170,621</b>	<b>146,072</b>
<b>Non-current Liabilities</b>		
<i>Borrowings</i>	17,070	-
<i>Deferred tax</i>	68	64
	<b>17,138</b>	<b>64</b>
<b>Current Liabilities</b>		
<i>Trade &amp; other payables</i>	36,017	39,352
<i>Short term borrowings</i>	7,130	5,214
<i>Current tax payable</i>	9,784	7,791
<i>Short-term provision</i>	8,523	5,617
	<b>61,454</b>	<b>57,974</b>
<b>Total Liabilities</b>	<b>78,592</b>	<b>58,038</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>249,213</b>	<b>204,110</b>
Net assets per share attributable to ordinary equity holders of the parent (RM)	<b>1.98</b>	<b>1.76</b>

The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for the year ended 30 April 2008 and the accompanying explanatory notes attached to the interim financial statements.



HAI-O ENTERPRISE BHD ( Co.No. 22544-D)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE QUARTER ENDED 31 OCTOBER 2008**

	<b><u>2008</u> 6 month ended 31/Oct/08 (RM '000)</b>	<b><u>2007</u> 6 month ended 31/Oct/07 (RM '000)</b>
Net Profit before tax	34,020	22,816
Adjustment for non-cash flow :-		
Non-cash items	5,341	5,171
Non-operating items	(334)	(1,150)
Operating profit before changes in working capital	<u>39,027</u>	<u>26,837</u>
Changes in working capital		
<i>Net Change in current assets</i>	(8,879)	(8,721)
<i>Net Change in current liabilities</i>	(3,386)	6,094
<i>Tax paid</i>	(7,478)	(3,309)
	(19,743)	(5,936)
<b>Net cash flows from operating activities</b>	<b>19,284</b>	<b>20,901</b>
Investing Activities		
<i>Other investment</i>	(42,448)	1,261
<i>Quoted investment</i>	242	(4,754)
<b>Net cash used in investing activities</b>	<b>(42,206)</b>	<b>(3,493)</b>
Financing Activities		
<i>Purchase of Company's own share</i>	(3,118)	(1,751)
<i>Proceeds from issue of shares capital</i>	2,935	145
<i>Interest paid</i>	(685)	(101)
<i>Borrowing</i>	(1,626)	1,600
<b>Net cash used in financing activities</b>	<b>(2,494)</b>	<b>(107)</b>
Net Changes in Cash & Cash Equivalents	(25,416)	17,301
Cash & Cash Equivalents at beginning of financial year	73,266	27,672
<b>Cash &amp; Cash Equivalents at end of the financial period</b>	<b><u>47,850</u></b>	<b><u>44,973</u></b>

*The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for the year ended 30 April 2008 and the accompanying explanatory notes attached to the interim financial statements.*



**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 31 OCTOBER 2008**

	Attributable to Equity Holders of the Parent							Minority Interest	Total Equity	
	Share Capital	Non distributable			Distributable					
	Treasury shares	Share premium	Exchange fluctuation reserve	Capital reserve	Share option reserve	Retained Earnings	Total			
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	
<b>6 month ended 31 October 2008</b>										
Balance as at 1 May 2008 as previously stated	83,088	(6,291)	1,826	629	657	685	59,978	140,572	5,500	146,072
Net profit for the financial year	-	-	-	-	-	-	24,491	24,491	241	24,732
Total recognised income and expenses for the year	-	-	-	-	-	-	24,491	24,491	241	24,732
Purchase of Company's own shares	-	(3,118)	-	-	-	-	-	(3,118)	-	(3,118)
Issuance of Share Dividend	-	6,967	-	-	-	-	(6,967)	-	-	-
Ordinary shares issued pursuant to ESOS	1,087	-	1,848	-	-	-	-	2,935	-	2,935
Reserve realised upon exercise of ESOS	-	-	464	-	-	(464)	-	-	-	-
<b>Balance at end of financial period</b>	<b>84,175</b>	<b>(2,442)</b>	<b>4,138</b>	<b>629</b>	<b>657</b>	<b>221</b>	<b>77,502</b>	<b>164,880</b>	<b>5,741</b>	<b>170,621</b>
<b>6 month ended 31 October 2007</b>										
Balance as at 1 May 2007	68,814	(2,243)	600	629	670	-	37,195	105,665	5,214	110,879
Net profit for the financial year	-	-	-	-	-	-	16,159	16,159	204	16,363
Total recognised income and expenses for the year	-	-	-	-	-	-	16,159	16,159	204	16,363
Realisation of capital reserve on disposal of a subsidiary company	-	-	-	-	(13)	-	-	(13)	-	(13)
Capitalisation of Bonus issues	13,413	-	-	-	-	-	(13,413)	-	-	-
Ordinary shares issued pursuant to ESOS	363	-	145	-	-	-	-	508	-	508
Purchase of Company's own shares	-	(1,751)	-	-	-	-	-	(1,751)	-	(1,751)
<b>Balance at end of financial period</b>	<b>82,590</b>	<b>(3,994)</b>	<b>745</b>	<b>629</b>	<b>657</b>	<b>-</b>	<b>39,941</b>	<b>120,568</b>	<b>5,418</b>	<b>125,986</b>

