# BURSA ANNOUNCEMENT

**KOBAY TECHNOLOGY BHD. ("Kobay")**

**Proposed Diversification of the business of Kobay Group to include property development and property investment ("Proposed Diversification")**

## 1. INTRODUCTION

On 7 October 2013, the Board of Directors of Kobay ("the Board") announced that its wholly owned subsidiary, LD Global Sdn Bhd ("LD") entered into a Sale and Purchase Agreement ("SPA") to acquire a piece of freehold agriculture land held under grant GM 102, Lot 2032, Mukim Kedawang, Pantai Tengah, Pulau Langkawi, Kedah ("Langkawi Land") measuring a total land area of 6.93 acres with intention to develop the land into serviced villas and apartments. The SPA is pending completion as at the date of this announcement.

Prior to the acquisition of Langkawi Land, the Group via its 53.16% owned subsidiary (now wholly owned), Lipo Corporation Sdn. Bhd ("Lipo"), had on year 2009-2012 acquired a parcel of 13 contiguous freehold lands measuring total land area of 1.5 acres in Tanjung Bungah town, Penang ("Tanjung Bungah Land") with intention to develop the land into residential/commercial premises.

On 16 May 2013, the Board announced that its 70% owned subsidiary, The 12 Avenue Sdn Bhd ("12AVE") entered into a joint venture agreement with the land proprietors to develop a piece of 1.3 acres land held under Geran Mukim Lot 244, Tempat Sungai Renggam, Mukim Damansara, Selangor ("Sungai Renggam JV").

Pursuant to Paragraph 10.13(1) of the Main Market Listing Requirements ("MMLR"), a listed issuer must obtain its shareholders approval in a general meeting for any transaction or business arrangement which might reasonably be expected to result in either –

(a) the diversion of 25% or more of the net assets of the listed issuer to an operation which differ widely from those operations previously carried on by the listed issuer; or
(b) the contribution from such an operation of 25% or more of the net profits of the listed issuer.

With the intended development on the abovementioned lands and the joint venture project to be undertaken by the Group, the Board expects that the principal activities of the Group will be diversified to include property development and property investment.

The details pertaining to the Proposed Diversification are set out in the ensuing sections of this announcement.

## 2. DETAILS OF THE PROPOSED DIVERSIFICATION

### 2.1 The Proposed Diversification

The existing business activities of the Group consist of three major divisions, namely precision metal components, precision tooling and equipment, and metal fabrication.

The precision metal components division deals with manufacturing of precision machined components, metal stamping, sheet metal parts and surface treatment. This division is mainly serving customers in electronic and semiconductor industries.

The tooling and equipment division is operating in a matured industry that mainly serving the semiconductor industry. Their products include manufacturing of precision moulds, tooling and dies, automated machines and semiconductor assembly and testing equipment.

The metal fabrication division is involved in manufacturing of heavy metal works and structures, modules and parts for oil and gas production and extraction equipment.

For the financial year end (“FYE”) 30 June 2012, revenues of the precision metal components, precision tooling and equipment divisions which relied heavily on electronics and semiconductor industries constituted approximately 83% of the Group revenue.

Previously the Group has not been involved in the property development and property investment business. In view of the acquisition of Langkawi Land, Tanjung Bungah Land and the Sungai Renggam JV, the Group is expected to be diversified to include property development and property investment as its business activity. Upon the crystallization of the Group’s intention to construct building onto the said lands or further acquisition of properties or any joint venture agreement entered into in the near future, property development and property investment activities are expected to contribute to more than 25% of the net assets of the Kobay Group.

The Proposed Diversification is part of the Kobay Group’s plan to diversify its revenue and income sources to reduce the Group’s sole dependency on its existing core business in manufacturing sector. The Group believes that the diversification into the property development and property investment activities, which have stable and strong growth prospects, will be beneficial to the Group’s future earnings.

The Board does not expect the property development and investment activities to contribute to 25% or more of the net profits of the Group in the next twelve (12) months. However, the Board anticipates that property development will be one of the major contributors of the Group’s earnings as the Group will continue to seek and secure more property development and investment projects in the near future.

With the Proposed Diversification into property development and property investment approved by the members in the forthcoming Annual General Meeting (“AGM”), the Group may be subject to new challenges and risks arising from the Proposed Diversification. Nevertheless, certain Directors of the Group have been involved in property development and property investment, and with vast experience of these Directors, coupled with the Board’s intention to engage experienced management team or joint venture partner to manage the business of property development and property investment, the Group is confident of attaining the required expertise in running the business.

