



Hai-O Enterprise Berhad
46th Annual General Meeting
Reply to Question from
Minority Shareholders Watch Group (MSWG)



Reply to MSWG

Operational & Financial Matters

Q1. Hai-O group posted stronger revenue of RM271.4 million, a 6.3% higher year-on-year (FY2020: RM255.2 million), while profit before taxation (“PBT”) grew by 26% to RM52.3 million in FY2021 (FY2020: RM41.5 million). The increase in PBT was partly due to the Group’s cost optimization initiatives which yielded total savings of more than RM3.5 million, as well as a one-off gain from disposal of vintage tea amounting to RM0.9 million (page 19 of Annual Report (AR) 2021).

Q1(a). What are the costs that the Group has successfully reduced in FY2021 that led to a total savings of more than RM3.5 million?



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Answer to Q1(a):

The following cost optimization initiatives undertaken by the Group are the primary reasons which resulted in a total savings of more than RM 3.5 million:

- i. Lower expenses in the following:
 - event sponsoring;
 - advertising and promotion; and
 - marketing and distribution.

The above were driven by the Group's aggressive digital adoption for sales promotion campaigns, virtual training events and functions.

- ii. Shorter outlets operating hours and rental concession from landlord for the Retail segment; and
- iii. Lower CSR costs incurred for the year.



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Q1(b). Are the better performances in the top-line and bottom-line figures sustainable in FY2022?

Answer to Q1(b):

The sustainability in both the top-line and bottom-line results will depend on the progress and success of the National Immunisation Programme, reopening of various economic sectors nationwide and the state of recovery of consumer sentiment, which remain uncertain at the moment.



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Q2. The Retail segment operation was the hardest hit by Covid-19 pandemic as the retail chain stores were affected by various movement controls imposed by the Government in FY2021. Stringent lockdowns had led to a virtual elimination of casual shoppers for major retail businesses (page 19 & 27 of AR 2021).

Q2(a). How have the full lockdown in June 2021 and the weaker consumer sentiments affected the Retail segment business?



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Answer to Q2(a):

The full lockdown in June 2021 has adversely affected the overall retail industry and businesses which operate physical outlets. In addition to the movement restrictions which reduced the consumer footfall to the retail outlets, consumers have also turned more cautious in spending which has affected the demand for high value products that yielded higher margin. Hence, the revenue of the Retail segment dropped by 7.9% for Q1FY2022 as compared to previous year's corresponding quarter.



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Q2(b). Covid-19 pandemic has caused inevitable change in customer buying behaviour (page 27 of AR 2021). Does the Company expect the Retail segment to lag in its recovery when this segment relies on brick-and-mortar sales? If so, how is the Company addressing these challenges?

Answer to Q2(b):

The pandemic had resulted in less customer traffic in physical retail outlets but on the other hand, has increased online shopping. Our focus on essential health foods and supplements, and the intensified digital adoption by extending the retail business to various e-commerce platforms have and will continue to boost retail sales. Ongoing sales campaigns and aggressive promotions activities to be held in the physical stores and online platforms are expected to sustain the retail business momentum.



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Q2(c). Hai-O has an internal e-Commerce platform (Hai-O eStore) and Hai-O flagship stores were set-up at both Lazada and Shopee in August 2020 (page 29 of AR 2021). How much e-Commerce sales accounted for the total sales for Retail segment in FY2021? How successful is Hai-O eStore, Lazada and Shopee stores in attracting retail segment shoppers to make purchases online? Please elaborate on the traction and results from your online platforms.



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Answer to Q2(c):

The e-Commence sales accounted for approximately 3% of the Retail segment sales for the FY2021. We have revamped our Hai-O eStore which has gone live in August 2021 to improve the overall customer online shopping experience, particularly in the payment system and delivery options to attract more online shoppers. We are confident that with a more efficient use of social media for advertising and promotional activities, the e-Commerce sales contribution for the Retail segment in FY2022 is expected to be encouraging and potentially could double the performance of FY2021.



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Q3. Hai-O plans to step up the development of relatively more affordable range of health products to cater to everyday needs, as well as to implement strategies to penetrate the young consumer market (page 26 of AR 2021).

Q3(a). Given that the Group will focus on launching more affordable health products, how will this impact the Group's net profit margin (FY2021: 14.3%) going forward with the change in sales mix?

Answer to Q3(a):

The Group's effort on launching more affordable health products will not have a major impact to the Group's net profit margin, after factored in the cost structure and pricing strategy.



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Q3(b). What is the competitive advantage of the Group in health products for young consumer segment? How does the Group differentiate itself from other competitors in this segment?

Answer to Q3(b):

Hai-O is able to offer a wide range of quality and premium products at a reasonable price to the customers as Hai-O has established a long term relationship with overseas suppliers who offer a wide range of products with high product quality assurance at competitive pricing.

With the above competitive advantages, Hai-O has been the market leader for over 45 years in traditional complementary medicine (TCM) products.



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Q4. The allowance for impairment loss on non-trade receivables from an associate has increased from RM78,771 in FY2020 to RM1.5 million in FY2021 (page 123 of AR 2021).

Q4(a). What are the reasons for the substantial impairment losses and what made this impairment necessary? Please name the associate with the impairment losses.

Answer to Q4(a):

The impairment of RM 1.5 million was related to an amount owing by an overseas associate company, PT Hai-O Indonesia. The impairment was deemed necessary as the recovery is remote as its business operations was badly affected by COVID-19 pandemic. The Group will continue to monitor the amount owing and will take appropriate action to recover the long overdue balances.



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Q4(b). What is the likelihood of further impairment or reversal or recoverability in FY2022?

Answer to Q4(b):

The likelihood of further impairment in FY2022 is low and the reversal or recoverability of the amount owing will depend on the business performance of the associate company.



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Corporate Governance Matters

Q5. Hai-O in its Corporate Governance (CG) Report 2021 states that it has departed from Practice 4.5 which requires the board to disclose in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. Currently, the Company has two women directors on the Board representing 22% of the total Board members. The Board does not have any policy on gender diversity policies and targets.

When does the Board plan to disclose in its annual report the company's policies on gender diversity, its targets and timeframe to meet those targets, as required by the Malaysian Code of Corporate Governance?



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Answer to Q5:

The Board will endeavour to provide more information and disclosure on gender diversity in the annual report for FY2022 as guided by MCCG 2021 which takes effect for listed corporations with financial year ending 31 December 2021.



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