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 30 April 2008 and the accompanying explanatory notes attached to the interim financial statements.



**A. Notes To The Interim Financial Report**

**A1 Basis of preparation**

The interim financial statements have been prepared in accordance with Financial Reporting Standards (“FRS”) 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“BMSB”).

The interim financial report should be read in conjunction with the most recent annual financial statements of the Group for the year ended 30 April 2008.

These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 April 2008.

**A2 Audit report of preceding annual financial statement**

The preceding year annual financial statements were not subject to any qualification.

**A3 Seasonal or cyclical factors**

The Group’s interim business operations are not significantly affected by seasonal or cyclical factors for the quarter under review except for some consumer products, which are affected by major festive seasons.

**A4 Unusual items affecting assets , liabilities, equity, net income or cash flows**

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows because of their nature, size or incidence.

**A5 Material changes in estimates**

There were no material changes in estimates of amounts reported in prior interim period of the current or previous financial years.

**A6 Debt and equity securities**

There have been no other issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the quarter under review except for the following:-

- a) The details of shares held as treasury shares for the period ended 31 October 2008 are as follows:

	Number of Treasury shares	Total Considerations RM
Balance as at 1 August 2008	3,448,286	7,517,938
Repurchased during the quarter	542,800	1,891,466
Share dividend issued	(3,225,542)	(6,967,171)
Balance as at 31 October 2008	765,544	2,442,233

The repurchase transactions were financed by internally generated funds.

As at 10 December 2008, the treasury shares held were 929,144 ordinary shares with total purchase consideration of RM 2,967,780.



- b) Issuance of 90,000 new ordinary shares of RM 1.00 each pursuant to the Company's Employees' Share Option Scheme (ESOS) at exercise price of RM 2.70 per share for the quarter under review. The total proceeds arising from the exercise of options under the ESOS amounted to RM 243,000.

**A7 Dividend paid**

- i) Final dividend of 32% gross, (2007: 13%), less tax, amounting to RM 20,059,944 in respect of the previous financial year as approved by the shareholders at the Annual General Meeting held on 29 October 2008, was paid on 10 December 2008.
- ii) On 11 August 2008, a total of 3,225,542 treasury shares, equivalent to RM 6,967,171 were distributed to entitled shareholders as Share Dividend.

**A8 Segment information**

Details of segmental analysis for the period ended 31 October 2008 are as follows:

**Business Segment of the Group**

	Wholesale	Multi-Level	Retailing	Manufacturing	Others	Elimination	Consolidated
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<b>REVENUE</b>							
External sales	22,381	157,446	17,985	1,129	1,261	0	200,202
Inter-segment sales	55,090	0	23	1,219	2,752	(59,084)	0
Total revenue	77,471	157,446	18,008	2,348	4,013	(59,084)	200,202
<b>RESULT</b>							
Segment result	7,504	24,362	1,075	346	820	(31)	34,076
Unallocated corporate expenses							-
Operating profit							34,076
Interest expense							(685)
Interest income							629
Profit before taxation							34,020
Taxation							(9,288)
Net profit for the period							24,732



**A9 Property, plant and equipment**

There is no revaluation of property, plant and equipment brought forward from the previous audited financial statements.