## 2.2 Information of Existing Properties and Joint Venture Project

Since year 2009 till 2012 the Group has acquired the following parcels of land that are held for future property development:

| Year of Acquisition | Description of the Property | Approximate Land Area (acres) | Existing Use | Purchase Price (RM million) |
|---|---|---|---|---|
| 2009 - 2012 | Tanjung Bungah Land<br>Lot 990, 992, 996, 36, 249, 993, 995, 35, 251, 34, 991, 994, & 947 Bandar Tanjung Bungah, Daerah Timur Laut, Penang. | 1.5 | Vacant | 12.7 |
| 2013 (pending completion of SPA) | Langkawi Land<br>Lot 2032, Mukim Kedawang, Pantai Tengah, Pulau Langkawi, Kedah | 6.9 | Vacant | 14.0 |
| Total : | | 8.4 | | 26.8 |

Based on the FYE 2012 audited accounts, on pro-forma and aggregate basis, the total purchase considerations of RM26.8 million for the above land acquisitions constitute 24.6% of the audited net assets of the Group. The property development and property investment activities are not expected to contribute any revenue or profits to Kobay Group for the FYE 2013 and 2014 as the lands acquired by the Group and the joint venture project as stated herein have not commenced their activities yet.

### 2.2.1 Tanjung Bungah Land

During the period from year 2009 to 2012, the Group via its 53.16% owned subsidiary, Lipo Corporation Berhad ("Lipo", now wholly owned by Kobay upon completion of the privatisation exercise by Kobay on 30 October 2012) acquired 13 pieces of contiguous adjacent lands from eight different land owners. The lands are prime sea-front lands located in the Tanjung Bungah town. As per the land title, the lands are not subject to any restriction in the land use.

The Tanjung Bungah lands are all acquired under Super Tropica Development Sdn Bhd ("STD"), a wholly owned subsidiary of Lipo, which is in turn now a wholly owned subsidiary of Kobay. STD intends to develop the Tanjung Bungah Land into residential/commercial properties but as of the date of the announcement, STD has not formally submitted any application to the authority for the development, including the developer's license, and it is unlikely that STD will obtain the development order in FYE 2014. Barring unforeseen circumstances, the development for the Tanjung Bungah Land is expected to commence in first quarter of FYE 2015 and is estimated to be completed in FYE 2017.

### 2.2.2 Langkawi Land

On 7 October 2013, the Board announced that its wholly owned subsidiary, LD has entered into a SPA with Tengku Fauziah Binti Tengku Abdul Rashid ("the Vendor") to acquire a piece of 6.93 acres of freehold agriculture land in Langkawi for cash consideration of RM14 million, which is approximately RM47 per square foot. The purchase price was arrived based on willing buyer-willing seller basis. No valuation was carried out on the Langkawi Land. Nevertheless, based on the management's survey, there was a transaction in the nearby area in year 2012, whereby a smaller parcel of land situated at Lot PT709 of Jalan Pantai Tengah with land size of 39,568sf was transacted for RM102 per square foot. (source : page 244, Volume 22, Million Ringgit Property Deals, Valuation and Property Services Department, Ministry of Finance).

Below are the salient terms of the SPA :

(a) Purchase consideration : RM14 million.
(b) Payment term : 10% upon signing of the SPA, balance 90% to be paid within 3 months from the SPA, with one month extension at 8% interest.
(c) Where there is any subsisting application for conversion of land and/or development of the property, the Vendor shall assign all the benefit of all approved plans and/or applications in relation to the development of the property to the Purchaser.
(d) All conversion premiums shall be paid by the Vendor. The Vendor agree to allow the Vendor's solicitors to retain RM200,000 out of the balance purchase price for purpose of paying the conversion premium. 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 retained money shall be released to the Vendor.
(e) In the event the application for conversion of land use is rejected by the approving authorities, such rejection shall not be the subject of any claim by one party against the other.

Further details of the Langkawi Land are set out below :

| | | |
|---|---|---|
| Description of the land | : | Lot 2032, Mukim Kedawang, Pantai Tengah, Pulau Langkawi held under Grant GM102 |
| Tenure | : | Freehold |
| Encumbrances | : | Nil |
| Land area | : | 2.8059 hectares (approximately 6.933 acres) |
| Category of land use | : | Agriculture |

As per the land title, the category of land use is agriculture and the land is currently vacant. Application has been made in May 2013 by the Vendor to convert the land into commercial use. As of the date hereof, the outcome of the land conversion application is still unknown.

On 1 November 2012, the Vendor via its nominee company has obtained Planning Permission from Majlis Perbandaran Langkawi to develop part of the land into 39 unts of serviced villas ("Phase I"). Phase I and the infrastructure shall utilise about 5.3 acres of the land. The remaining land will de developed under Phase II, which no planning permission is obtained at this juncture. The Planning Permission for Phase I has expired on 14 August 2013 and the Vendor has submitted its application to renew the Planning Permission.

