

**KOBAY TECHNOLOGY BHD.**  
**Proposed Land Acquisition by wholly owned subsidiary**

**1. INTRODUCTION**

On 7 October 2013, LD Global Sdn. Bhd. (518757-T) (“LD”), a wholly owned subsidiary of Kobay Technology Bhd. (“Kobay”), has entered into a Sale & Purchase Agreement (“SPA”) to acquire a piece of freehold land located at Pulau Langkawi (hereinafter referred to as “the Property”), for a total purchase consideration of RM14,000,000 (hereinafter referred to as “the Proposed Acquisition”).

**2. BACKGROUND INFORMATION**

**2.1 INFORMATION ON LD**

LD, a wholly owned subsidiary of Kobay, was incorporated in Malaysia on 3 July 2000 as a private limited company under the Companies Act, 1965. It is presently inactive. LD shall change its principal activities to property development upon acquisition of the Property and commencement of project. The existing authorized share capital of LD is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 400,000 ordinary shares of RM1.00 each have been issued and fully paid up.

**2.2 INFORMATION ON THE VENDOR**

The Property is owned by Tengku Fauziah Binti Tengku Abdul Rashid (hereinafter referred to as the “Vendor”).

**2.3 INFORMATION ON THE PROPERTY**

The Property is situated at Lot No. 2032, Mukim Kedawang, Pantai Tengah, Pulau Langkawi held under Grant GM 102, measuring approximately 6.933 acres (2.8059 hectares).

The Property is currently free of encumbrances. As per the land title, the category of the land use is agricultural and the land is currently vacant and idle. Application has been made in May 2013 by the Vendor to convert the land into commercial use.

On 1st November 2012, the Vendor via its nominee company has obtained Planning Permission from Majlis Perbandaran Langkawi to develop part of the land into 39 units of serviced villas (“Phase I”). Phase 1 and the infrastructure will take up about 5.3 acres of the Property. The remaining land will be development under Phase II, which is yet to be determined at this juncture. The Planning Permission for Phase I is valid till 14 August 2013 and the Vendor has submitted its application to renew the Planning Permission.

The proposed development on the Property is still preliminary at this juncture and is subject to LD’s assessment and modification if necessary. Based on the original projection, the gross development value for Phase I is about RM50 million. Should the approval for land conversion is granted in 2013, the project is expected to commence in year 2014/2015 and be completed within 3 years from commencement date.

#### **2.4 Basis of arriving at the sale consideration**

Based on the purchase price of RM14 million, the land is transacted for approximately RM47 per square foot. The purchase price was arrived based on willing buyer-willing seller basis. Based on the management's survey, there was a transaction in the nearby area in year 2010, i.e PT719 of Jalan Pantai Tengah, where a smaller piece of freehold development land with size of 39,568sf was transacted for RM4,050,000 (approximately RM102 psf) (source : page 244, Volume 22, Million Ringgit Property Deals, Valuation & Property Services Department, Ministry of Finance).

#### **2.5 Financial Information**

The Property was acquired by the Vendor in year 1972. The Board is unable to disclose the net assets or net book value of the Property as it is not privy to such information.

#### **2.6 Risk and Liabilities to be assumed**

There are no liabilities, including guarantees to be assumed by LD arising from the Proposed Acquisition.

#### **2.7 Salient terms of the Sale and Purchase Agreement ("SPA")**

The salient terms of the SPA are as set out below :

- (a) Purchase Price : RM14.0 million.
- (b) the Property shall be free from all charges and encumbrances but subject to all conditions of title contained in the document of title.
- (c) Payment of Purchase Price to the Vendor's Solicitor :
  - (i) Earnest deposit : RM1,400,000 shall be paid upon execution of the SPA
  - (ii) Balance purchase price : RM12,600,000 within 3 months from the date of SPA, with one month extension at 8% interest.
- (d) Special conditions:
  - (i) The Property is sold on "as is where is" basis.
  - (ii) Where there is any subsisting application for conversion of land use and/or development of the Property, the Vendor shall assign the benefit of all approved plans and/or applications in relation to the development of the Property to the Purchaser.
  - (iii) All conversion premiums shall be paid by the Vendor but other payment due under all applications in relation to the development of the Property shall be paid by the Purchaser. The Vendor agree to allow her solicitors to retain RM200,000 out of the balance purchase price for purpose of paying the conversion premium. If after conversion and payment of the conversion premium, there shall be any surplus money, the surplus money shall be paid to the Vendor and if there shall be a shortfall, the Vendor shall be liable to pay such difference between the premium and the said retained money.

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- (iv) If the conversion of Land use shall not be approved on the Completion Date, the Vendor's Solicitors shall continue to retain the said RM200,000 for a period of 6 months after which the said retained money shall be released to the Vendor.
- (v) In the event the application for conversion of land use of the Property is rejected by the approving authorities, such rejection shall not be the subject of any claim by one party against the other.

### **3. RATIONALE, PROSPECT AND RISK FOR THE PROPOSED ACQUISITION**

#### **(a) Rationale**

The expansion of the Group's business into property development is part of the Group's strategy of diversifying into other industries with strong growth prospects instead of depending solely on its existing manufacturing business which is highly cyclical and dependent on the outlook of global electronic sector.

#### **(b) Prospect**

Langkawi is one of the famous islands in Southeast Asia. The rustic beauty of the island is a compelling attraction to the tourists worldwide. Shopping is an added attraction due to its duty-free port status. The island is also expanding as one of the Southeast Asia's premier meeting and exhibition destinations. Based on the statistics of Langkawi Development Authority (LADA), tourist admission to the Langkawi island in year 2012 was about 3.06 million.