**A10 Material events subsequent to the end of the interim period**

There were no material events subsequent to the current financial quarter ended 31 October 2008 up to the date of this report.

**A11 Changes in the composition of the Group**

There were no changes in the composition of the Group during the interim period except for the following:

Further to the announcement made on 16 September 2008, the Company's wholly-owned subsidiary, Hai-O (Hong Kong) Investment Ltd ("Hai-O (HK)") had on 12 November 2008 subscribed 200,000 shares of USD 1.00 each, representing 100% equity interest in Hai-O (Guangzhou) Trading Ltd ("Hai-O (Guangzhou)") for a total cash consideration of USD 200,000. With effect thereof, Hai-O (Guangzhou) is a wholly-owned subsidiary of Hai-O (HK).

**A12 Contingent liabilities**

The changes in contingent liabilities of the Group and the Company since the last annual balance sheet date are as follows :-

	As at 10 Dec 2008	As at 31 Oct 2008	As at 30 Apr 2008
	RM '000	RM '000	RM '000
Corporate guarantee in respect of banking facilities granted to subsidiary companies	0	0	86
	<hr/>	<hr/>	<hr/>
	0	0	86



**Additional Information Required By The BMSB - Listing Requirements**

**B1 Review of performance of the Company and its principal subsidiaries for the current quarter and financial year-to-date**

Current quarter compared to the preceding year's corresponding quarter

For the second quarter ended 31 October 2008, the Group recorded higher revenue of RM 87.29 million as compared to RM 80.52 million of the corresponding period of the preceding quarter, an increase of about 8%.

The Group registered higher profit after taxation of RM 11.15 million as compared to RM 9.38 million for the corresponding quarter of the preceding year, representing an increase of about 19%. The increase in profit after taxation was mainly due to higher contributions from wholesale division and its principal subsidiary, the multi-level marketing ("MLM") division.

Current financial period compared to the preceding year's corresponding period

For the first half year ended 31 October 2008, the Group achieved higher revenue of RM 200.20 million as compared to RM 139.79 million for the corresponding period of the preceding year, an increase of about 43%. The increase in revenue was mainly attributed from higher sales generated by the wholesale and MLM divisions.

The Group profit after taxation increased by about 51% from RM 16.36 million to RM 24.73 million for the corresponding period of the preceding year. The substantial increase in profit was mainly due to higher revenue achieved as mentioned above. Its principal subsidiary, the MLM division, had contributed about 73% to the Group's profit before taxation, mainly from its strong distributor sales force and increasing popularity of its two main house brand products. In addition, refocus on high margin products in the wholesale division had further improved the margin as compared to the preceding year.

**B2 Material changes for the current quarter as compared with the immediate preceding quarter**

For the second quarter under review, the Group recorded lower profit after taxation of RM 11.15 million as compared to the immediate preceding quarter of RM 13.58 million. The lower profit was mainly attributable to lower revenue achieved by the MLM division, due to the Ramadan festive season in the second quarter which had slowed down the sales activities. However, the retail division had recorded higher revenue and profit as compared to the immediate preceding quarter, contributed mainly by the success of its members' sales promotion and higher margin contribution from its house brand products.

**B3 Commentary on prospect**

In view of the high inflation and unemployment rate and the slow-down in economic growth across the region, the business condition will continue to be challenging amidst the weaker consumer sentiment. The Group is fully aware and will take proactive steps to address the various market challenges. With the strong foundation and extra efforts that we had put in, we are confident of our ability to overcome these challenges and hence the Board of Directors is of the opinion that the Group will continue to deliver satisfactory results.