The proposed development on the Langkawi Land is still preliminary at this juncture. Based on the original projection done in 2012, the gross development value for Phase I is about RM50 million with development costs of approximately RM34 million. The development plan and costing are subject to LD's assessment and review, and LD shall make the necessary modification if required. Should the land conversion is approved in year 2013, barring any unforeseen circumstances, the project is expected to commence in early of FYE 2015 and be completed within three years from the commencement date.

**2.2.3 Sungai Renggam JV**

On 16 May 2013, 12AVE has entered into a Joint Venture Agreement ("JVA") with Mr. P. Doraisamy A/L Gopal and Mr. Sudhakaran A/L Gopalan ("the Proprietors") to develop all that piece of land held under Geran Mukim Lot 244, Tempat Sungai Renggam, Mukim Damansara, Daerah Petaling, Negeri Selangor Darul Ehsan measuring approximately 0.5435 hectares equivalent to 58,501 square feet ("the development land").

The development land is a freehold land and is free from restriction-in-interests. However, the development land is currently tenanted. The Proprietors will deliver the vacant possession subject to all relevant approvals obtained by 12AVE within three (3) years from the date of the JVA.

The development land is located within the district of Petaling next to Batu Tiga KTM station and it is about 1km from Central Sugar Refinery.

There is a river flow within the development land of which will be diverted at the cost of 12AVE as stated in the JVA.

Under the JVA, the Proprietors appoints 12AVE to develop the development land subject to the approval(s) obtained from relevant government authorities on the type of building inclusive of the infrastructure and facilities proposed therein.

12AVE shall obtain all necessary approval(s) from the relevant authorities including but not limited to the conversion of the development land, the development order, the letter of approval for the housing developer's license together with the advertisement and sale permit (if any) issued by the appropriate authorities under the relevant legislation within a period of three (3) years from the date of the JVA whereupon the Proprietors shall deliver vacant possession of the development land to 12AVE. 12AVE shall upon obtaining vacant possession of the development land immediately commence the development of the Project (hereinafter referred to as the Commencement Date) and complete the Project within a period of Four (4) years from the date of vacant possession of the development land delivered by the Proprietors to 12AVE in accordance with the provisions of the JVA.

The JVA is conditional upon the fulfillment conditions precedent as listed below.

1. The Proprietors have agreed to allow 12AVE to develop the whole of the said development land by the constructions and completion of a development project consisting of diverse types of buildings as may be approved by relevant authority (hereinafter referred to as "the project") in accordance with layout plans, building plans, and specifications as may be approved by the relevant authorities and 12AVE shall duly inform and notify the Proprietors of such approval of the Project and the types of buildings and number of units permitted to be constructed on the development land.

2. The Proprietors have agreed to grant 12AVE a limited power of attorney, upon the execution of the JVA, in order to enable 12AVE to execute on behalf of the Proprietors any applications, plans, drawings, and other documents necessary or relevant to the development of the Project, the conversion, sub-division and issue of separate individual titles in respect of the development land, the sale and purchase agreement(s) or sales of the sub-divided lots forming part of the development land and to receive and/or accept any monies or consideration and give receipts thereto.

3. In the event that 12AVE fails to complete the Project or abandons the same after the vacant possession delivered, the JVA shall be terminated and 12AVE shall re-deliver vacant possession of the development land to the Proprietors and the Proprietors shall not be liable to reimburse The 12AVE in any way whatsoever expenses expended by 12AVE. In addition, 12AVE shall pay to the Proprietors a sum of RM450,000.00 as liquidated damages. The holding company, Kobay will execute a corporate guarantee for the RM450,000.00 on or before the delivery of the vacant possession of the development land by the Proprietors.

Entitlement of the JVA

The Proprietors are entitled to 24% of the gross development value of the Project whereas 12AVE shall be entitled to 76%of the gross development value of the Project. The proposed sharing rate is within the market norm of 20%-30% for property joint venture project.

Payment Terms

Upon signing and execution of the JVA, 12AVE shall pay the Proprietors a sum of RM1,000 as consideration for the joint venture to be established (of which has been fully paid).

Financing for the JVA

12AVE is responsible for the entire development financing, which will be funded by internal generated funds and/or bank borrowings. The proportion of the internally generated funds and bank borrowings will be determined at a later stage.

The Sungai Renggam JV project is not expected to have any impact to the Group’s net assets, earnings, cashflow and gearing for FYE 2013 and 2014 as the project will be commenced after FYE2014.

