

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the next course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.**

Bursa Malaysia Securities Berhad ("Bursa Securities") has prescribed Part A-Share Buy-back Statement of this Circular to Shareholders as an exempt document. As such, Bursa Securities has not perused the information of the Statements prior to issuance of this Statement.

Bursa Securities takes no responsibility for the contents of this Circular to Shareholders, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



(Company No.: 308279-A)  
(Incorporated in Malaysia)

**CIRCULAR TO SHAREHOLDERS**

in relation to

**PART A**  
**STATEMENT TO SHAREHOLDERS IN RELATION TO THE PROPOSED RENEWAL  
OF SHARE BUY-BACK AUTHORITY;**

**PART B**  
**PROPOSED DIVERSIFICATION OF THE BUSINESS OF KOBAY GROUP INTO  
PROPERTY DEVELOPMENT AND PROPERTY INVESTMENT;**

AND

**NOTICE OF ANNUAL GENERAL MEETING**

The Notice of the Nineteenth (19<sup>th</sup>) Annual General Meeting of the Company to be held at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang on Wednesday, 18 December 2013 at 2.30 p.m. or any adjournment thereof together with the Form of Proxy are enclosed in this Circular.

The Form of Proxy should be lodged at the Registered Office of the Company at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang, not later than forty-eight (48) hours before the time of the meeting. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting if you subsequently wish to do so.

This Circular is dated 26 November 2013

## DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular (definitions denoting the singular number shall also include the plural number and vice versa, where applicable):-

“Act”	:	The Companies Act 1965, as amended from time to time including any re-enactment thereof
“AGM”	:	Annual General Meeting
“Board”	:	Board of Directors
“Bursa Securities”	:	Bursa Malaysia Securities Berhad (635998-W)
“Code”	:	The Malaysian Code on Take-overs and Mergers 2010, as amended from time to time and any re-enactment thereof
“CMSA”	:	The Capital Markets and Services Act 2007
“Director/(s)”	:	Shall have the meaning given in section 2(1) of the CMSA and includes any person who is or was within the preceding 6 months of the date on which the terms of the transactions were agreed upon, a director of the listed issuer or any other company which is its subsidiary or holding company or a chief executive officer of the listed issuer, its subsidiary or holding company.
“EPS”	:	Earnings Per Share
“FYE”	:	Financial Year End
“KHSB”	:	Kobay Holdings Sdn. Bhd. (280918-D)
“Kobay” or the “Company”	:	Kobay Technology Bhd. (308279-A)
“Kobay Group” or the “Group”	:	Kobay and its subsidiaries
“Lipo”	:	Lipo Corporation Sdn. Bhd. (491485-V)
“Listing Requirements”	:	The Main Market Listing Requirements of the Bursa Securities and practice notes issued thereunder including any amendments thereto that maybe made from time to time.
“LD”	:	LD Global Sdn. Bhd. (518757-T)
“LPD”	:	1 November 2013, being the latest practicable date before the printing of this Circular
“Major Shareholder”	:	Includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, has an interest or interests in one or more voting shares in Kobay (or any other corporation which is its subsidiary) and the nominal amount of that shares, or the aggregate of the nominal amounts of those shares, is:-

- (a) 10% or more of the aggregate of the nominal amounts of all the voting shares in the Company; or
- (b) 5% or more of the aggregate of the nominal amounts of all the voting shares in the corporation where such person is the largest shareholder of the Company.

For the purpose of the definition, “interest in shares” has the meaning given under section 6A of the Companies Act, 1965.

“Market Day”	:	A day on which Bursa Securities is open for trading of securities
“Proposed Share Buy-back”	:	The proposed renewal of authority for Kobay to purchase its own shares up to 10% of the Company’s issued and paid-up share capital at any given point in time, if deemed fit and expedient by the Directors of the Company
“Related Party(ies)”	:	A director or major shareholder of Kobay or person connected with such a director or major shareholder as defined under Chapter 1 and Chapter 10 of the Listing Requirements of Bursa Securities
“RM” and “sen”	:	Ringgit Malaysia and sen respectively
“SC”	:	Securities Commission
“share(s)”	:	Ordinary share(s) of RM1 each
“STD”	:	Super Tropica Development Sdn. Bhd. (871347-A)
“12AVE”	:	The 12 Avenues Sdn. Bhd. (1027688-A)
“VWAP”	:	Volume weighted average market price

## **PART A - STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY**

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**PART A : STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF  
SHARE BUY-BACK AUTHORITY**

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(Company No.: 308279-A)  
(Incorporated in Malaysia)

## **PART A : STATEMENT IN RELATION TO THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY**

### **1. INTRODUCTION**

At the Company's Eighteenth (18<sup>th</sup>) AGM held on 28 December 2012, the Board of Directors of Kobay had obtained its shareholders' approval to renew the authority to the Company to purchase and/or hold its own shares up to a maximum of ten per cent (10%) of the total issued and paid-up share capital of Kobay through Bursa Securities pursuant to Section 67A of the Act.

