

**SUSTAINABILITY
STATEMENT
2019**

SUSTAINABILITY STATEMENT

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SUSTAINABILITY STATEMENT

ABOUT THIS STATEMENT

Hai-O Enterprise Berhad (“Hai-O”) Sustainability Statement 2019 (“Statement”) offers a company-wide overview of Hai-O’s ongoing efforts related to economic, environmental, social and governance matters.

In addition to the term “Hai-O”, in this Statement “Group”, “we”, “us” and “our” are also used to refer to Hai-O and its subsidiaries.

This Statement has been prepared in line with the Global Reporting Initiative (“GRI”) Standards: Core option. This Statement also refers to recommendations on sustainability reporting issued by Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

REPORTING SCOPE

Information contained in this Statement reflects Hai-O’s sustainability progress from May 1, 2018 to April 30, 2019, unless otherwise noted. This Statement documents our performance across our most material issues and is based on a materiality assessment conducted in 2018 with our internal stakeholders. We issued our 2018 Sustainability Statement in August 2018 and will continue to publish our progress on an annual basis.

This Statement discloses the sustainability performances of our corporate office in Klang, Selangor as well as the Group’s main revenue streams including Multi-Level Marketing (MLM), Wholesale, Retail and Manufacturing segments. The MLM segment is operated by Sahajidah Hai-O Marketing Sdn. Bhd. (“SHOM”) with presence in Malaysia, Indonesia and Brunei. The Wholesale segment is operated by Hai-O Enterprise Bhd, Hai-O Medicine Sdn. Bhd., Kinds Resource Sdn. Bhd., Grand Brands (M) Sdn. Bhd., Chop Aik Seng Sdn. Bhd., Yan Ou Holdings (M) Sdn. Bhd and Yan Ou Marketing (Intl) Sdn. Bhd. The Retail segment is operated by Hai-O Raya Bhd. with 57 outlets including franchises across East and West Malaysia. Lastly, the Manufacturing segment is operated by SG Global Biotech Sdn. Bhd. and QIS Research Laboratory Sdn. Bhd.

CONTACT US

Further information on Hai-O’s policies and management processes are available on our corporate website at www.hai-o.com.my. Should you have questions on this Statement, please contact us at ir@hai-o.com.my.

OVERALL APPROACH TO SUSTAINABILITY

Since Hai-O’s listing on the then Second Board of Kuala Lumpur Stock Exchange (“KLSE” or “Bursa Securities”) in 1996 as the first traditional healthcare company, we have strived to create long-term credibility and value-added growth to not only our shareholders and investors, but

also to our employees, customers and other stakeholders. Hai-O was subsequently transferred to the Main Board of Bursa Securities in October 2007.

Recognising the need for a sustainable future, we have formulated our Sustainability Policy based on the Group’s Sustainability Strategy that fulfil our Mission, Vision and Corporate Values as well as the aspirations of the United Nation’s Sustainable Development Goals (UN SDGs).

OVERALL APPROACH TO SUSTAINABILITY (CONT'D)

HAI-O SUSTAINABILITY STRATEGY

MISSION

We are committed to promoting healthcare culture and improving human's well-being.

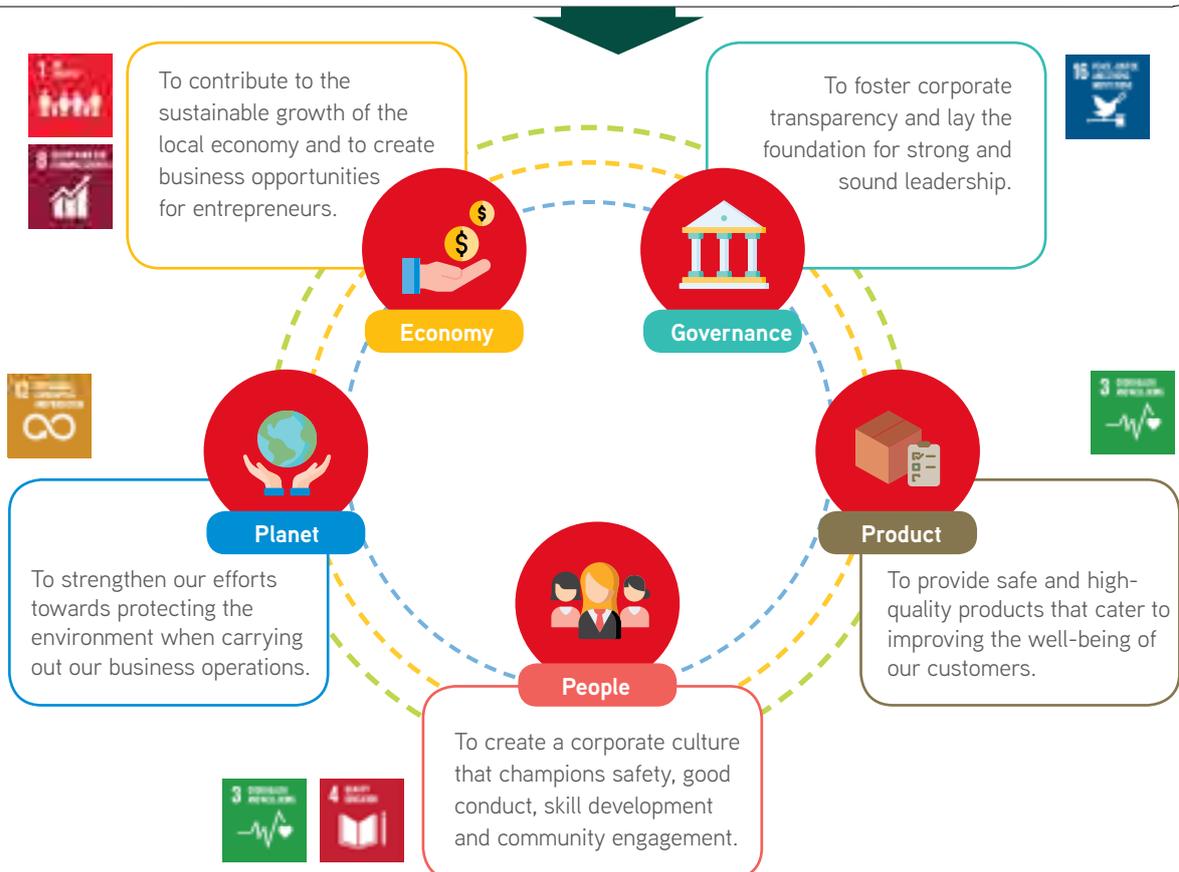
VISION

We aim to become the premier healthcare company in Malaysia and thereby bringing the greatest value and pride to our customers, business partners, employees and shareholders.

By embracing business opportunities and managing risks, cherishing our people and executing our social and environmental responsibilities to deliver sustainable stakeholder value, we strive to build a strong and resilient business.

We are committed to uphold our **Corporate Values, SEAGULL** i.e.

- **S**ocial Responsibility
- **E**xcellent Services
- **A**ttitude
- **G**rowing
- **U**nity
- **L**oyalty
- **L**earning



SUSTAINABILITY STATEMENT

OVERALL APPROACH TO SUSTAINABILITY (CONT'D)

KEY SUSTAINABILITY FOCUS AREAS

Hai-O's Sustainability Policy outlines our five (5) key sustainability focus areas: **Economy, Governance, People, Product and Planet**

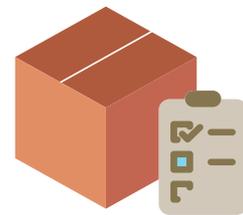
Economy



We shall create business and employment opportunities, recruit local talent, embed sustainability in our procurement practices and throughout our value chain, provide a platform for distributors on skill development and business collaboration, and instil team spirit "Hai-O My Choice for Life".



Product



We shall promote products that improve the community well-being, provide high quality and safe products and services, apply and maintain standards and certifications, improve customers/distributors satisfaction, and establish sustainable and transparent line of communication between Hai-O and our customers.

Governance



We shall prioritise compliance throughout our value chain, adhere to laws, regulations and internal conduct and policies, manage material sustainability matters, and embed integrity and transparency into our corporate culture.

People



For our employees, we shall ensure a safe and conducive workplace, provide fair remuneration, foster talent development and performance management system, provide regular training and development programmes, encourage employee involvement in Kelab Muhibbah Hai-O and provide recognition for high-performing and loyal employees, teams and franchisees.



For the community, we shall strive to bring a positive impact, encourage quality education, support vulnerable community and continuously spread health awareness and community harmony.

Planet



We shall educate the practice of 3R (Reduce, Reuse and Recycle), reduce the use of Styrofoam in product packaging, promote green initiatives and introduce products which contain eco-friendly ingredients that are less harmful to the environment as well as human health.

