Iconic Worldwide Berhad
53rd Annual General Meeting held at the Function Room Iconic 5, Level 7, Iconic Hotel at 71 Jalan Icon City, Bukit Tengah, 14000 Bukit Mertajam, Penang on Thursday, 29 September 2022 at 10.30 a.m.

Answers to Questions posed in relation to the MSWG Letter dated 15 September 2022

Operational and Financial Matters

1. Despite a more than twofold increase in turnover to RM107.14 million in FY2022 from RM49.17 million in previous year, Iconic's net profit merely grew by 8.56% to RM9.6 million compared to RM8.83 million in FY2021 (page 90 of Annual Report 2022).

   Consequently, net profit margin decreased to 8.95% from 17.97% in the year before. At the same time, the return on equity slid further to 4.78% against 5.3% earlier.

   Question 1(a):

   Considering the rising interest rate, Iconic's current debt level (as opposed to net cash position in FY2021) and depreciation charge of property, plant and equipment arising from business expansion, would the Board be able to maintain similar or better bottomline performance in FY2022?

   Reply:-

   With the available glove and mask production lines, the manufacturing segment of the Group is capable of generating a much higher revenue to meet the expected rising cost. Nonetheless the ability of the Group to maintain or improve the bottom-line performance in FY2022 would very much depend on its ability to manage the impact arising from fluctuations in external factors particularly the export market demand, the rising export costs, raw material costs, labour costs as well as certifications and compliance costs.

   As for the development segment, the soon to be launched new development project comprising affordable housing scheme sometime at the end of FY2022 is expected to provide the continuity in the revenue stream of the Group and help to contribute towards its performance.

   Question 1(b):
   What are the strategies to improve the profit margin and consequently deliver better shareholders value?

   Reply:

   Following are some of the strategies to be adopted to improve the profit margin and consequently deliver better shareholders value:
   - Improve production efficiency and reduce wastages
   - Secure orders sufficient for mass production, thus reduce operating costs
   - Launch new property development projects that attract larger market segment such as affordable housing schemes
   - Initiate cost-saving exercises and value engineering
   - Market, distribute and sell PPE products to developing countries for better profit margins.
   - Explore other medical or PPE products

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2. The Company did not recommend any payment of dividend despite posting profits in FY2022, FY2021 and FY2020.

   Question 2(a):

   What was the reason for the Board not declaring any dividend in FY2022 even though the Group recorded a higher profit in FY2022?

   Reply:

   The Group was undergoing business expansion and required substantial amount of working capital for its new venture into PPE manufacturing.

   Question 2(b):

   When is the right time for Iconic to reward shareholders with dividends?

   Reply:

   The Board will deliberate on the matter relating to dividend declarations when the Group's businesses stabilise and are able to generate adequate positive cash flow.

   Question 2 (c):

   Will the Board formulate a dividend policy? If yes, what is the guidance?

   Reply:

   The Board will look into it when it is ready to cross that bridge.

3. About 63.5% of the Company's RM107.14 million revenue in FY2022 were generated by the manufacturing of personal protective equipment (PPE) which includes face masks, gloves and in-vitro diagnostic medical devices.

   Question 3(a):

   What is the outlook for the demand and supply of face masks and gloves, considering the pandemic relaxation measures globally e.g., optional use of face mask, as well as declining average selling prices (ASPs) for gloves? How would these developments affect the supply and demand dynamics for face masks and gloves?

   Reply:

   The demand for face masks is expected to naturally decline, but based on market observations, 60-70% of the population in Malaysia will continue to wear face masks in public even when the use of face mask is no longer mandatory. We will continue to supply quality face mask products to the local market and also look to expand further into the international market.

   As for the glove industry, countries worldwide are well aware of the importance of PPE to avoid another pandemic outbreak. The demand will increase as the usage will be from the global healthcare and services industries. The current drop in demand is mainly due to the overstocked position by the major buyers during the volatile market. Once the stock levels deplete, the demand will eventually increase. This situation is expected to normalise by the beginning of 2023. The declining ASP is mainly caused by manufacturers' and distributors' significant stock and warehouse clearance activities and this is deemed a short-term event. The ASP is expected to be on the uptrend once the situation normalises.