**2.2.4 Skills and expertise of Kobay’s management in the property development and property investment**

Mr. Koay Cheng Hock, being the Non-independent Non-executive Director of Kobay has been involved in the property development and investment business for more than 18 years. He has undertaken and completed several property development projects in Penang which consist of mixed development projects that covered apartments, residential houses and commercial shop units. These projects include Taman Jaya (1995), Taman Mesra Indah (1997), Taman Permatang Pauh (2002), Desa Scotland (2007) and South Homes (2011). He has through the abovementioned development projects gained vast experience in planning, executing, marketing and managing of development schemes. Mr. Koay Cheng Hock is well positioned to provide business acumen and skills in property development which will be beneficial to Kobay Group moving forward in relation to the Proposed Diversification.

Kobay Group intends to further strengthen its competency in property development and property investment by engaging experienced management team to run the new activities. Meanwhile, for the existing projects, the Group has formally tied up with experienced partner and consultant which would be able to provide the required expertise to kick-off the projects.

For Langkawi Land, LD has appointed Karsan Asia Sdn Bhd ("KASB") to be the project management consultant to assist the company for land conversion, plan submission, project management and marketing of the project. KASB is part of the Karsan Group, a Langkawi-based companies that involved in property development and property management. The Karsan Group is owned by Mr. James Karsan, a British citizen.

For Sungai Renggam JV that to be undertaken by 12AVE, a 70% owned subsidiary of Kobay, the Board anticipates that its 30% joint venture partner of 12AVE, namely Nova Impact Sdn Bhd ("Nova") shall play its vital role in driving the project. Nova, a company based in Klang Valley, is owned by Mr.Ng Tiat Seng, who graduated as Master of Science in project management in year 1992 from University of Manchester. Mr. Ng has vast experience in project planning, property development, construction and property management. He is currently a director of 12AVE. Mr. Ng has been in the industry for more than 15 years. He had assumed the management role during his previous employments in completing various mix development projects covering residential, commercial, industrial building and hotel property. These include Desa Saujana, D'Oasis and D' Bolouverd in Klang Valley and Symphony Hotel in Ipoh.

## 3. RATIONALE FOR THE PROPOSED DIVERSIFICATION

The expansion of the Group's business into property development is part of the Group's long term strategy of diversifying into other industries with stable and strong growth prospects instead of depending solely on its existing core business of manufacturing sector which is highly cyclical and dependent on the outlook of global electronic sector. The management of Kobay Group is of the opinion that the Group needs to diversify into other industries in order to provide stable earnings for the Group in the future.

The Board believes that the diversification of the Group's business into property development industry should contribute positively to the Group's future earnings as it will cushion the negative cyclical effect of the current core business. Consequently, the Proposed Diversification will reduce the Group's sole reliance on current core business, ie. high precision engineering industry for its future growth. The Board is also of the view that the property development and property investment business will offer good growth prospects for the Group given the said industry's dynamism. In addition, the Proposed Diversification will potentially provide the Group with another profit avenue, thus providing stable earnings growth for the Group in the future.

## 4. EFFECTS OF THE PROPOSED DIVERSIFICATION

The effects of the Proposed Diversification are as follows:

### 4.1 Share Capital and Substantial Shareholders' Shareholdings

The Proposed Diversification will not have any effect on the issued and paid up share capital of Kobay as well as the shareholdings of its substantial shareholders as the Proposal does not involve any issuance of new shares in Kobay.

### 4.2 Earnings

The Proposed Diversification is not expected to have any immediate effect on the earnings of the Kobay Group for the financial year ending 30 June 2014.

Barring unforeseen circumstances, the Board believes that as and when the Properties are developed, the Proposed Diversification is expected to contribute positively to the earnings and earnings per share of Kobay Group in the future.

### 4.3 Net Assets and Gearing

The Proposed Diversification is not expected to have a material effect on the net assets of the Kobay Group for financial year ending 30 June 2014. However, as disclosed in section 2.2 above, on pro-forma and aggregate basis, the total land costs acquired under the property development (including Langkawi Land that pending completion) has contributed 24.6% of the Group's net assets.

On pro-forma basis, based on the audited account of FYE 2012 and the management's intention to obtain RM8 million bank borrowing to finance the acquisition of Langkawi Land, the acquisition of Langkawi Land will increase the Group's gearing ratio from 0.01% to 5.3%.

The effect of the Proposed Diversification on future net assets and gearing will depend on future properties to be acquired and projects to be undertaken and the way they are financed of which are unable to be ascertained at this juncture.

## 5. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

### 5.1 Overview and Prospects of the Malaysian Economy

The Malaysian economy performed better than expected in 2012, recording a strong growth of 5.6%. The overall growth performance was driven by higher growth in domestic demand, which overweighted the negative impact from the weak external environment. Domestic demand recorded the highest rate of expansion over the recent decade, underpinned by higher consumption and investment spending. Despite the uncertainties in the external environment, domestic consumer confidence picked up amidst positive income growth, continued strength in the labour market, the low inflation environment and supportive financing conditions.