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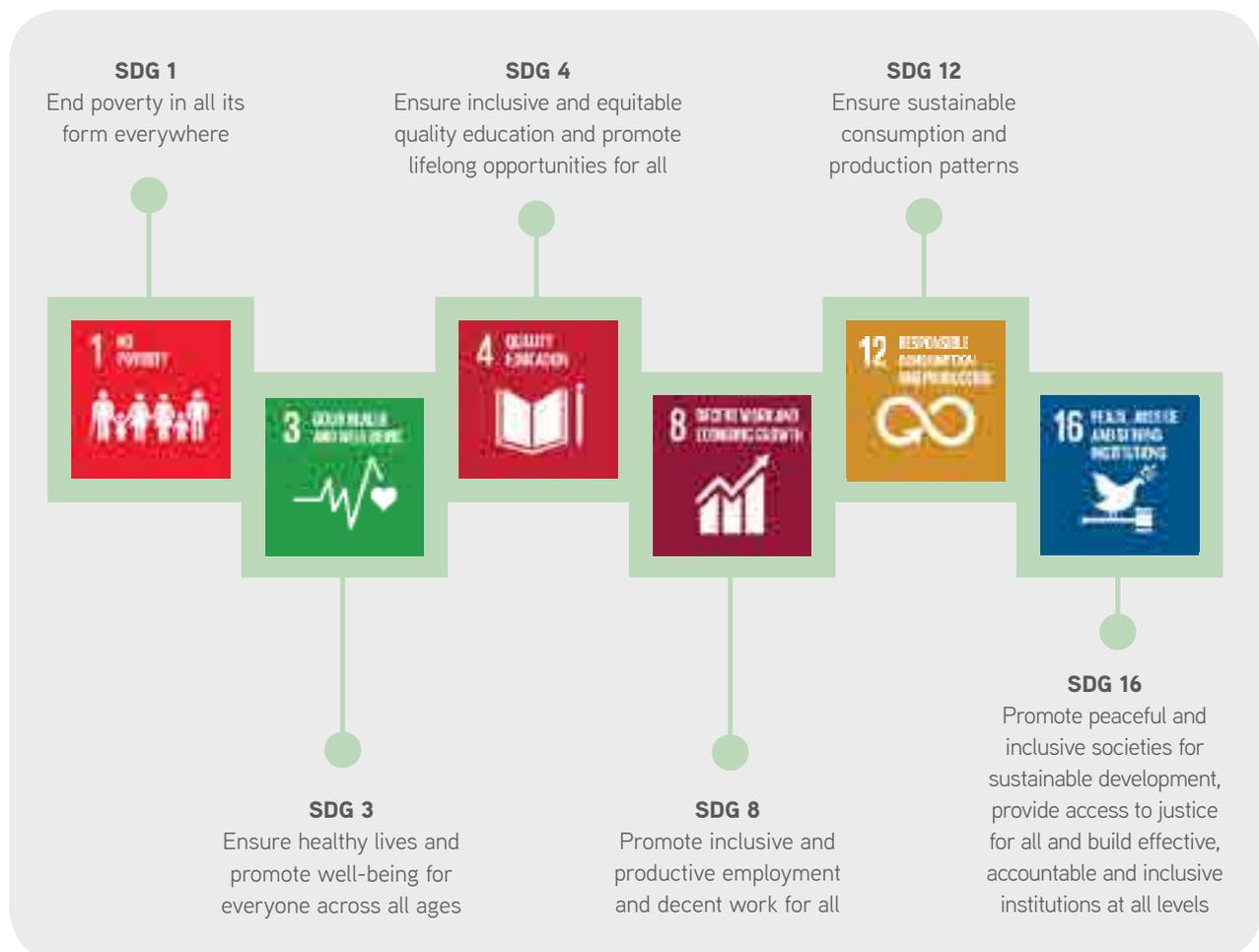
SUSTAINABLE DEVELOPMENT GOALS

The SDGs, adopted by all UN Member States in 2015, form the basis to collectively create a better future by addressing fundamental global challenges. Hai-O supports the UN agenda and believes that companies can play a significant role in helping to achieve these development goals.

Our SDG focus area remains consistent with what was reported in our FY2018 report as they are relevant to the Group's operations.

UN SDG FOCUS AREAS

We support the vision of the United Nations Sustainable Development Goals ("UN SDG") as a critical element in delivering sustainable development. Our primary focus is six goals that represent areas where we can best contribute.





SUSTAINABILITY STATEMENT

LEADERSHIP FOR SUSTAINABILITY

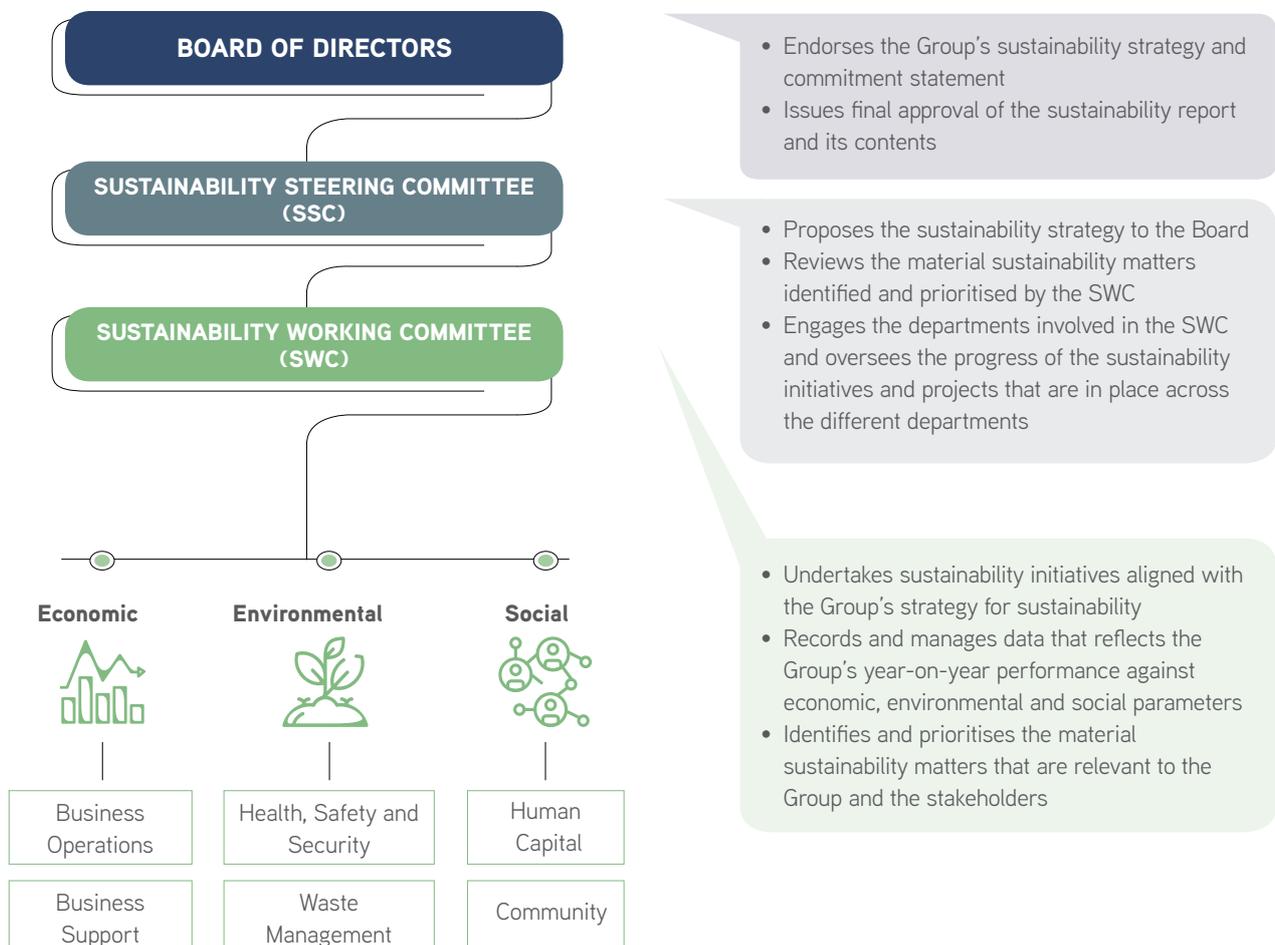
A robust governance structure is key to operationalising our sustainability strategy across the business, manage goal-setting and reporting processes, strengthen relations with external stakeholders and ensure overall accountability.

Our Board provides strategic direction for the Group and considers economic, environmental and social (“EES”) opportunities and risks that need to be addressed. Together with the Sustainability Steering Committee (“SSC”), the Board oversees sustainability-related matters across the Group.

The SSC comprises senior management members and is chaired by the Group Managing Director. They are supported

by the Sustainability Working Committee (“SWC”) which comprises key personnel from business support units and general management.

The following governance structure is in place to ensure the efficient management of sustainability issues and to provide prompt updates to our Board of Directors.



SUSTAINABILITY STATEMENT

STAKEHOLDER ENGAGEMENT

Core to the Group's success is our ability to develop strong and meaningful relationships with our stakeholders.

