Hai-O Enterprise Bhd

45th Annual General Meeting

Reply to Questions from

Minority Shareholders Watch Group (MSWG)

Strategy & Financial Matters

Q1. Corporate Structuring Exercise

The Company undertook the following corporate exercises in the year (Page 138, Annual Report):

(i) Sahajidah Hai-O Marketing Sdn. Bhd. a wholly owned subsidiary of the Company, diluted its equity interest in PT Hai-O Indonesia ("PTI") from 55% to 40%;

Why did Sahajidah dispose its 15% interest in PT Hai-O Indonesia? What are the plans for PT Hai-O Indonesia?

(ii) Incorporation of a wholly owned subsidiary, Tea Reserves Sdn. Bhd. with a total issued share capital of RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each.

What are the main activities and plans for Tea Reserves Sdn. Bhd.?

Answer to Q1(i):

The rationale to dilute equity interest in PTI was in line with the strategic business vision of PTI. After the dilution, the Indonesian business partners would own an aggregate 60% of the equity interest in PTI, thus, enabling them to have stronger interest as well as greater flexibility to develop and expand the market in Indonesia based on their stronger local knowledge and network. In addition, the potential capital outflow of the Company to support the business of PTI would also reduce in proportion based on the new shareholding structure. The Company will closely monitor the business strategies spearheaded by the business partners and continue to review the prospect of PTI as a result of the change in structure.

Answer to Q1(ii):

Tea Reserves Sdn. Bhd. is a small initiative undertaken by the Group to explore potential online opportunities for premium Puer Tea and other type of Chinese teas and accessories. Tea Reserves Sdn Bhd is in line with Hai-O’s vision to strengthen our market leadership in the Puer Tea industry globally.

Strategy & Financial Matters

Q2. US-China Trade Disputes

The operating environment and the escalating US-China trade disputes brought great uncertainties to overall business sentiments even before the sudden and severe outbreak of coronavirus disease (“COVID-19”) (Page 18, Annual Report).

Which areas of the business operations are affected by the US-China trade disputes and to what extend? What are the action steps to mitigate these risks?

Answer to Q2:

The Group mainly focuses on consumer centric-businesses and any uncertainties to the operating environment will inevitably affect consumer sentiments. Consumers tend to be more cautious and selective in their spending especially for high value and big ticket items.

The Group has initiated various strategies to mitigate the negative impact, which include introducing more products at affordable prices; selling products in smaller unit / quantities to suit market needs; intensifying cost optimisation and digitalisation initiatives to protect margin as well as leveraging on social marketing platforms to promote our products /businesses in addition to traditional sales promotions, incentive campaigns, rebates etc to boost sales.

Strategy & Financial Matters

Q3. Multi-Level Marketing – Distributorship

The wholesale and retail segments collectively contributed approximately 92% of Hai-O Group's earnings in FY2020. Distributors are the drivers of MLM sales. (Page 17, 20 Annual Report).

(i) Given the current economic challenges, has the distributors decreased, and if so, by how many?

(ii) What are the Company's plans to retain its current distributors and attracting new distributors?

Answer to Q3(i):

The MLM distributors force is relatively stable. The MLM distributors force has decreased marginally in financial year ended 30 April 2020 (“FY2020”) but is currently maintained at about 110,000 members as reported in the Annual Report 2020 (2019: more than 120,000 members).

Answer to Q3(ii):

Various strategies have been initiated by the Company on members’ recruitment and retention program, including “free membership” offered during the Movement Control Order (MCO) period and cash vouchers given to new and renewed members. The Company will continue to offer and undertake various attractive promotions and rebates to incentivise members to motivate them to improve productivity.

Strategy & Financial Matters

Q4. Increase in Other Payables

Other payables increased by RM8 million, from RM13.7 million to RM21.7 million as at 30 April 2020 (Page 152, Annual Report), although there was a decrease in group revenue of RM73 million, i.e. from RM328 million to RM255 million (Page 4, Annual Report).

Why was there an increase in other payables?

Answer to Q4:

The increase in Other payables was mainly due to the 2nd interim dividend declared in respect of financial year ended 30 April 2020 amounting to RM8.7 million which was paid on 16 June 2020.

Strategy & Financial Matters

Q5. Impairment of Trade Receivables and Other Receivables

The impairment on trade and other receivables for the year increased significantly from RM250,000 to RM2 million (Page 157, Annual Report).

(i) Why was there an increase in impairment of trade and other receivables?

(ii) How much of the impaired receivables have been recovered to date?

Answer to Q5:

The adoption of MFRS 9 requires the Group to recognize allowance for expected credit losses (ECL) on trade receivables for all segments using an allowance matrix to measure the ECLs at each reporting date. The impairment of RM1.14 million on trade receivables was recognized as ECL for financial year ended 30 April 2020.

The impairment of RM0.95 million on other receivables was related to an amount owing by an overseas Associate company. The Group is monitoring the amount owing and will take appropriate action to recover the long overdue balances.

As at to-date, the Group has recovered approximately RM375,000 from the impaired receivables.

THANK YOU

Wisma Hai-O, Lot 11995

Batu 2, Jalan Kapar

41400 Klang, Selangor Darul Ehsan

T : 03-33423322 F : 03-33434257

www.hai-o.com.my