



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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21 October 2013

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,

38th Annual General Meeting (AGM) of Hai-O Enterprise Berhad (“Hai-O” or “the Company”)

We refer to your letter dated 18 October 2013.

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

Strategic and Financial Matters

- 1)
 - a. The business strategy that was mentioned in Annual Report to diversify into different products categories is part of Hai-O Marketing’s strategy to cater for wider products choices as the platform for our distributors to tap into different market segments. We do not foresee the overall gross margin will be affected by implementing this business strategy in consideration of our consistent pricing policy and costs structure.
 - b. While we are preparing to diversify into small ticket products, at the same time, we are also retaining our brands and market share of big ticket products. Small ticket products are aimed at expanding our consumers to be broad based which will provide us with consistent recurring sales. Hai-O has a clear focus on expanding the nutrition and health beverage market which remain a huge market to tap on.
 - c. The reversal of provisions for sales campaign during the financial year was related to over provisions made in prior year which was not fully utilised and applicable. New provisions have been made based on the incentive trip campaigns implemented during the year. Thus, the reversal will not affect the efforts of boosting distribution force.
- 2) The vintage Pu-Er teas are not meant for trading but for display or promotional purposes. They are rare in the market and aged more than 50 years, and they project a prestige image on the Group with potential of high capital appreciation in value. Thus, they are classified as Property, Plant and Equipment (PPE) rather than inventories.

- 3) The higher stock was partly due to replenishment of stock damaged by a fire incident in bonded warehouse in last financial year 2012, hence the net increase was about 10% only which was in line with the increased in revenue. The biggest value item in the inventories is health care and traditional medicinal products, which account for more than 40 % of total inventories.


We are unable to share the expected revenue figure for the year ending 30 April 2014 due to "price sensitivity".

- 4) The company does not regularly trade in quoted shares and the investment is for the purpose of long term investment. The Company does not expect to dispose of these shares within the next one year, hence the quoted shares investment is classified under non-current assets.

The holding of unit trusts by group entities is a cash flow management strategy, in which excess cash is temporarily invested in unit trusts to optimize return to the group. Investments in shares (quoted and unquoted) are made for long term strategic purposes and form part of the principal activities of the group entities. As such dividend income from unit trusts is presented under "other income" in profit or loss.

Thank you.

Yours faithfully,
Hai-O Enterprise Bhd


Tan Kai Hee
Managing Director