**B4 Statement of Internal targets previously announced or disclosed in public documents**

With reference to the first article appearing in The Star, STARBIZ, Friday, 27 June 2008 , page B5 in particular pertaining to the sentence which is reproduced as “Hai-O Enterprise Bhd sees 20% growth in revenue for the year ending March 31, 2009 (FY09), driven by the multi-level marketing (MLM) division.....” and the second article appearing in the New Straits Times, Biz News, Thursday, 30 October 2008, page 38, pertaining to the sentence which is reproduced as “Hai-O Enterprise Bhd, a multi-level marketing (MLM) company and a Chinese herbs retailer, expects revenue to grow five percent this fiscal year, helped mainly by its MLM business.....” .

Firstly, the Company had clarified that the financial year is ending April 30, 2009 instead of March 31, 2009. Secondly, the quoted statements as mentioned above were an internal target set by the Company to achieve and not in any way intended to refer to any financial estimates, forecasts or projections of the Company and have not been reviewed by the external auditor of the Company .

Due to the current global financial turmoil and weak market condition, the Company had revised downward its growth rate from 20% to 5% as mentioned above. However, the Company will strive for better performance in this challenging environment and work towards higher growth rate.

**B5 Profit Forecast**

There is no profit forecast.

**B6 Taxation**

The provision for income tax is based on the business income earned for the period under review.

For the current quarter and financial year-to-date, the effective tax rate of the Group is slightly higher than the statutory tax rate due mainly to certain expenses which are not deductible for tax purposes, and losses of certain subsidiary companies which cannot be set off against profits of certain subsidiaries as no Group relief is available for tax purposes.

	Current Quarter Ended 31 October 2008 (RM '000)	Current year to date 31 October 2008 (RM '000)
Profit before taxation	15,338	34,020
Taxation at applicable tax rate – 25%	3,835	8,505
Adjustment mainly due to certain non-allowable expenses and unutilised tax losses not recognised as deferred tax assets	351	783
Total Taxation expenses	4,186	9,288

**B7 Profits on Sale of Unquoted Investment and / or Properties**

There were no profits on sale of unquoted investments and properties for the current quarter and financial year-to-date.



### B8 Purchase or Disposal of Quoted Securities

- a) The purchase and disposal of quoted securities for the current quarter and current year to date are as follows:-

	Current quarter 31 October 2008 RM '000	Current year to date 31 October 2008 RM '000
Total purchase consideration	542	1,133
Total sale proceeds	653	1,375
Loss on disposal	(233)	(273)

- b) The details of all investments in quoted securities at the end of the reporting period are as follows :-

	RM'000
Total investment at cost	2,002
Total investment at book value	1,999
Total investment at market value at the end of reporting period	2,051

### B9 Corporate Proposals

There is no corporate proposal for the period under review.

### B10 Group Borrowings and Debts Securities

The Group borrowings and debts securities as at the end of the reporting period are :-

Group Borrowings	Currency	Secured/ Unsecured	RM'000
Short Term Borrowings	Malaysia Ringgit	Unsecured	5,037
Short Term Borrowings	Malaysia Ringgit	Secured	2,093
Long Term Borrowings	Malaysia Ringgit	Secured	17,070
Total			24,200

### B11 Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk for the year ended 31 October 2008.



## **B12 Changes in Material Litigation**

Save as disclosed below, the Group has not engaged in any material litigation, either as plaintiff or defendant, which has a material effect on the financial position of the Group :-

- i) By a Writ of Summon and Statement of Claim dated 13 January 1995 (“Suit 34”), Nguang Chan Liquor Trade and Nguang Chan (M) Sdn Bhd (Collectively known as “the Nguang Chan Group”) instituted an action and sought an injunction against the Company to restrain publication of alleged defamatory statements made against the Nguang Chan Group as well as against slander of a product named Zhan Qiao Pai (“ZQP”) Brand Ling Zhi (“Infringing Product”). The High Court had dismissed the Nguang Chan Group’s application for injunction with cost on 19 December 1995.

The directors of the Company are of the opinion that, based on legal advise, the Company has a good case to establish that the Nguang Chan Group’s present claim is without merit. The Company is entitled to protect its products and that its actions against what appear to be clear counterfeits cannot be the subject matter of complaint by the Nguang Chan Group.