Investment activity was a key driver of the domestic economy during the year, with increased capital spending by both the private and public sectors. Private investment was particularly robust, recording a double-digit growth of 22.0%. The share of private investment rose to 15.5% of GDP in 2012, the highest since 1998. This was led by strong capital spending in the consumer-related services sectors, domestic-oriented manufacturing sectors and the implementation of major infrastructure projects. Public investment also registered a strong growth of 17.1% driven by higher capital spending by public enterprises. In addition, the strong investment performance was also attributed to the commencement and progress of several infrastructure projects, including those under the Economic Transformation Programme (ETP), and the steady improvement in the investment climate.

Private consumption registered a firm growth of 7.7% in 2012. The strong performance was attributed to favourable income growth and supportive financing conditions. In the public sector, public consumption recorded a moderate growth of 5.0% amidst continued fiscal consolidation efforts during the year.

On the supply side, all economic sectors continue to expand in 2012. The construction sector benefited from the strong expansion in investment activity, registering its highest pace of growth since 1995. While the growth of export-oriented activities was dampened by slowdown in external demand, the growth of domestic related activities, particularly in the services and manufacturing sectors, was supported by the strong performance of domestic demand.

(Source : Bank Negara Malaysia Annual Report 2012, Bank Negara Malaysia)

The Malaysian economy is expected to strengthen further and projected to grow at a faster rate of 4.5% - 5.5% in 2013. Growth will be supported by improving exports and strong domestic demand on the assumption that global growth will pick up, especially during the second half of 2013. The growth projection is premised upon the expectation of an improvement in the resolution on the debt crisis in the euro area and stronger growth momentum in the economies of Malaysia's major trading partners.

Domestic demand is expected to maintain its strong momentum driven by robust private investment and strong private consumption. Private sector activity will be supported by an accommodative monetary policy in an environment of low inflation coupled with a robust financial sector, Recovery in the external sector, particularly increasing external demand from regional economies and major trading partners will further provide the impetus for a private-led growth. The overall public expenditure is expected to increase, led by higher NFPE's (non-financial public enterprises) capital investment which will further augment growth.

(Source : Economic Report 2012/2013, Ministry of Finance Malaysia)

### 5.2 Prospects of the Property and Construction Industry

The construction sector consists of four subsectors namely residential, non-residential, civil engineering and special trade works (special trade works include maintenance activities such as electrical, tilling, plumbing, painting and carpentry). During the first half of 2012, the sector expanded strongly by 18.9% supported by strong activities in the residential and civil engineering subsectors.

The residential subsector expanded significantly by 22% during the first half of 2012 (January - June 2011 : 9.9%) supported by strong demand for housing and investment purposes arising from higher household disposable income. Additionally, improved accessibility following the development of infrastructure projects further stimulated the demand for houses, especially in the suburban areas. Housing starts increased 13.1% to 60,975 units (January - June 2011 : 37.8% ; 53,912 units).

In support of Government's continuous efforts to increase home ownership, developers are embarking on building more affordable homes. Launches from developers for house price ranging between RM150,000 and RM250,000 increased 2.7% to 5,628 units as at end June 2012 (end December 2011 : 5,481units). As at end June 2012, a total 2,801 units of Rumah Mesra Rakyat 1Malaysia (RMR1M) were completed, while 8,752 units are under construction. This new residential supply will add to the existing stock and match the growing demand for affordable residential houses.

The Malaysian All-House Price Index trended upwards by 7.9% to 167.3 points during the second quarter of 2012 (Q2 2011 : 10.6%; 155.1 points), with Klang Valley recording the highest index at 185.3 points followed by Penang at 181 points, respectively. Kuala Lumpur continued to record the highest average all-house price at RM491,388 followed by Selangor (RM364,722) and Penang (RM261,601).

(Source : Economic Report 2012/2013, Ministry of Finance Malaysia)

The property market activities moderated in 2012. There were 427,520 transactions worth RM142.84 billion registered in 2012 against 430,403 transactions worth RM137.83 billion in 2011. The volume of transaction registered a trivial decrease 0.7% and value, however, increase 3.6%.

Market activities softened across the board except for residential and development land sub-sectors. Development land sub-sector grew by 6.1% after achieving 14.8% last year. Similarly, residential sub-sector recorded a marginal growth of 1.1% after recording a double digit growth of 18.9% last year. Commercial, agricultural and industrial subsectors were less encouraging to register -5.9%,-5.0% and -4.7% changed respectively against growth of 9.7%, 4.6% and 6.5% in last year. By market share, residential subsector continued to dominate with 63.8% and trailed by agricultural (18.9%), commercial (9.6%), development land (5.4%) and industrial (2.3%) sub-sectors.

