

Iconic Worldwide Berhad

Extraordinary General Meeting conducted on a fully virtual basis through live streaming and online remote voting via Remote Participation and Voting (“RPV”) facilities which are available on Tricor Investor & Issuing House Services Sdn Bhd’s TIH Online website at <https://tiih.online> on Friday, 22 December 2023 at 10.30 a.m

Answers to Questions posed in relation to the MSWG’s letter dated 15 December 2023

Proposed Acquisition of Goldenluck Development, Proposed Rights Issue And Proposed Exemption to Undertake Mandatory Take-Over Offer

Question 1

The Subject Land located in Paya Terubong is zoned as a “Hutan” (forest) and located within the hill land above 76 metres elevation in the Penang environmentally sensitive area, which forms part of Rancangan Struktur Pulau Pinang 2030.

Therefore, the landowner must apply for rezoning with the state government to develop the land. Upon approval of the rezoning application, the landowner must pay a rezoning premium, estimated to be about RM4 to 5 million.

Land designated as “hill land” is often prone to issues like erosion, landslides and soil instability (page 9 of the circular dated 7 December 2023). We are concerned that the rezoning application could be rejected.

This is despite the remarks made by BYG Architecture Sdn Bhd (the appointed firm to advise on the possibility of obtaining rezoning approval) that ‘while the risks are considerable in this case, the application is still in equally good standing to obtain approval from the Penang State Planning Committee’. (Page 253 of the Circular)

Question 1(a):-

In view of IWB’s low cash level (Cash and Cash Equivalents of RM1.69 million as at 21 November 2023), what is the urgency of entering into a deal that comes with a high level of uncertainties, especially on the zoning status of the Subject Land?

Instead, IWB may plough back the resources into new development projects on its existing landbank of 23.86 acres (page 41 of the circular) and glove manufacturing.

Reply:-

The Board wishes to elaborate here on the strategic considerations behind the Proposed Acquisition of Goldenluck Development Sdn Bhd (Goldenluck), emphasizing the potential benefits and growth opportunities for Iconic Worldwide Berhad (IWB). In pursuit of expanding its presence in the property development segment particularly in Penang, IWB sees the acquisition of Goldenluck as a strategic move aligned with industry trends and growth potential. The location of the Subject Land in Penang Island represents a valuable opportunity for IWB to enter the dynamic Penang market, known for its economic vibrancy and growth potential in real estate development.

Recognizing the critical role of location in real estate, the 15 acres land in Paya Terubong provide not only substantial development space but also strategic location, contributing positively to the perceived attractiveness of future projects. Viewing these 15 acres as a significant opportunity, IWB envisions a multi-year development plan that aligns with the Company’s vision for sustainable growth over the next five years, with the potential for a landmark high-rise residential project.

In light of the upcoming project in Alma, Bukit Mertajam, the addition of the Subject Land will enable IWB to maintain the momentum in the competitive real estate market, ensuring continuity in project launches and sustaining investor and stakeholder confidence.

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Considering the current landbank which is predominantly located outside Penang Island duly underscores the need for diversification. The Subject Land's prime location enhances the potential of a successful and lucrative development, especially in the context of a landmark high-rise residential project.

The Proposed Acquisition will strategically position IWB for growth and success in the property development sector. The entry into the Penang market, coupled with the advantageous location of the Subject Land, presents a compelling opportunity for the Company to achieve its expansion goals and create enduring value for stakeholders.

Question 1 (b):-

Has the Board or management considered other options, e.g. acquiring land with a lower degree of environmental risk?

What options were put on the table before the Board agreed and tabled this proposal to shareholders?

Reply:-

It is essential to highlight that rezoning activity is a very common practice in Penang, given the scarcity of suitable land on the island that is often required for development.

Throughout the decision-making process, the Board carefully considered independent advice from Consultants regarding the risks associated with rezoning and the corresponding procedural aspects. The evaluation took into account the specific circumstances surrounding the Subject Land, including its valuation and its strategic positioning being surrounded by completed high-rise residential projects.

The Board is acutely aware of the importance of managing environmental risks and has factored in the unique attributes of the Subject Land in their decision-making. The location, sandwiched between established high-rise developments, has led the Board to believe that the probability of rezoning is high.