To fulfil our corporate mission and vision, and to provide sustainable returns to our shareholders, we must generate positive relationships with a broad range of stakeholders. We categorise our stakeholders based on the nature of their relationships with our business and how these relationships achieved through engagements, generate values for Hai-O and our stakeholders.

| FOCUS AREAS | ENGAGEMENT APPROACHES | OUTCOMES | FREQUENCY OF ENGAGEMENT |
|---|--|--|-------------------------|
| Employees | | | |
| The individuals that enable us to serve our customers. | | | |
| <ul style="list-style-type: none"> • Career development and advancement • Work-life balance • Employee health and safety • Employee benefits | <ul style="list-style-type: none"> • Performance appraisal • Regular health screening and check-up • Team building activities • Training and internship programmes | • Anniversary dinner and festive gathering | Annually |
| | | • Hai-O Higher Educational Aid and Excellent Academic Awards | Annually |
| | | • Loyalty and Outstanding Performance Awards | Annually |
| | | • Incentive trips (local and overseas) | Annually |
| | | • Kelab Muhibbah Hai-O | Regularly |
| | | • Hai-O Human Resource Online | Regularly |
| Customers | | | |
| The people that use our products and services. | | | |
| <ul style="list-style-type: none"> • Food safety • Product quality and branding • Customer-company relationship • Customer service and complaints resolution • Pricing and promotion | <ul style="list-style-type: none"> • Feedback and enquiry forms • Social media platforms • Customer Relations Management • Product standards and certifications • Corporate website | • Customer satisfaction survey | Annually |
| | | • Hai-O Chain Store Friendship Member | Regularly |
| | | • Credit application and evaluation | Regularly |
| | | • Product liability insurance | Regularly |
| Distributors | | | |
| The individuals that bring our products to product users. | | | |
| <ul style="list-style-type: none"> • Enhancement of distribution platform • Market demand for Hai-O products • Product quality and pricing • Product Development & innovation • MLM entrepreneurship | <ul style="list-style-type: none"> • Marketing plan • Product promotions • Incentive trip campaigns • Training and workshops • Events and conferences • Feedback and surveys | • E-bulletin | Quarterly |
| | | • E-sales kit and e-registration | Monthly |
| | | • Annual survey form | Annually |
| | | • Diamond Night | Annually |
| | | • Overseas incentive trip | Annually |
| | | • Crown Diamond Manager Conference | Annually |
| | | • SM/SSM Recognition Night | Periodically |
| Vendors and Suppliers | | | |
| The business partners that enable us to source, make and distribute our products. | | | |
| <ul style="list-style-type: none"> • Food safety • Product quality and branding • Customer-company relationship • Customer service and complaints resolution • Pricing and promotion | <ul style="list-style-type: none"> • Audits and evaluations • Meetings and trade fairs • Factory visits | • Vendor meetings to gauge satisfaction | Regularly |
| | | • Vendor registration screening | Regularly |
| | | • Vendor evaluation | Annually |



SUSTAINABILITY STATEMENT

STAKEHOLDER ENGAGEMENT (CONT'D)

| FOCUS AREAS | ENGAGEMENT APPROACHES | OUTCOMES | FREQUENCY OF ENGAGEMENT |
|--|---|--|---|
| Certification and Regulatory Bodies | | | |
| The regulators who monitor our business practices. | | | |
| <ul style="list-style-type: none"> Regulatory compliance Approval and permits Standards and certification | <ul style="list-style-type: none"> Meetings and consultations Training programmes and dialogues Audits and verification | <ul style="list-style-type: none"> Factory visits and monitoring | Regularly |
| | | <ul style="list-style-type: none"> External Consultant | Regularly |
| | | <ul style="list-style-type: none"> ISO, HACCP, SAMM, GMP, HALAL and US FDA certification | Regularly |
| Local Communities | | | |
| The individuals in the nearby community who are in need or are impacted by our operations. | | | |
| <ul style="list-style-type: none"> Quality of health and education Indirect economic impact Environmental impact of operations Community well-being | <ul style="list-style-type: none"> Community engagement and outreach programmes Donation and sponsorships Social and cultural activities | <ul style="list-style-type: none"> Hai-O Foundation | Regularly |
| | | <ul style="list-style-type: none"> Kelab Muhibbah Hai-O | Regularly |
| | | <ul style="list-style-type: none"> Ai Hua Jiao Fund Raising programme | 6 fund-raising events from June 2018 – October 2018 |
| | | <ul style="list-style-type: none"> "Daripadamu Untukmu" programme | Annually |
| | | <ul style="list-style-type: none"> Excellent Academic Awards | Annually |
| | | <ul style="list-style-type: none"> Filial Piety dinner | Annually |
| | | <ul style="list-style-type: none"> Health talks | Regularly |
| | | <ul style="list-style-type: none"> Blood donation campaign | Annually |
| Shareholders and Investors | | | |
| The investors and lenders who invest in our business. | | | |
| <ul style="list-style-type: none"> Financial performance Regulatory compliance Corporate governance Ethical business conduct Investment and divestment Internal control and risk management Board composition | <ul style="list-style-type: none"> Meetings and briefings Financial announcements and reporting Policies and frameworks Corporate website | <ul style="list-style-type: none"> Annual General Meeting | Annually |
| | | <ul style="list-style-type: none"> Annual report | Annually |
| | | <ul style="list-style-type: none"> Analyst reports | Regularly |
| | | <ul style="list-style-type: none"> Statutory records | Regularly |
| | | <ul style="list-style-type: none"> Investor Relations Policy, Whistleblowing Policy, Corporate Disclosure Policy, Dividend Policy | Regularly |
| Media | | | |
| The media and other opinion formers. | | | |
| <ul style="list-style-type: none"> Reputation and image Financial performance Business updates and corporate news Public relations | <ul style="list-style-type: none"> Social media platform Conference and interviews Events and functions | <ul style="list-style-type: none"> Press releases | Regularly |
| | | <ul style="list-style-type: none"> Media interview | Regularly |
| | | <ul style="list-style-type: none"> Joint collaboration CSR and cultural events | Regularly |

SUSTAINABILITY STATEMENT

MATERIAL SUSTAINABILITY MATTERS

Hai-O has been reporting our material sustainability matters since 2018. This year, we reassessed the materiality of each sustainability matters to our operations and stakeholders.

Materiality is the key principle that determines which issues are sufficiently important to be addressed and reported. The process to assess the materiality of issues is therefore critical to developing an effective sustainability strategy and achieving a high degree of transparency in reporting to stakeholders.

Our approach to determining material sustainability matters involves three steps. First, we identify sustainability matters which are relevant to Hai-O by taking into consideration our business operations and our stakeholders' concerns and interests. We then rank the importance of each material matter via a materiality assessment process which employs the weighted ranking method. The result of the assessment is presented as a materiality matrix. The matrix, as shown below, presents the prioritisation of our selected sustainability matters. Lastly, the sustainability matters which are material to Hai-O and our stakeholders are confirmed by the Board.





SUSTAINABILITY STATEMENT

MATERIAL SUSTAINABILITY MATTERS (CONT'D)

The 20 material sustainability matters categorised into Economy, Product, Governance, People and Planet that are material to Hai-O and our stakeholders are described below.

| | |
|--|---|
| <p style="text-align: center;">1. Economic Performance</p> <p>This topic is material to Hai-O because good economic growth will enable Hai-O to have adequate capital to maintain its social licence to operate, comply with new regulations and standards as well as prepare for potential risks and fluctuations in the future.</p> <p>GRI disclosures covered: Economic Performance, Market Presence, Indirect Economic Impacts</p> <p>Relevant to stakeholder groups: Shareholders and Investors</p> <p>Relevant SDGs: </p> | <p style="text-align: center;">2. Brand And Reputation</p> <p>Hai-O takes pride in its good branding and marketing strategies. We strengthen our corporate brand image by focusing on creative ideas that will build brand awareness while meeting customers' needs.</p> <p>GRI disclosures covered: Organisational Profile (General Disclosures)</p> <p>Relevant to stakeholder groups: Shareholders and Investors, Media</p> <p>Relevant SDGs: </p> |
| <p style="text-align: center;">3. Product Safety And Quality</p> <p>Our commitment to "promoting healthcare culture and improving human's well-being" entails the provision of safe and quality products.</p> <p>GRI disclosures covered: Customer Health and Safety, Marketing and Labelling</p> <p>Relevant to stakeholder groups: Customers, Certification and Regulatory Bodies, Distributors</p> <p>Relevant SDGs: </p> | <p style="text-align: center;">4. Customer Satisfaction</p> <p>This topic is material because by listening to the individuals who use our products, we can better understand how they interact with our products and identify ways to improve both the products and services that we offer.</p> <p>GRI disclosures covered: Stakeholder Engagement (General Disclosures)</p> <p>Relevant to stakeholder groups: Customers, Certification and Regulatory Bodies</p> <p>Relevant SDGs: </p> |
| <p style="text-align: center;">5. MLM Entrepreneurship</p> <p>We continuously invest in our Multi-Level Marketing, which is one of our main economic contributors, to create job opportunities and a platform for entrepreneurship excellence.</p> <p>GRI disclosures covered: Stakeholder Engagement (General Disclosures), Training and Development</p> <p>Relevant to stakeholder groups: Distributors</p> <p>Relevant SDGs:  </p> | <p style="text-align: center;">6. Corporate Governance And Risk Management</p> <p>Hai-O focuses on the prevention of risks and establishment of sound governance structure to maintain a fair and orderly market and a high level of investor confidence.</p> <p>GRI disclosures covered: Ethics and Integrity (General Disclosures)</p> <p>Relevant to stakeholder groups: Certification and Regulatory Bodies, Employees</p> <p>Relevant SDGs: </p> |

SUSTAINABILITY STATEMENT

MATERIAL SUSTAINABILITY MATTERS (CONT'D)

7. Talent Retention And Leadership Development

Human capital is key to our growth. We are dedicated to maintain a high standard of employment practices by attracting and retaining the right talents through their outstanding merits. This best practice enhances our company performance and the equity of the company as a responsible employer.