The residential sub-sector continued to spearhead the property market activities, taking up 63.8% share and 47.4% of the transaction value. The year registered 272,669 residential property transactions worth RM67.76 billion with recorded growth of 1.1% and 9.6% respectively. As at Q2 2012, the All House Price Index increased to 175.3 points against 161.9 points registered in Q4 2011.

Commercial sub-sector ranked third most active sub-sector in terms of volume but second in value. There were 41,082 transactions worth RM27.79 billion recorded in the year. The shops sub-sector was the main contributor of the commercial sub-sector contributing 54.5% (22,389 transactions) of the volume and 49.2% (RM13.67 billion) of the value of transactions. The shop’s market activity however, softened in the review period. The volume and value of transaction decreased by 10.4% and 0.7% respectively (2012 : 22,389 transactions, RM13.67 billion; 2011 : 24,995 transactions, RM13.76billion).

The leisure property sub-sector further improved. The volume of tourist arrivals recorded increment of 1.3% as opposed to 0.6% last year. Tourist arrivals increased from 24.71 million to 25.03million, comprising mainly from neighboring country, Singapore (52.0%). Correspondingly, hotels occupancy rebounded. The national average occupancy of one to five star hotels improve to 53.6% (2011 : 53.1%). Meanwhile, three to five star hotels performed better with 54.5% occupancy (2011: 51.4%; 2010 : 53.1%). The average occupancy in the states varied between 35.6% and 71.2% for one to five star hotels with Kelantan for the former and Labuan for the later. In the three to five star hotels, Kelantan again ranked lowest (30.7%) and the highest occupancy achieved by Kuala Lumpur (69.3%).

The residential property sub-sector will continue to drive the property market and construction activity. Affordable housing will be the national focal agenda in the coming three years. Three agencies viz PRIMA, Syarikat Perumahan Nasional Berhad and National Housing Development are entrusted to build 123,000 afforable housing with RM1.9billion allocation.

Moving forward, the overall property market performance for 2013 will be subjected to local and global economic environment. Nevertheless, the construction activity is expected to be vigorous particularly by the residential sub-sector.

(Source : Malaysian Property Market 2012, Valuation and Property Services Department, Ministry of Finance, Malaysia)

In 2013, the market outlook for the affordable housing segment is very positive. WTW CH Williams Tahar & Wong in their Malaysian Property Market Report 2013 expected the affordable housing segment will continue to find a ready market. The high-end residential properties will continue to sell well in the major cities of Johor Bahru, Kuala Lumpur and Penang. They expect with the seemingly strong demand, prices may be pushed upwards.

### 5.3 Prospects of the Penang Property Market

Located in the northern part of the Peninsula Malaysia, Penang is a small state that has an estimated population of 1.6million. The Penang state consists of Penang Island which is 299.65sq km and Seberang Perai which is 738.41 sq. km. Penang is the country’s top three most developed and industrialized state despite being the second smallest state in Malaysia.

According to Henry Butcher Research Report H1 2013, Penang property market performance softened in the first quarter of 2013. The total number of properties transacted in Penang during Q1 2013 was recorded at 5,756 transactions, a significant drop of 18% compared to the figure recorded at 7,007 transactions at the same period last year. Despite the drop, the residential sector still remained its dominant share of 75% from the total number of properties transacted.

The number of commercial lots transacted, fell sharply in Q1 2013 compared to the same period last year. Nevertheless, despite the drop in number of transactions, the total transacted value of residential properties increased by 3.5% in Q1 2013 due to the relatively strong demand from home purchasers as well as property investors coupled with the limited supply of residential stock in the market.

Consumer confidence of both local and international investors on Penang’s properties remains buoyant. Therefore, Penang’s property market is foreseen to be filled up with more excitement soon. Nevertheless, global economy uncertainty, natural disaster and local political development are among the downside risks that should be observed.

(Source : Henry Butcher Penang Research Report H1 2013)

### 5.4 Prospects of the Selangor Property Market

The state’s performance remained firm. There were 96,513 transactions recorded worth RM49.24 billion. The market activity contracted by 1.7% but value was up by 13.8% (2011 : 98,211 transactions, RM43.27 billion). The decline in the total transaction volume was attributed to the lower number of transaction in the industrial subsector, which dropped from 3,743 transactions (2011) to 3,080 transactions, down by 17.7% in volume and 5.2% in value.