The Board believes that the strategic and unique qualities of the Subject Land aligns closely with our expansion goals and represent a compelling opportunity for growth in the property development segment. The decision to propose this acquisition to shareholders stems from a comprehensive evaluation of available options and a thorough understanding of the associated risks and rewards.

Question 1 (c):-

In the event the rezoning application for the Subject Land is not approved, the Group will not be able to realise the expected benefits from the Proposed Acquisition, and the Group will end up holding idle land with limited growth potential.

Besides, IWB will have to cover the cost of the rezoning process and the cost associated with the Proposed Acquisition.

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Why did Goldenluck not apply for rezoning before it was sold to IWB? Given the materiality of the matter, shouldn't the rezoning approval form part of the conditions precedent to be fulfilled (page 187, appendix 1 of the circular)?

Doing so will better safeguard the interest of IWB and its minority shareholders, as well as mitigate the operational risk of IWB.

Reply:-

The Subject Land, valued at RM45.7 million by an independent valuer, currently holds a forest zoning. IWB strategically acquired the land at a discounted price, acknowledging that the value would likely increase at a premium following a successful rezoning. It was a conscious decision by the Board to secure the land at a lower cost, thus preserving the future profit margin of the upcoming project.

The Board carefully evaluated the potential impact on profitability, recognizing that rezoning could inflate land costs and subsequently affect the project's financial viability. By acquiring the land before rezoning, IWB aims to optimize the overall project economics and maintain a competitive edge in the market.

While we acknowledge the concerns raised regarding the materiality of the rezoning process, the decision not to make it a condition precedent was rooted in the Board's confidence in obtaining the necessary approval. The Company is committed to proactive engagement with relevant authorities and believes in its ability to secure rezoning, thereby maintaining the land's value at a level that supports the feasibility of the planned development.

Furthermore, the decision not to include rezoning as a condition precedent was also made to provide flexibility and agility in project planning and execution. This approach allows IWB to have better control over the entire project lifecycle, from planning to development, ensuring a seamless and efficient process.

Question 1 (d):-

If the Subject Land fails to be rezoned, IWB will consider selling the Subject Land (page 136 of the circular).

What is the likelihood of the Subject Land being able to be disposed off if the state government rejected the rezoning application?

Reply:-

In the event the rezoning application is unsuccessful, IWB will maintain the flexibility to consider various alternatives, including the possibility of selling the Subject Land. Given its current zoning status as forest land and the valuation in accordance with the current land use, the Company is equipped to explore potential buyers who align with the current land use.

While the rezoning process involves collaboration with the state government and is subject to their approval, it's noteworthy that IWB is prepared to submit a new rezoning application if needed. The intention is to align the proposal with the state's objectives, ensuring a comprehensive and strategic approach to secure approval even in the face of initial setbacks.

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Moreover, the Company is actively exploring diversification into alternative segments, such as agrotourism or the plantation sector, to fully unlock the potential of the land. This approach not only demonstrates adaptability but also underscores IWB's commitment to leveraging the land's intrinsic value in innovative ways.

Drawing from historical data, there is a precedent of land prices appreciating over time. IWB believes that, in the long run, the Subject Land, being situated in the limited and appreciating Penang land market, would retain or potentially exceed its current value. This historical trend contributes to the Company's confidence in the land's inherent value and its potential to yield favourable returns over the years.

Question 2

IWB plans to raise RM60 million and RM95.6 million from the rights issue of 1.12 billion shares on the basis of two rights shares for every one existing share held. The proceeds will be used to acquire the Subject Land, working capital and repay bank borrowings.

Based on the working capital requirement needed for a new development project (gross development cost of RM219 million) and glove manufacturing (RM 18 million to completion). How is IWB going to meet the future funding requirement for these projects?

Reply:-

For the new development project, IWB intends to secure funding through a combination of bridging loans and the proceeds generated from the sales of the project. This strategy is designed to efficiently bridge the financing gap during the project's development phase, with the sales income acting as a crucial source for repayment.

In the case of glove manufacturing, IWB plans to leverage internally generated funds and tap into existing bank facilities to support and sustain the operations of the existing business. By utilizing internally generated funds, the Company aims to maintain financial flexibility and autonomy in managing day-to-day operations, ensuring a steady and reliable source of capital.