GRI disclosures covered:
Employment, Training and Education, Diversity and Equal Opportunity

Relevant to stakeholder groups:
Employees

Relevant SDGs:

**8. Product Certification**

Our healthcare products which improve the well-being of consumers are safe and of the highest quality and comply with statutory requirements and relevant standards. Our products are certified and regularly audited by external experts, regulatory authorities and external consultants.

GRI disclosures covered:
Marketing and Labelling

Relevant to stakeholder groups:
Certification and Regulatory Bodies, Customers

Relevant SDGs:

**9. Ethics and Integrity**

Ethics, bribery and corruption risk has been identified as one of the principal risks that could threaten our strategy, performance and reputation. Building trust can only be achieved through an ethical approach and we place significant emphasis on adopting the right behaviours.

GRI disclosures covered:
Ethics and Integrity, Anti-Corruption

Relevant to stakeholder groups:
Certification and Regulatory Bodies, Shareholders and Investors, Employees, Distributors

Relevant SDGs:

**10. Supply Chain Management**

We aim to build long-term, mutually beneficial relationships with third parties along our value chain. A good supply chain management supports reduction of risk and cost in supply chain and operations, as well as strengthens our commercial positioning.

GRI disclosures covered:
Supply Chain, Procurement Practices

Relevant to stakeholder groups:
Vendor and Suppliers

Relevant SDGs:

**11. Employee Well-being**

We nurture employees by providing fair remuneration and comprehensive benefit packages to assure job security for employees who are vital to Hai-O.

GRI disclosures covered:
Employment, Training and Education

Relevant to stakeholder groups:
Employees

Relevant SDGs:

**12. Product Innovation**

Fundamentally, we strive to contribute to better health outcomes by innovating safe products without exploiting people working in the supply chain or damaging the environment.

GRI disclosures covered:
Organisational Profile (General Disclosures)

Relevant to stakeholder groups:
Customers, Distributors

Relevant SDGs:





SUSTAINABILITY STATEMENT

MATERIAL SUSTAINABILITY MATTERS (CONT'D)

13. Succession Planning

It is paramount that we develop successors and identify next-in-lines to ensure a smooth transition in our operational structure. We oversee and follow up on the competency development of employees from their first day at work to help them advance to managerial level.

GRI disclosures covered: Training and Education

Relevant to stakeholder groups:
Shareholders and Investors, Employees

Relevant SDGs:



14. Training and Development

Hai-O has always made persistent efforts to equip employees with the right skills to keep them abreast of the latest knowledge and techniques. Our training programmes are aimed at enhancing the skills, capabilities and knowledge required for decision making and creative thinking.

GRI disclosures covered: Training and Education

Relevant to stakeholder groups:
Employees

Relevant SDGs:



15. Occupational Health and Safety

We operate in accordance with principles of occupational health and workplace safety to ensure a suitable and sustainable workplace environment.

GRI disclosures covered:
Occupational Health and Safety

Relevant to stakeholder groups:
Employees, Certification and Regulatory Bodies

Relevant SDGs:



16. Manufacturing Certification

This matter is material to Hai-O because we consistently stay proactive to ensure that our manufacturing processes perform as safe and as efficiently as possible.

GRI disclosures covered:
Marketing and Labelling

Relevant to stakeholder groups:
Certification and Regulatory Bodies

Relevant SDGs:



17. Community Engagement

Hai-O focuses on supporting and promoting development of communities as a way to demonstrate social responsibility and create engagement with the community and wider society to achieve sustainable advancement.

GRI disclosures covered:
Local Communities, Public Policy

Relevant to stakeholder groups:
Local Communities

Relevant SDGs:



18. Energy Consumption

Hai-O strives to use resources and energy in an efficient and environment friendly manner to help alleviate global climate change.

GRI disclosures covered:
Energy

Relevant to stakeholder groups:
Certification and Regulatory Bodies

Relevant SDGs:



SUSTAINABILITY STATEMENT

MATERIAL SUSTAINABILITY MATTERS (CONT'D)

| 19. Green Product and Packaging | 20. Waste and Recycling |
|--|--|
| <p>Hai-O works towards offering green products by avoiding harmful materials, sourcing raw materials with lower environmental impact and utilising sustainable packaging materials.</p> <p>GRI disclosures covered: Organisational Profile (General Disclosures)</p> <p>Relevant to stakeholder groups: Certification and Regulatory Bodies, Customers</p> | <p>We aim to reduce waste across the group while also stepping up efforts to reuse and recycle.</p> <p>GRI disclosures covered: Effluents and Waste</p> <p>Relevant to stakeholder groups: Certification and Regulatory Bodies</p> |
| <p>Relevant SDGs: </p> | <p>Relevant SDGs: </p> |



OUR ECONOMY

ECONOMIC PERFORMANCE

Over the years, Hai-O has expanded its portfolio from import trading, wholesaling and retailing of Chinese herbal products and medicated tonics to wide-ranging products and services. These products and services include beauty and healthcare products, clinical and traditional complementary medicine (“TCM”) consultation services, TCM contract manufacturing as well as health food and food supplements manufacturing. From a humble beginning with a small start-up capital, Hai-O has risen through many business challenges as it expanded over the years – please refer to Hai-O’s overall financial performance for FY2019 on pages 92 to 182.

At Hai-O, we constantly seek opportunities to strengthen our business and contribute to the growth of the local economy. Driven by our goal to become a sustainable healthcare provider, this section discusses our direct and indirect economic impact towards the communities.

Local Talent

We believe the talent of our people constitutes a competitive advantage which underpins the future of the Group. In support of the local economy, our senior management team consisting of the Group Executive Directors and General Managers of the

parent and principal subsidiaries are 100% Malaysians. We value the experienced local hires who have a lot to offer in terms of their local market knowledge, strategic planning and managerial skills, among others.

We provide attractive remuneration packages to employees without gender bias, as evident in a 1:1 ratio of entry level wage by gender. Since January 2019, Hai-O’s average wage for entry level non-executives in East Malaysia as compared to the nation’s minimum is 1.10:1; whereas in West Malaysia, the ratio is 1.13:1. Entry level executives, meanwhile, are competitively remunerated based on their qualifications as we strive to attract young talents into the Group.

Community Investment

In line with Hai-O’s corporate responsibility “Daripadamu Untukmu” programme, Hai-O continues to support educational causes to promote active growth in the society. Since FY2018, we have been collaborating with the Selangor State Education Department to implement the 21st Century Smart Classrooms Education Programme. We contributed approximately RM 200,000 worth of contemporary education tools and equipment which have been distributed to 10 primary schools.



SUSTAINABILITY STATEMENT

OUR ECONOMY (CONT'D)

Students of the 10 benefited schools sat for the 2018 UPSR in September 2018, only 11 months after the implementation of the programme in November 2017. SK Kampung Raja Uda and SK Tengku Bendahara Azman 1 achieved substantially better results for the 2018 UPSR with a 9.20% and 15.47% increase in passing rate respectively, whereas SK Rantau Panjang, SK Pandamaran Jaya, SK Abdul Samat and SK Tengku Bendahara Azman 1 recorded a higher rate of straight A students. In addition, 8 out of the 10 schools recorded a drop in the number of failure rates.



The programme has proven to be effective given the encouraging academic progress achieved in the 2018 UPSR results as compared to the previous year. We are proud to contribute to this programme and believe that this programme will further boost the academic performance of the future generation in the long run.

BRAND AND REPUTATION

Hai-O is committed to deliver the best product quality to our customers and uphold our reputation as a trusted business owner. Guided by the Group’s vision to become the premier healthcare company in Malaysia, we are pleased to present our branding strategies and recognition and accolades received during the year under review.

Our MLM marketing arm, SHOM, focuses on branding strategies targeted at “SHOM” corporate branding and several high potential products.



SHOM’s approach in the marketing and branding of MLM products is well researched, planned and executed with a specific objective. For example, SHOM has promoted Min Cha, a milk tea formulated with quality black tea leaves and bamboo salt, by showcasing its uniqueness and innovativeness through creative channels including Hari Raya video recipes, TV commercials, digital campaign – a Min Cha Mobile Interactive Campaign, sponsorships, and out-of-home (OOH) advertising – four billboards situated at strategic locations across Klang Valley.



Corporate branding: “Hai-O”, a well-established household name offering a wide range of traditional Complementary Medicines (TCM), Wellness and healthcare products in Malaysia

Objective: To constantly uplift corporate image through various channels and activities

Strategy: To preserve and uphold our “SEAGULL” Corporate Values



SHOM’s best-selling product, Min Kaffe was first introduced in 2008 and available in Malaysia, Indonesia, Singapore and Brunei. Made up of robusta coffee and 100% bamboo salt sourced from Korea, this product helps in promoting calcium absorption and energy production in the body.

For the year under review, Min Kaffe won the Brand Laureate SMEs Best Brands Awards 2018-2019 under the category of Most Established Brand Awards, Best Brands in Consumer – Premium Coffee.

SUSTAINABILITY STATEMENT
OUR ECONOMY (CONT'D)



In March 2019, Hai-O received Malaysia Health & Wellness Brand Awards 2018 for Traditional Medicine – Yang Sheng Chiew by Sin Chew Daily and Life Magazine.



In July 2018, Hai-O received the leading Traditional Chinese Medicines 2018 award by Malaysia Retail Chain Association (MRCA).