In accordance with Para 12.07(3) of the Listing Requirements, this authority shall lapse at the conclusion of the forthcoming AGM which has been scheduled to be held on 18 December 2013.

On 18 November 2013, the Company has announced to Bursa Securities that it proposes to seek a renewal of the authorisation for the Proposed Share Buy-back from its shareholders at the forthcoming AGM.

The purpose of this Statement is to provide you with the information on the Proposed Share Buy-back and to seek your approval for the Ordinary Resolution pertaining to the renewal of the authorisation on Proposed Share Buy-back to be tabled at the Nineteenth (19<sup>th</sup>) AGM of the Company to be convened at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang on Wednesday, 18 December 2013 at 2.30 p.m.. The Nineteenth (19<sup>th</sup>) AGM notice and the Form of Proxy are enclosed together in this Statement.

### **2. DETAILS OF THE PROPOSED SHARE BUY-BACK**

#### **2.1 Proposed Share Buy-back Renewal**

2.1.1. Kobay is proposing to renew the Proposed Share Buy-back Authority to purchase its own shares up to a maximum of ten per cent (10%) of the total issued and paid up share capital at the forthcoming AGM subject to compliance with Section 67A of the Act and any prevailing laws, rules, regulations, guidelines and requirements issued by relevant authorities at any time of the purchase.

2.1.2. Pursuant to Paragraph 12.07 (3) of the Listing Requirements, if the Proposed Share Buy-back Authority, being renewed, it will be continued in force until:-

- (i) the conclusion of next AGM;
- (ii) the expiration of the period within which the next AGM is required by law to be held; or
- (iii) revoked or varied by ordinary resolution passed by Kobay's shareholders in a general meeting, whichever occurs first.

2.1.3. As at LPD, Kobay has 68,080,750 ordinary shares issued and fully paid up whereby 728,200 ordinary shares purchased in the past are held as treasury shares. The maximum number of shares can be purchased under the Proposed Share Buy-back, if



renewed, will be 6,079,875 ordinary shares or 10% of the Company's issued and paid up share capital excluding the treasury shares retained by Kobay.

- 2.1.4. According to the Record of Depositors and the Register of Substantial Shareholders of the Company as at LPD, the total percentage of the issued and paid up share capital of Kobay (excluding the 728,200 treasury shares) which is held by the public (in accordance with the public shareholding spread requirements of Bursa Securities pursuant to Paragraph 8.02) was 54.33% representing 37,320,840 shares in Kobay. Pursuant to the Proposed Share Buy-back renewal, the aforesaid public shareholding spread of Kobay would be reduced to approximately 50.98% or 31,240,965 shares in Kobay based on the assumption that all the shares so purchased are from the public shareholders of Kobay.
- 2.1.5. In accordance with Section 67A of the Act, the Board may, at their discretion, deal with the purchased Kobay shares in the following manner:-
- (i) cancel all or part of Kobay shares so purchased; or
  - (ii) retain all or part of Kobay shares so purchased as treasury shares which may be distributed as share dividends to the shareholders of Kobay and/or be resold on Bursa Securities in accordance with the relevant rules of Bursa Securities and/or be cancelled subsequently; or
  - (iii) combination of (i) and (ii) above, or

in any other manner which may be prescribed by all applicable laws and/or regulations and guidelines applied from time to time by Bursa Securities and/or any other relevant authority for the time being in force.

In the event Kobay has ceased to hold all or any part of the purchased Kobay shares as a result of the above, Kobay may purchase additional number of Kobay shares provided that the total number of share so purchased shall not exceed ten per centum (10%) of the issued and paid up share capital of Kobay at any point in time.

All rights attached to Kobay shares so purchased that held under treasury shares e.g. voting, dividends and participation in other distributions or otherwise are suspended and the treasury shares shall not be taken into account in calculating the number or percentage of shares or of a class of shares in Kobay including substantial shareholdings, take-overs, notices, the requisitioning of meetings, the quorum for a meeting and the result of a vote on a resolution at a meeting.

