



海鷗 企业有限公司

HAI-O ENTERPRISE BERHAD (22544-D)

Wisma Hai-O, Lot 11995, Batu 2, Jalan Kapar, 41400 Klang, Selangor Darul Ehsan, Malaysia.
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17 October 2012

Rita Benoy Bushon
Badan Pengawas Pemegang Saham Minority Berhad
Tingkat 11 Bangunan KWSP
No 3 Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Dear Rita Benoy Bushon,

37th Annual General Meeting (AGM) of Hai-O Enterprise Berhad (“Hai-O” or “the Company”)

We refer to your letter dated 12 October 2012.

We are pleased to provide our reply to the questions raised by MSWG as follows:-

Strategic and Financial Matters

- 1) We have initially set up a small office in Jakarta and subsequently appointed a stockist in Pekan Baru. The progress of the business there has been slow and as a result, we have to re-strategize to move into selling of more smaller ticket items to suit the Indonesian market.
- 2) For the time being, the contribution from Bird's nest products against the group sales and profit respectively is at less than 2%. The issues pertaining to the exports of bird's nest products to China will not have much adverse impact on our current retail segment as all our sales were derived from the local market.
- 3) As for the Letter of Intent signed on 8 Sept 2012, we are still in the midst of discussion with our Joint Venture partner, Beijing Tong Ren Tang Chinese Medicines Co, Ltd., for a detailed proposal. We will update you on the progress, if any, via the Bursa Link from time to time. The proposed additional investment will be financed by our internally generated fund. We believe Peking Tongrentang (M) Sdn Bhd will have a good prospect as Traditional and Complementary Medicine (TCM) is gaining acknowledgement and acceptance all over the world. In Malaysia, the government has set up a TCM Division in the Ministry of Health in 2004 and is proposing to pass the Traditional and

Complementary Medicine Act, which aims to regulate the country's growing alternative medicine industry.

- 4) Short-term investment in unit trust comprises of placements with Money Market and Cash Funds only with various financial institutions and investment banks with the purpose of enhancing returns to the Group by taking advantage of the tax exemption given on such investments. These investments are generally of low risk in nature and with short withdrawal notice and they have generated about 3% net return against the average net return of approximately 2.25% p.a. on fixed deposits with financial institutions.
- 5) The credit balance in the Section 108 account is negligible. The Company has moved to the single tier system since the final dividend payment in respect of financial year 2010.

Thank you.

Yours faithfully,

Hai-O Enterprise Bhd



Tan Kai Hee
Managing Director