Iconic Worldwide Berhad
54th 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 Wednesday, 20 September 2023 at 10.30 a.m.

Answers to Questions posed in relation to the MSWG's letter dated 6 September 2023

Operational and Financial Matters

1. In Q4FY2023, IWB made a one-off impairment amounting to RM16.69 million (FY2022: nil) on the value of its personal protective equipment (PPE) inventories. As a result, IWB turned loss-making in FY2023 with a pre-tax loss of RM25.94 million compared to a pre-tax profit of RM12.3 million in FY2022.

   Question 1(a):

   Why was there such significant inventories write-down or write-off?

   Reply:-

   In Q4 FY2023, the manufacturing segment recognized a total impairment loss of RM16.69 million comprising RM15.45 million write-down on glove inventories and RM1.24 million write-off on face mask inventories. The write-down on glove inventories was primarily to recognise the differences between the initial cost of production and the net realizable value at the current inventory level whereas the write-off was primarily to account for the obsolete face mask inventories. The glove inventories, in particular has a higher initial production cost, as it included expenses such as new factory initial startup costs, product registration, product testing and product certification costs necessary to bring the products to the market in addition to other operating expenses directly and indirectly incurred for the production and introduction of new manufacturer, brand and products into an existing extremely competitive market.

   Question 1(b):

   What is the breakdown of impairment on written-down and written-off inventories by types of PPE?

   Reply:-

   The write-down of Glove products accounted for 92.6% of the total impairment, while the remaining 7.6% attributed to the write-off of obsolete raw material and finished goods inventory for face masks.

   Question 1(c):

   What is the estimated amount that may be salvaged from the written-down inventories?

   Reply:-

   The written-down glove inventories are entirely realisable and the estimated recoverable value shall be subject to the applicable Average Selling Price (ASP) of the Glove in the market at the point of sale.

<u>Question 1(d):</u>

At what prices are IWB looking to sell the PPE inventories, and how does this compare to the procurement price?

<u>Reply</u>:-

Taking into consideration of the volatility in the ASPs, moving forward IWB has adopted a 'Make to Order' strategy by tailoring its glove production volume to be in line with customer orders and specifications. In this circumstances, the selling prices for glove inventories will vary subject to customer specifications and order volumes and this is also expected to fluctuate compared to the initial procurement prices mainly due to factors such as customization and market demand.

2. IWB Group's PPE manufacturing segment reported lower revenue of RM47.82 million in FY2023, down 29.7% from RM68.05 million a year earlier. In addition, it turned loss-making during the year with a segmental loss of RM26.8 million (FY2022: segmental profit RM6.11 million).

   Nevertheless, IWB is optimistic that the glove business will soon pick up, in line with expected improvements in market demand and the stabilisation of average selling prices (ASPs) in the current calendar year. It also expects the normalisation of raw material costs to enable the glove manufacturing business to be profitable in the near future (page 39 of AR2023).

<u>Question 2(a):</u>

Major glove players remain cautious about the industry prospects.

For instance, Hartalega Holdings Berhad, in its recently announced quarterly result ended 30 June 2023, said strong headwinds in the glove sector are expected to continue as the global oversupply situation persists. Besides, operating margins face compression as ASPs remain competitive amid minimal success with the incremental costs pass through.

What is the basis for IWB having a different view compared to other players?

<u>Reply:-</u>

IWB's optimism in the face of caution from major glove players is based on our belief in the long-term demand for gloves in the global health sector. Though the industry is currently experiencing challenges due to global oversupply and competitive pricing, we recognize this as a temporary setback. With the essential role gloves play in personal hygiene and disease prevention, we anticipate that the increased public awareness of these factors will drive future demand. Additionally, we are working on innovative PPE products and focusing on customer needs, product quality, compliance, as well as environmental and social governance aspects, which we believe will be our niche markets.

<u>Question 2(b):</u>

Large glove players expect the ASPs for rubber gloves to continue to be under pressure. What are your current ASPs, and how do they compare with other manufacturers?
Considering the existing market dynamics, what is IWB's outlook for ASPs and capacity utilisation rate over the next few quarters?
Are there any anticipated changes in market conditions or internal strategies that might influence these projections?