The Property is a flat vacant land that strategically located at Pantai Tengah, south west of Langkawi Island, where the tourist hotspots are. The frontage of the Property is Jalan Pantai Tengah, and it is within walking distance to Pantai Tengah beach. The Property is 15 minutes drive away from Langkawi International Airport and 25 minutes from Kuah Town. The Property is situated between The Frangipani Langkawi Resort and Holiday Villa Beach Resort, with walking distance to eateries, convenience stores and handcraft centers.

In view of its strategic location and favourable accessibility, it is believed that the Property has a good development potential to attract affluent Malaysians looking for holiday homes, investors for holiday rental properties and Malaysia My Second Home (MM2H) participants.

The Board believes that the Property has a good development potential which could enhance the Group's future earnings.

#### **(c) Risk factors**

The following are the main risk factors that may arise or associated with the Proposed Acquisition :

##### **(i) Land conversion risk**

The property's current use is paddy field, pending approvals of the relevant authorities for the application to convert the land into commercial use. In the event the application for land conversion is rejected, it will severely affect Kobay Group's development plan. However, based

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On the management's survey, the surrounding has been developed into commercial zone and the land next to the Property is currently under construction of a luxury hotel. Furthermore, the Vendor has obtained Planning Permission from Majlis Perbandaran Langkawi to develop the property into serviced villas. Thus, the risk of failing to obtain the land conversion approval should be low.

#### **(ii) Business risk**

The Property is meant to build serviced villas that are located in a tourism island that has low population, with holiday home investors and MM2H participants as main target. The project may pose certain level of risk as compared to urban residential project which has broader buyer base. Nevertheless, the management believes that if the selling rate for the serviced villas is low, the completed units can be rented out for rental income which should be able to provide alternate income stream to Kobay's Group. On even date, LD has appointed a project management consultant, Karsan Asia Sdn Bhd to manage and market the project in international market.

#### **(iii) Political and regulatory risk**

Any adverse development in political condition in Malaysia could affect the property industry in the country. In term of regulatory, any changes in the nation or the state's quota requirements especially on the Bumiputra and foreign participation may also affect the take up rate of the project. The management is optimistic that with the strong effort undertaken by the Northern Corridor Implementation Authority ("NCIA"), Langkawi island should stand to benefit from the initiatives. The Langkawi Tourism Blueprint launched by the NCIA aims to make Langkawi among the world's top 10 islands and eco-tourism destination by 2015.

## **6. SOURCE OF FUNDS**

The Proposed Acquisition will be funded by internal generated funds of Kobay and bank borrowing. Subject to the approval of the financial institutions, LD intends to seek bank borrowing of about RM8 million to finance the purchase. The balance shall be funded by Kobay's internal generated fund via advances and increase of paid up capital in LD.

## **7. FINANCIAL IMPLICATION**

### **(a) Earnings and earnings per share**

The Proposed Acquisition is not expected to have any material effects on the earnings of Kobay Group for the financial year ending 30 June 2014 as the project is expected to commence only by end of financial year 2014 or early 2015, after obtaining land conversion and the relevant development approvals. The Proposed Acquisition is expected to contribute positively to the future earnings of Kobay Group.

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**(b) Net assets and gearing**

The Proposed Acquisition does not have any effect on net assets of Kobay Group. Kobay Group intends to part finance the purchase via bank borrowing of approximately RM8.0 million. Based on the audited consolidated financial statements of Kobay as at 30 June 2012, the proforma effect of the intended borrowing will increase the Group's gearing ratio from 0.1% to 7.4%.

**(c) Share capital and substantial shareholders' shareholdings**

The Proposed Acquisition does not have any effect on the share capital and substantial shareholders' shareholdings of Kobay.

**8. HIGHEST PERCENTAGE RATIO APPLICABLE**

Pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa"), the highest percentage ratio applicable to the Proposed Acquisition is 12.8% based on the latest audited financial statements of Kobay for the financial year ended 30 June 2012.

**9. APPROVALS REQUIRED**

The Proposed Acquisition does not require approval from the shareholders of Kobay, Securities Commission, Foreign Investment Committee and other regulatory authorities.

**10. ESTIMATED TIME FRAME AND COMPLETION DATE**

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed within 3 months from the date of signing the SPA ("the Completion Date").

**11. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS**

None of the directors and/or substantial shareholder of Kobay or any person connected with them has any interest, direct or indirect, in the Proposed Acquisition.

**12. COMPLIANCE WITH THE SECURITIES COMMISSION'S POLICIES AND GUIDELINES ON ISSUE/OFFER OF SECURITIES**

The Proposed Acquisition is not subjected to the approval of the Securities Commission and does not fall under the Securities Commission's Policies and Guidelines on the Issue/Offer of Securities or any amendments thereof.

**13. DIRECTORS' STATEMENT**

The Directors are of the opinion that the acquisition is in the best interest of Kobay, fair and reasonable to the Company and is not to the detriment of the Company and its shareholders.

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**14. DOCUMENT FOR INSPECTION**

Copy of the Sale & Purchase Agreement is available for inspection at the registered office of Kobay at Plot 30 Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang during normal office hours (8.30 am to 6.00 pm) on Mondays to Fridays (except public holidays) for a period of fourteen (14) days from the date of this announcement

This announcement is dated 7 October 2013.