Hai-O's Retail division makes the most of festive seasons by initiating marketing and product awareness strategies during the festivities. During Chinese New Year 2019, a roadshow was organised at Universiti Sains Malaysia (USM) in an effort to penetrate the younger generation market and advertisements were placed in newspapers, social media and the radio stations. A product booth display was also set up during the festive season to raise brand awareness.

SUPPLY CHAIN MANAGEMENT

Hai-O implements an effective procurement system for new products through the New Product Listing Application Procedure and New Product Screening Summary. We screen new suppliers by requesting for the quality standard that they've attained such as GMP, HACCP and ISO and this is further supplemented by factory visits. Each year, we review and evaluate our approved suppliers' performance to detect non-conformity, if any, and to ensure that any risks arising are duly mitigated. In our MLM and Manufacturing segments, we proactively practise traceability and transparency throughout our supply chain management through the ISO 9001:2015 Quality Management System guideline.

In support of local businesses, we procure 64% of our materials from local suppliers. We ensure sustainable procurement by adhering to our purchasing control procedures. All our suppliers or subcontractors are required to conform to Hai-O's procedures and be consistent in delivering quality, competitive costing, responsiveness and supply reliability. In addition, proper procedures and controls must be followed across all relevant operations.



OUR GOVERNANCE

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Hai-O recognises its responsibility to comply with regulations and has the appropriate risk management systems in place to safeguard the interests of our shareholders. The Group has also implemented a risk management plan to anticipate and adapt to changing and evolving trends that may disrupt its businesses. For more information, please refer to the Statement on Risk Management and Internal Control on pages 84 to 88.

In our efforts to uphold transparency and gain the trust of all stakeholders, including potential investors, we provide updated business information through various methods of periodic reporting. On our corporate website, we consolidate such information for easy reference, including Annual Reports, AGM/

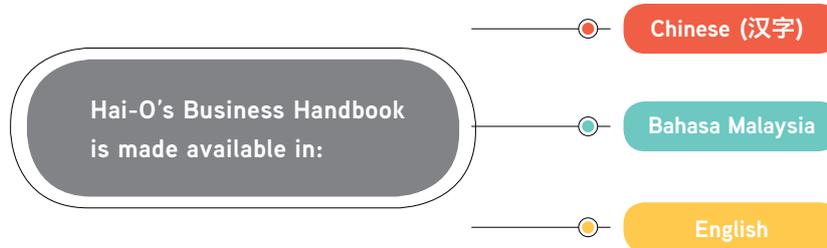
EGM minutes, Bursa announcements, press releases, Corporate Presentations, Results Updates and Analyst Reports.

Good governance also entails the ability to provide proper labour grievance channels for employees to raise personal concerns and make suggestions for the overall corporate well-being. We communicate the whistleblowing policy and grievance procedure to all employees through the Employee Handbook. The Group has also arranged the use of a suggestion box, located at the Ground Floor of Wisma's Hai-O office, for such purposes. For the FY2019, there were ZERO cases of labour grievances received through the provided channels.



SUSTAINABILITY STATEMENT

OUR GOVERNANCE (CONT'D)



ETHICS AND INTEGRITY

At Hai-O, we have set in place the Code of Ethics and Business Conduct, Whistleblowing Policy and guidelines to avoid conflicts of interest and to maintain a high standard of ethics and integrity within our Group. All Hai-O employees, senior management and the Board of Directors are required to strictly adhere to these policies. These policies and guidelines are stated clearly in the Employee Handbook which is communicated to every new employee on Orientation day and is also periodically updated and accessible through our HR Online internal portal. All new hires must sign an acknowledgement to confirm that they understand and will abide by these policies and guidelines.

We also require our MLM distributors to work ethically in line with our good business image and reputation. We distribute the Business Handbook to our distributors and this is available in multiple languages to cater to the needs of our multi-racial distributors. Key aspects addressed in the Business Handbook include the distributor's role in product exchange, advertising and promotion, data protection and price fixing.

Anti-Corruption

We have made it a priority to address the issues of anti-corruption and anti-bribery and have taken measures to provide the proper channels for employees and non-employees to report any malpractices.

To ensure that our stakeholders are aware of our current anti-corruption efforts, we have gone as far as communicating our corporate gift policy in an open letter. All necessary information is stated including the steps to take if any activities violate our policies, or if further clarification is needed. This will also be communicated to new staff on orientation day.

On 29 March 2019, the Group conducted a training for our managers on the subject of Corporate Liability Provision to clarify and emphasize the gravity of its implications. Due to our close adherence to the laws and regulations, there have been no reported incidents of misconduct by the Group during the reporting period.

SUCCESSION PLANNING

As a responsible business operator, preparedness in every form is needed to ensure that all operations run smoothly. To this regard, it is in our interest to formulate a succession plan. The Group has appointed a consultant to assist in the matter of establishing an appropriate succession plan. Currently, the process requires Hai-O's Human Resources department to work alongside the Remuneration Committee to identify potential next-in-line candidates that meet the criteria and expectations of the Group.

The ongoing process ensures that the Group develops and identifies a pool of qualified personnel for high-level positions that become available due to retirement, resignation, death, disability or new business opportunities. These qualified individuals are developed through training, mentoring, and job rotations.

SUSTAINABILITY STATEMENT



OUR PEOPLE



CDM Conference - One of the annual programmes to motivate and instil team spirit.

CUSTOMER SATISFACTION

Gaining customers' confidence and trust in our distributors and products is key to Hai-O's continued success and growth. We conduct open and frequent communications with our customers and take their opinions very seriously.

To ensure customer satisfaction, we conduct internal surveys such as the Yearly Distributor Survey and Product Evaluation Summary for new product development. We trust that our distributors know the expectations of customers, thus we obtain their input to cater to evolving customers' needs.

We also regularly engage with our customers through various means at our business divisions. For our MLM segment, we communicate and collate feedback, requests and concerns via:

- Corporate email at info@hai-omarketing.com.my and coe@hai-o.com.my
- Toll-free contact number: 1-800-88-2700
- Corporate website at www.hai-omarketing.com.my
- Internal bulletin
- Social media including WhatsApp, Facebook and Instagram
- Text via SMS and Telegram (one-way communication)
- Others including surveys, trainings, road tours, meetings, incentive trips, conferences and events

In FY2019, we received a total of 45 cases of minor product complaints, all of which have been addressed and resolved.

At our Retail segment, we primarily communicate with our customers through the Hai-O Friendship Member Programme. Hai-O Friendship Members are the first in line to benefit from exclusive invites and promotions, special seminars and other occasions which can be accessed at <https://mall.hai-o.com.my>. All customers, including non-members, can reach out to us at our retail outlets, through the corporate website or on social media. Members are also provided with a customer service hotline (printed at the back of their membership cards). Through these channels, a total of 4 customer service complaints and 5 product complaints have been filed and resolved.



SUSTAINABILITY STATEMENT

OUR PEOPLE (CONT'D)

In the Retail segment, customers can raise concerns, complaints and feedback via:

- Hai-O General Email: info@hai-o.com.my
- Hai-O Chain Store Facebook
- Hai-O Chain Store WeChat
- Hai-O Chain Store Customer Service Hotline: 03-3343 8889
- Customer Complaint/Feedback Form

During the reporting period, the Retail segment conducted a customer satisfaction survey with the following key outcomes from 40 respondents:

- α A total of 92% of our customers rated "Satisfied" on their overall experience with our service
- α 87% of our customers rated "Good" on the response by our retail staff to product enquiries
- α 97% stated they would visit our stores again

In March 2019, we initiated an additional engagement at our Klang retail outlet with free TCM consultation and treatment for a month.

In the Wholesale segment, Hai-O organised incentive trips for customers. In FY2019, 71 qualified customers went on two incentive trips in July and August 2018. These serve as very useful interactive sessions for the Wholesale segment to communicate and better understand its customers' needs. The Wholesale segment also reached out to customers by offering product samples, conducting roadshows and holding contests. The product sampling activity carried out at AEON and NSK in FY2019 included products like Yang Sheng Chiew, a healthy medicated tonic and Wincarnis, a medicated wine. Meanwhile, 5 cooking demonstration roadshows organised in collaboration with a local newspaper, the Sin Chew Daily (星洲日报), attracted an average of 150 individuals per roadshow. The cooking demonstrations showcased Hai-O's 10 selected products to create brand awareness and to penetrate into the end-consumer and household market.

The Wholesale segment also conducted a lucky draw contest which ended in April 2019, receiving 13,170 submissions for 70 prizes. We required submissions to be accompanied by completed feedback surveys in our efforts to understand our customers better.

In terms of grievances, the Wholesale segment received 2 minor customer complaints which have been resolved.

MLM ENTREPRENEURSHIP

Hai-O's MLM distributors have a roaring entrepreneurial spirit and act as the key ambassadors for our business. We do our utmost to nurture, support and invest in our distributors to help them understand the Group, our products and how to run a business efficiently, ethically and successfully. In FY2019, we conducted more than 80 training programmes, including overseas seminars, for our distributors.

| Training | Objective |
|--|--|
| Product Talk and Product Knowledge | To provide platform for distributors to gain knowledge of Sahajidah Hai-O products. |
| Sahajidah Hai-O X PT Hai-O Indonesia Training | To highlight opportunities for extensive business expansion in Indonesia. |
| External Carnival Training | To enhance branding and recognition in mass market. |
| Carnival Organised by SHOM | To attract new members and renew existing members as well as to boost sales in the East Malaysia region. |
| Digital Marketing | To tap the virtual market and capitalize on current trends in digital marketing. |
| CDM | To update leaders about SHOM's latest promotions. |

SUSTAINABILITY STATEMENT
OUR PEOPLE (CONT'D)

In addition to training and education, we also incentivize high-performing distributors via monthly sales bonus, overseas trips, premium invitation as guest speaker, rank progression and other privileges; as well as awards including CDM Excellence Award, CDM Master Excellence Award, Top 3 Excellence Award and Diamond Star Award.