Reply:-

Our current ASPs have stabilized and are on a rising trend since reaching its lowest point in the first quarter of 2023 despite the Chinese producers pricing their glove products relatively lower to maintain an ASP gap with the Malaysian producers. Taking this into consideration, we have shifted our focus away from the traditional 3.5g Examination Gloves to more specialized products tailored to customers' needs and it is important to note here that in such cases the ASPs can vary depending on the product specifications and volume demand. We aim to position ourselves as a provider of customized, environmentally friendly PPE products, which will provide better opportunities to command premium pricing compared to generic offerings.

Question 2(c):

What differentiates IWB from competitors, particularly those offering lower prices?

Reply:-

As mentioned previously, we are moving away from traditional 3.5g Nitrile gloves and by doing so, we believe that we will be able to mitigate the price war. We are working closely with customers on R&D for new and suitable products. We are practicing Customer Centric Strategy to create a partnership with our buyers and this allows us to be able to offer the desired product and services to differentiate ourself from other players. This will enable us to move away from traditional trading where the emphasis is solely on buying and selling. We prioritize building enduring relationships with our customers and ensuring our commitment to product quality, compliance, and environmental and social governance aspects positions us as a responsible and forward-thinking supplier in the market. We trust that these factors together will enable us to stand out in a competitive landscape, even against lower-priced competitors.

3. The development of Iconic Harmony, a mixed development project with an estimated gross development value (GDV) of RM255 million, will commence in the third quarter of FY2024.

Question 3(a):

The Property Development division recorded lower revenue of RM35.20 million (FY2022: RM36.9 million) with a pre-tax profit of RM3.40 million in FY2023 (FY2022: RM8.56 million).

Question 3(b):

In the absence of new launches and revenue recognition of property projects in the first half of FY2024 (upon the completion and delivery of iconic Point in FY2023), how will the financial performance of the Property Development segment be compared to FY2023?

Reply:-

On the development of Iconic Harmony, we are in the final stages of obtaining the necessary approval from the local authorities to enable us to launch the project and we anticipate that we will be able to launch this project by end of 2023. Given our track record in the Iconic Point project and the attractiveness of this project which encompasses 751 units of affordable housing and 16 units of commercial shop lots with a projected GDV of RM255 million, we may be able to realise revenue from as early as Q4 of FY2024 and prolong it for a period of at least 4 years. We are confident that this project will contribute positively to our financial performance over the next four financial years.

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4. Material litigations

4a. Ceramtec Innovative Ceramic Engineering (M) Sdn Bhd (CICE) v Iconic Medicare Sdn Bhd (IMED)

Question 4(a)(i):

Why did IWB not immediately disclose the litigation, as per Paragraph 9.04(f) of the Main Market Listing Requirements, when IMED was served with the writ filed by CICE on 20 March 2023? Instead, the Company only disclosed it after IMED filed a counter claim against CICE on 22 May 2023.

Reply:-

The original claim by CICE against IMED was deemed not material, as the claim only amounted to RM44,130.00. IMED was requested to engage with CICE to amicably resolve the issue and withdraw the suit but CICE was not in favour. Upon seeking legal advice, IMED decided to file defence and a counterclaim. It was only then that the matter was deemed material, and required immediate disclosure as required by the Main Market Listing Requirements.

Question 4(a)(ii):

What are the claims made by CICE about the suit? Please provide the background of the suit.

Reply:-

In their suit, CICE is claiming RM6,000 being the cost for scrapping the moulds and RM38,130 being the cost for the disposal of the Ceramic Formers under work in progress which brings to a total of RM44,130.00.
CICE filed the suit against IMED in response to IMED's notice to terminate the remaining unfulfilled physical delivery of Ceramic Formers under an overdue Purchase Order (for Phase 1) and the request for size revision on another Purchase Order (for Phase 2) that was still pending delivery.

Question 4(a)(iii):

What is the basis of IMED seeking general damages of RM609,000 and US$3.76 million, respectively?

Reply:-

The failure by CICE to fulfil the scheduled delivery of Ceramic Formers (for Phase 1) forced IMED to source for its immediate replacement elsewhere and purchase them on an urgent basis. Due to this urgency, IMED had to pay a premium rate to secure the order from a new Supplier and thus suffered a loss of RM609,000

In addition to the above and as a result of the non-performance and delay caused by CICE in the supply and delivery of the Ceramic Formers, IMED was unable to commence the production of gloves and sell to the international market during the peak of the Covid-19 pandemic resulting in IMED suffering loss and the damage was estimated to be approximately USD3.76 million.