By a Writ of Summon and Statement of Claim dated 23 May 1997 (“Suit 400”), the Company and Shandong Medicine & Health Products Import & Export Corp., Changyu Pioneer Wine Co. and Yantai Native Product Import & Export Corp. (“the Chinese Parties”) filed an action against the Nguang Chan Group and Golden Spring Spirits Agency claiming for damages for infringement of their product named ZQP Brand Ling Zhi which been ordered to consolidate with Suit 34 on 5 August 1997.

The Company had made several applications seeking for further discovery, production and inspection of documents against the Nguang Chan Group. Order in terms of these applications were given by the High Court on 23 April 2001 wherein the Nguang Chan Group had thereafter appealed to the Court of Appeal against this decision.

The Court of Appeal heard the appeal on 14 March 2006 wherein Nguang Chan Group’s appeal was allowed. The Company has appealed against the Court of Appeal’s decision to the Federal Court. Applications for leave to appeal were fixed for hearing on 22 August 2006.

The applications were heard as scheduled. The Federal Court had adjourned both the applications to a date to be fixed with directions to the Court of Appeal to deliver its decisions as the Court of Appeal has not delivered the same to the Federal Court.

The High Court had fixed Suits 34 and 400 for mention on 17 September 2007 and fixed for trial on 3 October 2007 and 4 October 2007. On 17 September 2007, the trial which had been fixed on 3 October 2007 and 4 October 2007 had been vacated to enable the matters to be transferred to the newly established Intellectual Property Court. The matter was then fixed on 27 March 2008, and on that date, the learned judge of the Intellectual Property Court had fixed the matter for trial on 11 February 2009 and 12 February 2009.

The Board of Directors of the Company is of the opinion that the Company and the Chinese Parties have a good case in claiming common law proprietary rights if the Company and the Chinese Parties can successfully show that the Chinese Parties are instrumental in the manufacture, production and export to the Company of the Infringing Product.



- ii) On 10 October 2008, Hai-O Raya Bhd (“Hai-O Raya”), a 56.63% owned subsidiary was served with a writ of summons together with Statement of Claim by Syarikat Fu Yong Enterprise, Chong Chen Shieh and Chong Fui Ming (“the Plaintiffs”), to claim for declaration that Franchise Agreement between the parties was terminated, the sum of RM 70,844.33 plus interest, damages and other claims deemed just and suitable by the Court.

Hai-O Raya’s solicitor had filed the memorandum of appearance and Statement of Defence on 21 October 2008 and 5 November 2008, respectively, and has further instructed its solicitors to file application to strike out the claims as the Plaintiffs’ claims have no basis.

### **B13 Dividend Payable**

The Board of Directors is pleased to declare an interim dividend of 10% gross per ordinary share, less tax, in respect of the financial period ended 31 October 2008.

The dividend payment date and entitlement date will be advised later.

### **B14 Earnings per share (EPS)**

#### **Earnings per share**

	<b>INDIVIDUAL QUARTER</b>		<b>CUMULATIVE QUARTER</b>	
	<b>CURRENT YEAR QUARTER 31-Oct-08</b>	<b>PRECEDING YEAR CORRESPONDING QUARTER 31-Oct-07</b>	<b>CURRENT YEAR TO DATE 31-Oct-08</b>	<b>PRECEDING YEAR CORRESPONDING PERIOD 31-Oct-07</b>
<i>Earnings</i>				
Net profit for the period attributable to equity holders of the parent	10,889	9,096	24,491	16,159
Weighted average number of shares ('000)	83,377	67,110	81,377	67,110
Weighted average number of shares deemed to have been issued for no consideration upon exercise of ESOS ('000)	175	130	175	130
Weighted average number of shares for diluted EPS ('000)	81,552	67,240	81,552	67,240
Basic earnings per share (sen)	13.06	13.55	30.10	24.08
Diluted earnings per share (sen)	13.35	13.53	30.03	24.03