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Question 3(b):

What are the strategies to compete with the Big Four glove makers in ramping up the export sales of Iconic's PPE products?

Reply:

The glove market is a worldwide open market, and the usage of gloves is expected to increase annually. As a new player in the market, the Group will focus on producing and supplying our customers with quality products, focusing on large quantities and long-term deals that will benefit the Group. We are also committed to produce products that comply with all major international manufacturing standards and this will be the key selling factor, particularly for the markets in the USA and Europe.

Question 3(c):

Would the Company consider deferring (if there is any) the expansion of face masks and glove manufacturing capacity?

Reply:

Currently, the company has adequate face mask and glove production facilities with sufficient capacity to meet the demands and will only look into expansion when the capacity is fully taken up.

4. Property development activities brought about 34% of the Group's total revenue in FY2022. The segmental revenue was lower at RM36.90 million as compared to RM39.33 million in the previous financial year. As a result, the division reported a lower pre-tax profit of RM8.56 million in FY2022 as compared to RM9.29 million in FY2021.

Question 4(a):

The Group has a 65% interest in the joint operation of developing the "Iconic Point" mixed development project in Penang.

The project fetches a gross development value (GDV) of RM127.81 million. As of March 2022, the project is 95% completed.
What is the take-up rate of this project? What are your current unbilled sales?

Reply:

The take-up rate of this project is 100% as all units are fully sold. The remaining unbilled sales is approximately RM18 million and this revenue will be captured as revenue in FY2023.

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Question 4(b):

The Group plans to launch a new development project in the northern region sometime in the end of the year 2022. It is also reviewing the prospects of other development projects to be launched utilising the available land bank. What is the estimated GDV of these soon-to-be launched projects? Please update on the new project status e.g., authority's approvals, targeted commencement of construction, targeted launch date etc.

Reply:

The estimated GDV for this new project is RM250mil, comprising 751 units of affordable homes and 16 units of 2-storey shop offices. We have submitted concurrently applications for planning permission and approval for the building plan to the local council for review and approval. We target to launch the project in the final quarter of 2022 and commence the construction in the second quarter of 2023.

Question 4(c):

Rate hikes by central bank is a bane for property developers as property sales will be under pressure as it costs more for house buyers to service their mortgage. How does the Group cushion the impacts of rising interest rate on buyers' sentiment?

Reply:

Considering this, the Group is shifting its focus to developing affordable housing schemes. The Group's upcoming development project will comprise a high-rise affordable housing scheme. We are currently studying the market sentiments and actively collecting prelaunch data so as to be able to offer an attractive package to all our potential purchasers. With this, we aim to reduce the overall impact of the rising interest rates on home buyers.

5. Under the Trade and Other Receivables (Note 10, page 121 of AR2022), the size of prepayments had increased to RM6.35 million from RM1.82 million the year before (page 121 of AR2022). To which business do the prepayments relate to?

Reply:
The prepayment relates mainly to the manufacturing business and mainly comprises payments made for the cost of raw materials in transit, the cost of machinery under installation and equipment under delivery in progress.

Corporate Governance Matters

1. The fee incurred for the internal audit (IA) function for FY2022 amounted to RM18,000 (page 76 of AR2022).

Question 1(a):

Given that the fee is rather small (approximately RM1,500 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?

Reply:

The IA is an independent external party specifically engaged to carry out internal audit review and activities and report accordingly to the AC. Currently, there are 2 cycles of IA performed in each FY with each covering areas specifically identified by the AC as potential risk areas. Based on the current size of the operations, this is deemed adequate and effective.

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Question 1(b):

How many IA reports were issued during the said period?

Reply:

There were 2 IA reports issued during the financial year.

Question 1(c):

As Iconic is expanding the scale of business activities, does the Group foresee the need to set up an internal audit division to undertake the IA works?

Reply:

The Group does not foresee the need to set up an internal audit division at this immediate moment as the Group already has in place Quality Assurance (QA), Regulatory Assurance (RA), and Risk Management Working Committee divisions under its manufacturing segment. These divisions will be required to work closely with the IA to perform relevant internal audit works, adequate to complement the existing work scope of IA.