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4b. Latex Form Sdn Bhd (Latex Form) v Iconic Medicare Sdn Bhd (IMED)

Question 4(b)(i):

Please clarify how many glove machines were completed and installed by Latex Form in IMED's manufacturing plant. How much has IMED paid to Latex Form for the works?

Reply:-

Latex Form was awarded a contract to fabricate and install a total of 6 units Double Former Powder Free Glove Dipping Lines (Dipping Lines), with a delivery schedule of 2 Dipping Lines to be completed, tested and commissioned by Oct 2021, a further 2 Dipping Lines to be completed, tested and commissioned by Nov 2021, and the remaining 2 Dipping Lines to be completed, tested and commissioned by Dec 2021. Latex Form only managed to complete and test 2 Dipping Lines, one in Oct 2022 and the other in Nov 2022, and both had defects and not up to the agreed specifications. IMED had progressively paid up to 60% for the total work done based on the progress billings before issuing a notice of termination on 27 April 2023 due to the significant delays. IMED expressed doubts about Latex Form's ability to complete the remaining 4 Dipping Lines as per the contract.

Question 4(b)(ii):

Referring to the announcement dated 18 August 2023, IWB said the first two installed glove machines by Latex Form had 'extensive faults which need ratification".
What faults were found in the machines, and did these faults disrupt IMED's day-to-day manufacturing activities? What were the rectification works and the costs to rectify the condition of the machines? What are the steps taken to recover the rectification costs from the contractor?

Reply:-

The 2 Dipping Lines completed and tested failed to meet with the production volume specifications and quality as promised by Latex Form resulting in the said lines yet to be commissioned as fit for production activities. The specific details of the faults, the required rectification works, and costs to rectify the 2 Dipping Lines are currently being evaluated. Further announcements on the steps to be taken to rectify the faults and recover the rectification costs will be made upon consultations with technical as well as legal experts.

Question 5:

On 19 September 2022, the Company entered into a Conditional Sale and Purchase Agreement (SPA) with Dato' Seri Tan Kean Tet and Tan Seok Ying, the executive chairman and executive director of IWB, respectively, for the acquisition of 100% equity interest in Goldenluck Development Sdn Bhd for RM39.80 million.

As of the date of AR2023, the SPA is pending the approval of the shareholders (page 68 of AR2023). Earlier, IWB expected to complete the transaction in the second half of 2022.

What is the progress of fulfilling the conditions precedent stated in the announcement dated 19 September 2022? What caused the delay in completing the transaction after multiple extensions?

Reply:

The applications had been submitted and is being reviewed by the regulatory authorities. We expect to obtain the approvals from the regulatory authorities soon, following which the Company will seek approval from its shareholders on the proposals at an Extraordinary General Meeting (EGM).

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Sustainability Matters

Question 1:

What is the total consumption of natural gas, electricity and water throughout the production of PPE in FY2023? How efficient is IWB in managing the input resources against industry peers?

Reply:-

In FY2023, IWB's manufacturing segment, represented by IMED, was dedicated to minimizing energy and resource consumption during the production of PPE. Our approach involves meticulous management of energy consumption, aligned with production capacity. While we do not provide specific consumption figures in this report, we are continuously striving to improve resource efficiency and reduce environmental impact. Benchmarking our resource efficiency against industry peers is an ongoing process, and we remain committed to enhancing our sustainability performance.

Question 2:

IWB has not provided greenhouse gas (GHG) emissions data by Scope 1, 2, and 3. Is the Group prepared to make such a disclosure? If yes, when will it make such disclosure?

Reply:-

We note the significance of disclosing greenhouse gas (GHG) emissions data by Scope 1, 2, and 3, as part of our commitment to transparency and sustainability. While we have not provided such data in the current report, we acknowledge the importance of such disclosures. We are actively considering the preparation of GHG emissions data and will evaluate the feasibility of making this disclosure in our next sustainability reports but will ensure compliance in our report for the financial year ending 31 March 2025.