These awards are conferred during major events such as SHOM's 26th anniversary at Setia City Convention Centre (SCCC) with the theme "Embrace the Future", SHOM Diamond Night 2018 which was also held at SCCC, as well as SM/SSM Recognition held at Imperial Hotel Kuching. At the end of each of these major events, we distributed feedback forms to obtain constructive feedback on logistics, events, hall preparation and services and to assess how the event has helped to improve motivation, inspiration and sales performance. We also request similar feedback from our distributors during overseas seminars and market research trips.

As at 30 April 2019, our MLM distributors totalled 121,000, of which 80% were women. We regularly monitor our distributors' progress in order to provide constructive support in a timely manner. In the 2018 Distributor Survey, we focussed on 5 main aspects, i.e. Product and Distribution, Activity and Event, Customer Service and Communication, Information and E-Commerce and Product Pricing. The survey garnered responses from 1,011 distributors with overwhelmingly positive feedback.

| 2018 Distributor Survey | 1 - 2 | 3 | 4 - 5 |
|--|-------|------|-------|
| Product and Distribution | | | |
| Product satisfaction | 0.9% | 0.3% | 98.8% |
| Promotional campaigns encourage business growth | 0.7% | 1.9% | 97.4% |
| Ease to purchase products | 1.5% | 5.3% | 93.2% |
| Activity and Event | | | |
| Recognition and award events increase motivation for downline | 0.6% | 1.9% | 97.5% |
| Improved skills after attending courses/training organised by SHOM | 0.6% | 2.7% | 96.7% |
| Customer Service and Communication | | | |
| Service satisfaction from brand and stockist | 2.1% | 3.9% | 94.0% |
| Service satisfaction from SHOM customer service | 1.6% | 6.0% | 92.4% |

| | |
|---|---------------------|
| 1 | Most unsatisfactory |
| 2 | Unsatisfactory |
| 3 | Average |
| 4 | Satisfactory |
| 5 | Very satisfactory |

| Distributor Survey | Yes | No |
|--|-------|-------|
| Information and E-Commerce | | |
| Receive SHOM's latest information | 98.3% | 1.7% |
| Satisfied with information channel | 97.4% | 2.6% |
| Aware of SHOM's e-commerce platform | 77.3% | 22.7% |
| Purchase products through SHOM's e-commerce platform | 49.3% | 50.7% |
| Satisfied with e-commerce's service quality | 93.6% | 6.4% |
| Others – Product Pricing | | |
| Monitor selling price of downlines | 97.7% | 2.3% |
| Inform/remind downline about product fixed pricing | 98.5% | 1.5% |



SUSTAINABILITY STATEMENT

OUR PEOPLE (CONT'D)

COMMUNITY ENGAGEMENT

In an effort to support unity, Hai-O contributes to Tabung Harapan Malaysia to lessen the nation's economic burden and benefit the community as a whole



Hai-O's Founder, Mr. Tan Kai Hee, and Hai-O Foundation made a RM2,000,000 donation during the Kempen Derma Tabung Harapan Malaysia Fund Raising Dinner on 22nd July 2018. The event, which was held in Shah Alam, attracted more than 3,000 attendees including the Prime Minister and Selangor Chief Minister.



Pesta Harapan Malaysia 2018, a celebration for Malaysia Day, aims to promote unity through the Unity Concert and Harapan LED Run. SHOM was the Official Healthy Lifestyle Partner of the event, serving ice cold MinCha with MinKaffe cookies to the participants. Part of the net proceeds from the festival was donated to Tabung Harapan Malaysia. Hai-O also sponsored RM100,000 for the event.

Sports, Arts, Culture and Education



The Hai-O Foundation and Sin Chew Daily (星洲日报) organised the Ai Hua Jiao fund raising campaign which raised RM24 million for 6 selected schools in FY2019, the highest total funds raised in a year since its inception. This campaign aims to empower the future generations by providing high quality educational infrastructure and facilities. Over the past 9 years, through the Ai Hua Jiao Concert, the campaign has raised a total of RM97.4 million which benefited 59 Chinese-medium schools.



Kelab Muhibbah Hai-O, Nanyang Siang Pau and Life Magazines organised a badminton tournament to strengthen Hai-O's relationship with the community and to encourage involvement in healthy activities.

We collaborated with Xiamen University Malaysia to participate in the university's career and employment activities, exploring mutually beneficial opportunities to develop, support and enrich educational programs and training in the TCM field.

SUSTAINABILITY STATEMENT OUR PEOPLE (CONT'D)

Sports, Arts, Culture and Education



The first annual Hai-O Arts and Culture Grants was launched under the patronage of Hai-O Foundation on 28 November 2018 to encourage and support Malaysian arts and cultures across all ethnicities.

Eight eligible applicants received a total of RM50,000 at the grant presentation ceremony held during Hai-O's 44th anniversary dinner on 29 April 2019.



Hai-O Foundation joined The Rotary Club of Bandar Utama to visit the Jehai Orang Asli Outreach Literacy Homebased School Programme at Kg. Sungai Tekam, Perak. The Foundation donated RM35,000 to improve school facilities and spent time with the locals to understand the need to improve their education and well-being.



Hai-O introduces the Excellent Academic Awards in 2016 to cherish the success of our MLM entrepreneurs and employees as dedicated and committed parents.

A total of 128 entrepreneurs and 8 Hai-O employees together with their children received the Excellent Academic Awards in 2019.



The Hai-O Foundation has successfully implemented a holistic social impact programme coined as "Clothes of Confidence" (CoC), providing brand-new sets of school uniforms as well as developmental workshops to 350 underprivileged students from 7 schools in the country.

The developmental workshops being offered include topics on financial empowerment (Money & Me), goal-setting (I Believe In Me), communications (My Voice & I), leadership (The Leader In Me) and mental health awareness (My Mind Matters). This programme is designed to help and encourage beneficiaries to become versatile and balanced students, in line with the aspirations of the National Education Philosophy.

The Hai-O Foundation donated a total of RM29,967 in FY2019 with the support of 6 employees who help to facilitate the smooth running of the programme. School uniforms were distributed and workshops were conducted from October 2018 until November 2018 before the year-end school holidays. The appreciation ceremony took place in January 2019.

The Hai-O Higher Educational Aid was launched in 2014 to provide financial assistance to employees' children pursuing degree or postgraduate programmes at higher learning institutions. The programme aims to encourage youths to further their studies for professional progression and also serves as a token of appreciation to loyal employees and their children.

During the financial year 2019, the aid has provided assistance amounting to RM95,000 to 19 eligible employees' children.



SUSTAINABILITY STATEMENT

OUR PEOPLE (CONT'D)

Improving health and well-being



Hai-O's Founder, Mr. Tan Kai Hee, was nominated as The Rotary Club Project Ambassador to raise awareness on polio prevention and the importance of vaccination.

The Global Polio Eradication Initiative, which was launched in 1988, is also supported by other public figures including Bill Gates, Jackie Chan and Dato' Zainal Abidin.

SHOM participated in a humanitarian drive in support of the Rise Against Hunger charitable event held by the Direct Selling Association of Malaysia (DSAM). Besides sending 13 staff to help pack nutritious meals for the Rise Against Hunger campaign held in September 2018, SHOM also donated RM2,500.



A total of 80,000 packed meals were prepared by more than 160 DSAM volunteers to be distributed to victims of poverty-stricken areas, disaster-affected areas, etc.

The Majlis Hari Raya 2018 which was held at the Setia City Convention Centre was graced by the presence of orphans from Pertubuhan Kebajikan Anak-Anak Yatim dan Miskin Sungai Pinang Klang.

A total of 350 guests were invited to the annual celebration with the slogan "Kongsikan Kebahagiaan, Raikan yang Tersayang". As part of the Hari Raya celebration and to ease the burden of the orphanage house, SHOM donated RM5,000 during the event.

Kelab Muhibbah Hai-O co-organised a blood donation campaign with the Angkatan Pertahanan Awam Unit Sungai Pinang at Klang Parade on 18 and 19 August 2018. The campaign aimed to raise health care awareness with activities such as free health and dental check-ups and CPR demonstration.

The Hai-O Kelab Muhibbah team of 20 also sponsored 500 door gifts worth a total of RM5,000. The event successfully collected 293 bags of blood from 500 participants.



SUSTAINABILITY STATEMENT
OUR PEOPLE (CONT'D)

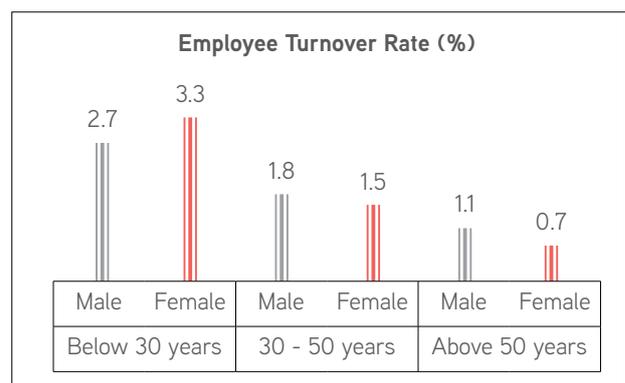
EQUAL EMPLOYMENT OPPORTUNITIES AND LEADERSHIP DEVELOPMENT

Hai-O is committed to fostering a culture of diversity in its workforce. Our Human Resources culture centres on 3 core values: Sense of Belonging, Teamwork and Equal Opportunity.