The residential sub-sector continued to dominate the property market, contributing 77.7% and 51.5% in volume and value of transactions respectively, followed by commercial sub-sector (10.0% and 17.7%). In terms of volume, most sub-sectors witnessed slight contraction. The residential sub-sector slipped by 0.5%, whilst the commercial, industrial and agricultural subsector also contracted at 3.4%, 17.7% and 5.7% respectively. On the other hand, value recorded strong growth, headed by commercial (16.3%), followed by development land (61.0%), residential (9.8%) and agricultural (1.3%) sub-sectors.

The future outlook for Kuala Lumpur is expected to be promising, backed by the on-going MRT and Greater Kuala Lumpur projects under the Economy Transformation Programme (ETP). The Tun Razak Exchange will spur construction activities and create demand for high-end housing.

The new MRT lines for Greater Klang Valley areas are expected to hype up the property market. The value of property along the MRT route will appreciate further depending on the location to the stations. Projects which are strategically located near MRT stations will likely to enjoy good sellout as buyers are confident of future demand for their property once the MRT is in operation. Proximity of any proposed condominium development in relation to a MRT station has been a major winning factor these days. New launches which are strategically located near to a MRT station also will be expected to be priced at least 10% higher than others which are located further away.

(Source : Property Market Report 2012, Valuation and Property Services Department, Ministry of Finance Malaysia)

**5.5 Prospects of the Langkawi Property Market**

Langkawi, the Jewel of Kedah (Langkawi Permata Kedah) is an archipelago of 104 islands in the Andaman Sea, some 30 km off the mainland coast of northwestern Malaysia.

Having enjoyed duty free status since 1987, the island of Langkawi was granted further recognition for its commitment to nature conservation by being awarded Geopark status by UNESCO in 2007.

The property market for Kedah state was improved from 26,752 transactions valued at RM3,922.23 million (2011) to 27,775 transactions valued at RM4.436.16 million. The residential sub-sector and development land sub-sector are the major contributors to the growth respectively with the other sub-sectors are experiencing a negative growth.

With the deployment of Langkawi’s 5-years Tourism Blueprint of which envisages RM5 billion worth of investment in tourism projects and aims to increase tourism arrivals from the current 2.4 million to three million by 2015, this would contribute positively to the country's economy in the near future.

The government's financial commitment to the blueprint includes RM420 million to build infrastructure, acquire some land and promote the island so that tourists no longer give it a miss in favour of destinations like Bali, Phuket and the Maldives. This would attract foreigners who are looking for retirement or second home or holiday in this region which is expected to boost the residential sub-sector and hotel sub-sector in the state as properties prices is still consider cheap compared to island like Singapore or Hong Kong in the same region especially sea-front properties.

**5.6 Prospects of the Proposed Diversification**

Tanjung Bungah is regarded as one of the prime residential areas in Penang. The Tanjung Bungah Land is a sea-front property located within the town of Tanjung Bungah. It is situated beside the main road of Tanjung Bungah with easy access to Georgetown and it is along the way towards tourist hotspot Batu Ferringhi. Due to its strategic location, the area has its fair share of tourism and commercial activities. Nearby amenities, education institutes and shopping complexes include Dalat International School, TAR College, and Island Plaza. Within the vicinity, there are also luxury condominiums like Infinity, Sky Home and The Cove. Entertainment hub Gurney Drive and Penang Adventist Hospital are located nearby.

Residential properties in Penang shall continue to do well due to scarcity of land in Penang and strong local demand. Hence, with the improving economic sentiment and the strategic location of the property, Kobay Group is confident that the take up shall be favourable once the project is launched.

For the land acquired under LD in Langkawi Kedah, the property is strategically located at the tourists hotspot area of Pantai Tengah. With the launching of Langkawi Tourism Blueprint by the relevant authority, the property has a good development potential to attract affluent Malaysians looking for holiday homes, investors for holiday rental properties and MM2H participants.

Whereas for Sungai Renggam JV project, the said property is located within the district of Petaling, Selangor, next to Batu Tiga KTM station with easy access to various transportation and infrastructure systems, school, Shah Alam and Subang Jaya commercial districts. With active commercial and industrial activities nearby, the Sungai Renggam JV project shall be able to attract buyers of wage earner group from the surrounding. Subject to the authorities' approvals, the tentative idea of the project is development of medium costs residential project, which the Board believes that it will have higher demand for it. Besides, the Sungai Renggam JV project may potentially benefited from the proposed third Light Rail Transit (LRT 3) line that connecting Kelana Jaya to Klang through Shah Alam.

At the moment, none of the abovementioned development plans were approved by the relevant authorities (save for the Langkawi Land that has obtained the planning permission by the previous owner). Both Selangor and Penang are states in Malaysia which amongst the top 5 urban area whereby the year-on-year growth in property market are of double digit.

In view of their strategic location and favourable accessibility of the abovementioned development properties, the Board believes that the properties have good development potential which could enhance the Group's future earnings.