Corporate Governance Matters

1. The total remuneration of executive directors jumped approximately 33% to RM1.27 million in FY2023 (page 32 of Corporate Governance Report 2023), compared to RM957,910 in FY2022 (page 32 of CGR2022). The total remuneration of directors over the past three years is shown below:

	FY2023	FY2022	FY2021
Dato' Seri Tan Kean Tet	RM415,440	RM289,150	RM235,000
Tan Cho Chia	RM273,110	RM221,950	RM182,000
Tan Seok Ying	RM289,830	RM224,680	RM182,000
Jason Chung Wei Chiun	RM289,830	RM222,130	RM172,000
Total	**RM1,268,210**	**RM957,910**	**RM771,000**

Question 1(a):

IWB turned loss-making in FY2023 with a net loss of RM24.65 million (FY2022: RM9.6 million net profit). Please justify the significant increase in EDs' remuneration in FY2023 despite the unsatisfactory financial performance.

<u>Reply:</u>

The significant increase in the remuneration of our executive directors (EDs) in FY2023, despite the unsatisfactory financial performance, can be attributed to several factors. Firstly, the increase is a reflection of the additional workload and responsibilities shouldered by the directors during the diversification of the company into the manufacturing segment. This expansion required the EDs to oversee a new and complex operational domain, necessitating a commensurate adjustment in their remuneration.

Secondly, it is important to note that the change from a profit-making to a loss-making situation in FY2023 was primarily driven by global market conditions that were beyond the control of the directors. The challenges faced by the PPE industry due to market dynamics, supply chain disruptions, and economic uncertainties were widespread and not unique to our company.

Despite the financial setback, our EDs remain deeply committed to turning the company around and positioning it for long-term success in the PPE industry. They understand the importance of maintaining a strategic and forward-looking approach, and their remuneration reflects not only their dedication but also the trust placed in their ability to navigate challenging circumstances and steer the company toward profitability in the future.

<u>Question 1(b):</u>

To what extent is the overall financial performance of IWB incorporated into the evaluation of directors' remuneration by the Remuneration Committee?

<u>Reply:</u>

The Remuneration Committee mainly takes into consideration the levels of responsibility, contribution and the execution of tasks assigned to the directors in the various segments of the company during the evaluation process. The increase of 33% for the task, contribution and responsibilities undertaken was justifiable.

2. IWB proposes to seek shareholders' mandate for recurrent related party transactions (RRPT) of a revenue or trading nature in this AGM. The RRPT includes transactions between Iconic Hotel Management Sdn Bhd (IHMSB) and Lucky 888 Sdn Bhd for providing hospitality management and operation services by IHMSB to the latter.

   The Company proposes to increase the estimated transaction value between the two parties to RM6 million from RM5 million in AGM 2022.

   Meanwhile, the actual value transacted during the nine-month period from the date of AGM 2022 to 30 June 2023 amounted to RM3.1 million (page 11 of IWB's Circular dated 28 July 2023), translating to approximately RM4.13 million of annual revenue based on pro-rated monthly revenue of RM344,000.

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Question 2(a):

What is the rationale for increasing the estimated transaction value when the actual value was way below the approved threshold?

Reply:

The rationale behind increasing the estimated transaction value between Iconic Hotel Management Sdn Bhd (IHMSB) and Lucky 888 Sdn Bhd is based on a proactive approach to accommodate potential changes in the hotel management industry.

The hospitality industry is known for its cyclic nature, and it is currently showing signs of a rebound. By increasing the estimated transaction value, we are positioning ourselves to adapt swiftly to any potential increase in transaction volume or demand for our services. This strategic adjustment allows us to remain responsive to market fluctuations and better serve our clients and partners in the dynamic hospitality sector.

Question 2(b):

Under the RRPT, Lucky 888 will also provide administration services, including marketing, F&B and hotel maintenance services to IHMSB. What was the measurable impact attributed to the marketing efforts of Lucky 888 for IWB's hospitality business?

Reply:

Under the RRPT, it is IHMSB that will provide day-to-day hotel operations and administration services that includes marketing, F&B and hotel maintenance services to Lucky 888 and not vice versa. Nonetheless, Lucky 888 as the business owner of the hotel continues to actively assist in the marketing, F&B, and other services as and when required.