The demography of Hai-O's workforce in FY2019 is illustrated above, comprising 526 individuals of different race, gender and age group. We provide opportunities to qualified individuals based on their merits, competency, experience and other relevant qualities. We strictly do not discriminate and provide opportunities to the less fortunate, counting among our employees 6 individuals with disabilities.

In FY2019, we hired a total of 111 new employees and recorded an annual average turnover rate of 1.7%.





SUSTAINABILITY STATEMENT

OUR PEOPLE (CONT'D)

Hai-O employees receive regular performance and career development reviews. We use this process to identify high-performing and loyal employees who have excelled in their respective positions and reward them with cash prizes and overseas trips.

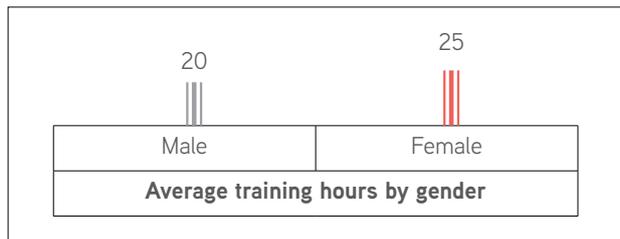
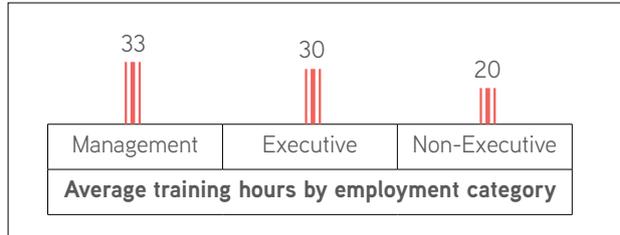
| Awards | Frequency | Number of Recipients (FY2019) |
|--|--------------------|-------------------------------|
| Best Employee Award | Biennially | 2 |
| Best Company Award | Annually | 1 |
| Best Sales Personnel Award | Annually | 1 |
| Best Performance Award (retail outlet) | Annually | 5 |
| Best Franchisee Award | Biennially | 1 |
| Long Service Award | Upon qualification | 27 |

EMPLOYEE WELL-BEING

Hai-O has added a new benefit for all confirmed employees, providing a medical card covered by the Group's Hospitalisation and Surgery Insurance. Our employees are also entitled to annual health screening reimbursement in addition to other benefits including social security, special allowances, medical insurance, monetary bonus and incentives, staff rate for Hai-O products, free Hai-O Friendship membership, incentive trips and teambuilding events. Employees reaching their retirement age are given opportunities to continue working on a full-time or part-time basis.

TRAINING AND DEVELOPMENT

As a Group, Hai-O remains committed to the principle of equality in providing opportunities for learning and growth. In FY2019, employees at our headquarters completed a series of training programmes totalling 6,423 training hour; and employees at our retail outlets, 5,858 training hours. Our managers are required to attend at least 16 hours of training and executives, 8 hours annually. On average, our employees completed 23 hours of training per year which included career development courses, seminars, workshops, and more.



Each training session targets specific skills and knowledge for the professional development of our employees.

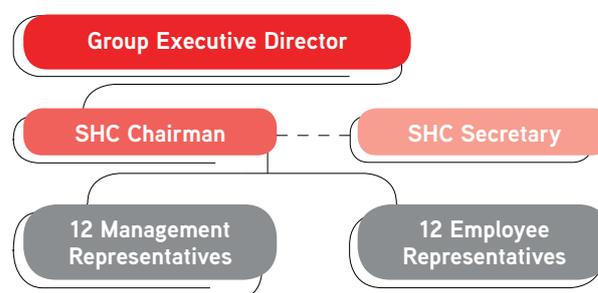
| | Target skills | Related lesson/training |
|----|--|---|
| 1. | Business management | Important leverage points identification, future playbook, high performance transformation, workplace challenges, proven frameworks and methodologies, customer service |
| 2. | Product knowledge | Makeup demonstration and techniques, microbiology test methods, traditional medicine and health supplement product quality review, product verification, promoter briefing, product information, good manufacturing practice |
| 3. | Accounting, Finance and data analysis | Financial and risk analysis, financial reports interpretation, digital forensics, financial statement fraud, RPGT, stamp duty law, financial reporting standards (MFRS) update, 2019 Malaysia Budget, sustainable investment landscape and research, ESG data analysis, real estate investment, innovation investment |
| 4. | Audit and Risk management | Adding value and managing risks in business, related party transaction, value-added management, independent assurance, risk management, fraud prevention analysis |

SUSTAINABILITY STATEMENT
OUR PEOPLE (CONT'D)

| | Target skills | Related lesson/training |
|-----|--|--|
| 5. | Corporate Governance | Key stakeholders' interest and directors' responsibilities to each stakeholder group, common issues faced by independent directors in discharging their duties, develop strategies and action plans and build camaraderie in the boardroom, talent development, issues and best practices for the remuneration committee |
| 6. | IT management, Cyber security and Digital Marketing | Data storage, cloud management solutions, SAP system, cybersecurity protection, secure application, cyber security risk management, cyber threats, social media, e-platform, mobile e-commerce, e-wallet, cashless business |
| 7. | Compliance and regulatory | HACCP internal audit, Unclaimed Money Act, Direct Sales Act, Sales and Services Tax (SST), Halal requirements, Malaysian Anti-Corruption Commission (Amendment) Act 2018, ISO 17025:2017, bird's nest export permit, OSH Act 1994 |
| 8. | Human Resource management | Experts and global business icons engagement, full industry perspective assessment tools, talent sourcing, succession planning, SOCSO benefits, KWSP, LHDNM, PERKESO, JTK, HRDF grant, current generation, employee benefits, cultural shifts, latest industrial revolution |
| 9. | Safety, Health and Wellness | Safety and health committee, HSE policy, OSHA requirements, safety meeting, prevention awareness, medical report, wellness programme, fire safety, safety and health management system |
| 10. | Self-development | Positive and proactive outlook, time management, work prioritisation, productivity enhancement, public speaking, inspiration and motivation, customer service, business writing and planning, communication, interpersonal development, video & photo editing, leadership, general insurance & protection |

OCCUPATIONAL HEALTH AND SAFETY

In FY2019, we established Hai-O's Safety and Health Committee (SHC) comprising management level employees and selected employees from relevant business units. The SHC is tasked to draw up SHC policy and guidelines for the benefit of workplace health and safety. To ensure that the Board of Directors are kept abreast of Hai-O's overall health and safety issues, the SHC Chairman reports directly to the Group Executive Director.



A number of programmes was conducted to discuss and promote safety and health issues and apply safety measures in our daily work. These programmes include:

Headquarters

- Fire Prevention and Emergency Talk
- Safety Made Simple: Meeting the Safety Needs of Your Employees
- Fire Drill: Lecture, Fire Exercise and Demonstration of Fire Extinguishers
- Fire Prevention Talk
- Roles of Safety and Health Committee and Drafting HSE Policy

Retail outlet

- Outlet Supervisor: Fire Prevention, CPR and First Aid for Food Obstruction/Choking Training
- 2nd & 3rd line Retail Staff: Retail Management Course Four – Shop Safety, Security & Prevention Management
- New Retail Staff: Orientation & Induction Programme – Fundamentals of Retail Management, Shop Safety, Security & Prevention Management

Despite our efforts to reduce accidents and mishaps at the workplace, we recorded one incident at our headquarters which resulted in 9 days or 72.5 hours of lost work time, and one incident at our retail outlet which led to 1,216 hours of lost work time.



SUSTAINABILITY STATEMENT



OUR PRODUCT

PRODUCT INNOVATION

Hai-O is committed to offering our customers high quality health products that do not contain harmful toxic chemicals. We use ingredients with natural healing properties backed by extensive history as traditional medicine.

We are pleased to introduce another innovative product in FY2019: the Honbo Royal Bee Plus which consists of royal jelly, propolis, bee pollen, ginseng, and gano. This product is the first in the market to combine all 5 ingredients in a single formulation.



Bee pollen, propolis and royal jelly:

- Bee pollen is a remarkably nutritious food which contains vitamins, minerals, carbohydrates, lipids and protein.
- Royal jelly is referred to as such due to it being the main source of sustenance to the queen bee to support her longevity.
- Propolis is known as "bee glue" as it seals the external surface of the hive. It is well known for its antioxidant, antiseptic, anti-inflammatory and antibacterial properties.