## 6. RISK FACTORS IN RELATES TO THE PROPOSED DIVERSIFICATION

Below are the main risk factors relating to the Proposal, which may not be exhaustive :

### 6.1 Diversification in Operations Risk

The Group is principally engaged in high precision engineering industry. As the intended venture into property development would result in the diversification of the Group's business into a new business, the Group is exposed to the risks of diversification in operations. The risks include, inter alia, inefficiency of operations and lack of expertise in dealing with competition and technical aspects that may arise from the construction and development of the property. There is no assurance that the Proposed Diversification will not have an impact on the performance of the Group. The Group seeks to limit this risk by seeking advice from various experts and its joint venture partner, and intend to recruit experienced management team to drive the property development and property investment division.

### 6.2 Business Risks

The Group is principally involved in high precision engineering industry. However, pursuant to the Proposal, the Group's performance would then also be affected by the performance and inherent business risks associated with property development industry.

The new business activities will expose the Group to risks inherent in the property development industry which include increase in land cost, shortages of building materials, increases in labour costs e.g. minimum wages implementation currently, shortages of labour including foreign workers, default by purchasers and availability of funds to finance the purchase of property.

Land cost constitutes the major component of a property development project. The recent drastic increase in property market value has caused a great challenge to property developer to develop projects that are affordable to the general public, especially those new comers of the property development industry that do not own sizable land bank. Failure in acquiring the right priced lands that offer competitive pricing may cause the development project to be sluggish.

Building materials is another significant portion of the development costs. Any significant increase in the costs of raw materials and fluctuation in costs could have an adverse effect on the profit margin of the project or force the project to be sold at higher selling price which would eventually affect the project sellout rate.

Although the Group seeks to limit these risks by, inter-alia, effective resource management, effective cost-control, and prudent investment strategy, no assurance can be given that any change in these factors will not have a material adverse impact on the Group.

### 6.3 Competition

With the advent of the Proposed Diversification, Kobay Group faces competition from both new entrants and existing players in the property development industry. Kobay Group will face competition particularly in terms of identifying strategically located and reasonably priced land bank and marketing strategy of the developed property. In addition, Kobay Group may face some disadvantages as a new entrant in the property development industry as it lacks a track record in terms of experience and technical expertise.

Measures that will be taken by the Kobay Group to mitigate competition risk include conducting market survey before acquiring any property for development. These include the population of the identified area, ongoing or potential projects nearby and the demand of the local market. The Group will also cautiously monitor the development plan and if necessary adjust its development plan prior to the launching of the project. Nonetheless, no assurance can be given that the underlying measures would be sufficient to mitigate the risk and any shortfall therefrom would not have any material adverse impact to Kobay Group in the future.

### 6.4 Delay in Completion of Projects

The completion of a development project on time is dependent on many external factors which may be beyond the control of the Group, such as obtaining the requisite approvals (including land conversion approval), licenses and permits, from various regulatory authorities as scheduled, sourcing and securing quality construction materials in adequate amounts, favourable credit terms, environmental factors such as weather conditions, and satisfactory performance of contractors who will be appointed to complete the development project. Any significant delay is likely to have an adverse effect on the Group's financial performance and reputation. The Board will take proactive measures to mitigate these risks by among others effective planning, timely implementation and appointment of project manager to closely monitor the progress of each project.

**6.5 Political and Economy Risks**

Adverse developments in political and economic conditions in Malaysia and globally could materially affect the property industry in the country. Political and economic uncertainties include changes in labour laws, interest rates, risks of expropriation of land by authorities, rate of stamp duty and methods of taxation as well at the tax rate. No assurance can be given that any changes to the political and economic conditions would not have any material impact on Kobay Group's property development business and financial performance in the future.

## 7. APPROVALS REQUIRED

The Proposed Diversification requires the approval from the shareholders of Kobay at the forthcoming AGM to be convened pursuant to Paragraph 10.13 of the MMLR of Bursa Securities.

The Proposed Diversification is not conditional upon any other proposals undertaken or to be undertaken by the Company or the Group.

## 8. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

None of the Directors and/or major shareholders and/or persons connected to the Directors and/or major shareholders of Kobay have any interest, either direct or indirect, in the Proposed Diversification.

## 9. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Diversification, is of the opinion that the Proposed Diversification is in the best interest of the Company and its shareholders, fair and reasonable to the Company and is not to the detriment of the Company and its shareholders.

## 10. ESTIMATED TIME FRAME FOR COMPLETION

The Proposed Diversification will take immediate effect upon Kobay obtaining the shareholders' approval at the forthcoming AGM which is expected to be convened in the fourth ($4^{th}$) quarter of 2013.

This announcement is dated 21 October 2013.