Ginseng and Gano:

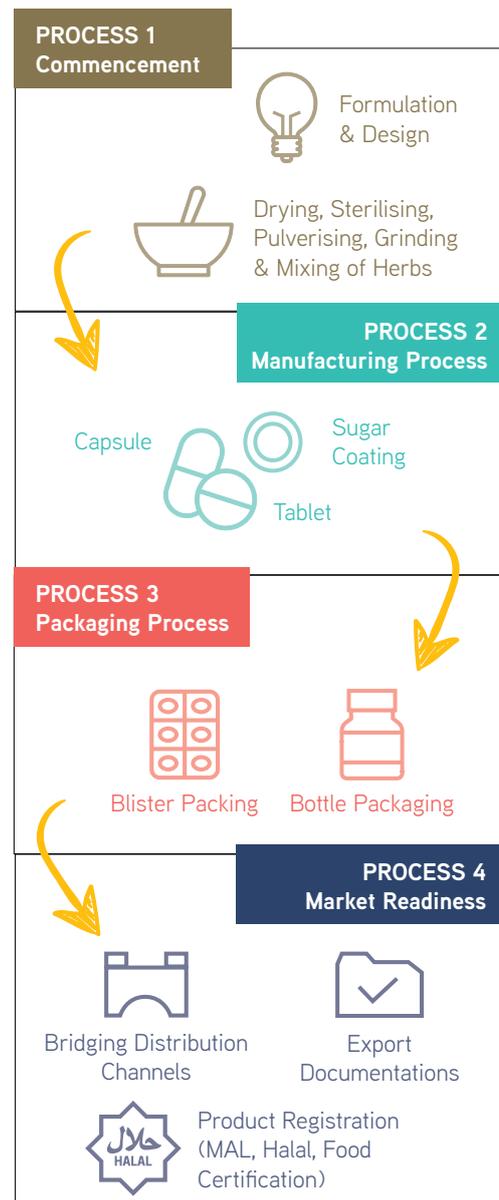
- Ginseng and the Reishi mushroom, also known as Gano, have been used in TCM for over a thousand years. They help to strengthen the immune system and other biological functions and are often used as supplements or infused in tea. Both are immensely popular in Asia.

We recognise the need to earn consumers' trust and loyalty and will continue to introduce innovative products from natural traditional ingredients.

PRODUCT SAFETY AND QUALITY

We pride ourselves in using only quality ingredients and also adhering to strict regulatory requirements at our certified laboratories and manufacturing plants as our customers' health and safety is of utmost importance. Every step of the manufacturing process from commencement to manufacturing, packaging and market readiness is designed with product quality and safety as the key focus. We also undertake vigorous testing to detect the presence of contaminants and to evaluate the efficacy of each product for its intended use.

Production Flow In Manufacturing Segment



SUSTAINABILITY STATEMENT OUR PRODUCT (CONT'D)

We comply with regulations set by the National Pharmaceutical Control Bureau (“NCPB”), the Drug Control Authority of Malaysia, which uses a strict registration and licensing scheme to maintain the quality, safety and efficacy of products distributed in local markets. All Traditional Complementary Medicines (TCM) with MAL¹ registration number including health supplements and traditional preparations have been registered with the NCPB.

Products under our MLM segment are assessed by professional testing bodies recognised by government agencies to their safety and health impacts. The safety of the products are governed by regulatory bodies including the National Pharmaceutical Regulatory Agency (“NPRA”) and the Food Safety and Quality Division (“FSQD”) under the Ministry of Health.

All products are assessed for their respective shelf-life/validity period to make sure that products sold are safe to use/consume. The shelf life for each product category is as illustrated.



Some examples of product tests are presented below:

| Product | Tested For |
|---|--|
| Honbo Royal Bee Plus | Moisture, Lead, Arsenic, Mercury, Cadmium, Salmonella, Escherichia coli, Staphylococcus aureus |
| Hai-O Cordy Essence Plus | Moisture, Lead, Arsenic, Mercury, Cadmium, Salmonella, Escherichia coli, Staphylococcus aureus |
| Turkey Liver Sausage – High Grade Sausage (seasonal product) | African Swine Fever Virus and Clostridium botulinum |

Product Recall Policy

We have put in place product recall policies to address the handling of defective products. Such products are immediately recalled by the relevant segments upon notification and verification.

We have taken additional steps on counterfeit products to not only safeguard our business, but more importantly to protect our consumers. At our MLM segment, we provide regular training to our distributors to upgrade their product knowledge. We ensure that the trademark registration of our products is properly managed to protect our customers and business interests, and to help reduce the risk of counterfeit products. We will begin the implementation of QR codes for MLM products enabling customers to scan labels and packaging to check product’s authenticity.

PRODUCT AND MANUFACTURING CERTIFICATION

We have received the HALAL approved certification for more than 100 products and KKLIIU² certification which allows us to advertise our products through the appropriate channels.

Our manufacturing plants at Lot 1388 and Wisma Hai-O are certified under the Good Manufacturing Practice (GMP), the ISO certification for quality management, HACCP as well as SAMM (for our laboratories).

| Certification | Audit Frequency |
|---------------------------------------|-----------------|
| GMP Lot 1388 | Annually |
| GMP Wisma Hai-O | Annually |
| ISO 9001:2015 | Annually |
| SAMM Accreditation (MS ISO/IEC 17025) | Annually |
| HACCP | Biennially |

¹ On the packaging of all registered products are labels with the two distinct features: the registration number (starting with “MAL”), as well as the hologram security label.

² Pharmaceutical Services Division, Ministry of Health Malaysia



SUSTAINABILITY STATEMENT

OUR PLANET

GREEN PRODUCT AND PACKAGING

As a Group, Hai-O has adopted the ethos of sustainability because we are cognisant that environmental stewardship is critical to the sustainability of businesses.

As a responsible multi-business Group, we are committed to minimising the environmental footprint associated with our services and products.

Several of our MLM products, including products in the Kidivo and Infince range, are 100% natural and made with non-GMO sources of raw materials. The raw materials used are of plant origin, which made these products 100% biodegradable and safe to the environment.



| Products | Description |
|--|--|
| Kidivo™ Natural Head-to-Toe Wash | 100% Natural, non-GMO, all raw materials from plant origin and 100% biodegradable |
| Kidivo™ Natural Moisturizing Lotion | 100% natural and made with non-GMO sources of raw materials. The raw materials used are of plant origin, which made these products 100% biodegradable and safe to the environment. |
| Infince Radiance-boost Exfoliating Face Scrub | Use of Jojoba beads (biodegradable) instead of microplastics (non-biodegradable) that are harmful to aquatic life and the ocean |

OUR INGREDIENTS



Under our Retail business, we encourage the use of vegetarian capsules to substitute for bovine capsules. Despite the higher cost, vegetarian capsules offer extra benefits in terms of stability and solubility and are perfect for people who cannot consume gelatine for religious, cultural or dietary reasons. The MLM segment also offers vegetarian capsules for its health supplement capsules.



SUSTAINABILITY STATEMENT

OUR PLANET (CONT'D)

WASTE AND RECYCLING

We aim to efficiently use resources, reduce waste, reuse and recycle where possible to minimise our environmental footprint. The table below compares our total waste generation in FY2018 and FY2019.

| Types of waste | Unit | FY2018 | FY2019 |
|--------------------|--------|--------|--------|
| Plastic | pieces | 693 | 650 |
| Paper | kg | 3,334 | 9,350 |
| Metal | kg | 2,299 | 6,130 |
| Battery | units | 11 | 7 |
| Toner casing/parts | pieces | 0 | 232 |

As listed above, we managed to reduce the waste production of plastics and battery in FY2019. On the other hand, higher waste generated for the other categories were mainly due to the disposal of old archive files and documents and the renovation of warehouse in Wawasan Hai-O.

At Hai-O, glass disposal is specially arranged at designated sites with allocated containers. In FY2019, two trips were made to safely dispose an accumulated 760 kg of broken glasses at an engineered landfill approved by the Department of Environment. This was an increase from the 230 kg recorded last year.

Meanwhile, we are encouraged by the positive outcome following the implementation of e-registration platform for new MLM members in FY2018. In FY2019, 95% of our new members have signed up through e-registration as compared to 45% last year. Through this, we are able to reduce the use of papers for manual registration. In addition, members who signed up online will receive our E-sales kit and E-bulletin as opposed to paper copies, hence helping to reduce waste and printing cost.

ENERGY CONSUMPTION

A major source of Hai-O's carbon footprint comes from energy use in our offices. In FY2019, Hai-O continues to improve its energy efficiency and consumption through the installation of LED lights.

As at 30 April 2019, Hai-O has replaced up to 40% of incandescent and fluorescent light bulbs with LED lights, an increase of 10% compared to last year. The LED light conversion was mainly for our buildings at Wisma Hai-O, Wawasan Hai-O and Menara Hai-O (formerly Sun Kompleks) located at Jalan Kapar, Klang and Kuala Lumpur respectively. LED lights are longer lasting and much more energy and cost-efficient. The conversion has helped to reduce Hai-O's total energy consumption from 1.98m kWh in FY2018 to 1.93 million kWh in FY2019, translating to energy savings of more than 50,000 kWh and cost savings of more than RM30,000.

In FY2019, two new MLM branches at Tawau and Sandakan have been installed with 100% LED lights. In retail, the number of outlets using 100% LED lights has increased to 8 out of 50 outlets from 7 in FY2018, leading to about 19% annual cost savings.

CONCLUSION

We have strengthened our management approach towards sustainability-driven endeavours through the formalisation of Hai-O's Sustainability Strategy and Sustainability Policy in FY2019. We will continue to monitor our yearly performance and further improve our sustainability initiatives. We will strive to maintain our economic, environmental and social progress in the coming years to build a strong, sustainable and resilient business.



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