- 2.1.6 Under Para 12.17 and 12.18 of the Listing Requirements of Bursa Securities :
- (i) Kobay may only purchase its own shares on Bursa Securities at a price which is not more than 15% above the VWAP of Kobay shares for the five (5) Market Days immediately before the date of the purchase; and
  - (ii) Kobay may only resell all or any part of the treasury shares held at a price which is:-
    - a. not less than the VWAP for Kobay shares for the five (5) Market Days immediately before the date of the resale; or
    - b. not more than 5% discount of the VWAP of Kobay shares for the five (5) Market Days immediately before the resale provided that the resale takes place not earlier than 30 days from the date of purchase and the resale price is not less than the cost of purchase of the shares being resold.

During the last FYE 30 June 2013, the Company did not purchase any of its own shares. Disclosure has been included in page 28 of the Company's Annual Report 2013.

2.1.7 The Proposed Share Buy-back shall be made wholly out of the retained profits and/or share premium accounts of the Company. The audited retained profits and share premium accounts of the Company as at 30 June 2013 were RM13,913,269 and RM1,680,086 respectively. The retained profit and share premium accounts of the Company in the management account as at 30 September 2013 were RM13,325,143 and RM1,680,086 respectively.

2.1.8 The funding for the purchase by the Company of its own shares is expected to be internally generated. The Board will determine the allocation of an appropriate amount of the Group's internally generated funds for the purchase and the amount shall not exceed the aggregate balance standing in the retained profits and/or share premium accounts of the Company.

The actual number of shares to be purchased and the timing of such purchase(s) would depend on, inter-alia, market conditions, retained profits and share premium accounts of the Company as well as the availability of financial resources/funds necessary to give effect to such purchase(s).

Depending on the quantum and the purchase price, the Proposed Share Buy-back renewal may reduce the working capital and cash balance of Kobay.

## **2.2 Rationale of the Proposed Share Buy-back Renewal**

The Proposed Share Buy-back, if renewed, would enable Kobay to utilise its financial resources, which are not immediately required, for the purpose of purchasing its own shares, if deemed fit and expedient by the Board. The Proposed Share Buy-back renewal may enhance the EPS of the Company, which, in turn is expected to benefit the shareholders of the Company.

In addition, the purchased shares can be held as treasury shares and/or be resold on Bursa Securities with the intention of realising a potential gain without affecting the total issued and paid-up share capital of the Company. Should any treasury shares be distributed as share dividends, this would serve to reward the shareholders of the Company.

## **2.3 Potential advantages and disadvantages of the Proposed Share Buy-back Renewal**

The potential advantages and disadvantages of the Proposed Share Buy-back, if renewed, to the Company and its shareholders are as follows:-

Advantages:-

- (i) allows the Company the flexibility in attaining its desired capital structure; and
- (ii) rewards the shareholders in the event the treasury shares are distributed as share dividends.

Disadvantages:

- (i) the Proposed Share Buy-back will reduce the financial resources of the Group and may result in the Group forgoing better investment opportunities that may emerge in the future; and
- (ii) as the Proposed Share Buy-back can only be made out of retained profits and share premium accounts of the Company, it may result in the reduction of financial resources available for distribution to shareholders as dividends in the immediate future.

The Board will be mindful of the Company's and its shareholders' interests in undertaking the Proposed Share Buy-back and in the subsequent resale of treasury shares on Bursa Securities, if any.

### **3. FINANCIAL EFFECTS OF THE PROPOSED SHARE BUY-BACK**

The effects of the Proposed Share Buy-back, if renewed, are illustrated below.

#### **3.1 Share capital**

The Kobay shares that may be purchased pursuant the Proposed Share Buy-back renewal would have the following effect on the issued and paid-up share capital of the Company if the shares purchased are cancelled entirely:-

	No. of Kobay Shares
Issued and paid-up share capital as at LPD	68,080,750
Assuming treasury shares held as at LPD are cancelled	(728,200)
Assuming maximum number of shares to be purchased under the Proposed Share Buy-back are cancelled	(6,079,875)
	<hr/>
Reduced issued and paid-up share capital in the event that the purchased shares are cancelled	61,272,675
	<hr/>

However, there will be no effect on the issued and paid-up share capital of the Company if the shares so purchased are retained as treasury shares, resold, and/or distributed to shareholders as dividend.

#### **3.2 Directors' and major shareholders' shareholdings**

The effects of the Proposed Share Buy-back renewal on the shareholdings of the Directors and major shareholders of Kobay would depend on the timing and the number of shares so purchased, if any. However, for illustration, the Proposed Share Buy-back renewal would have the following effect on the percentage of the shareholdings of the Directors and major shareholders, assuming that a maximum number of 6,079,875 shares are purchased from the public:

### 3.2.1 Directors

	As at LPD <sup>^</sup>		After Proposed Share Buy-back <sup>@</sup>	
	Direct	Indirect	Direct	Indirect
Dato' Koay Hean Eng	1,654,154 (2.46%)	17,523,007* (26.02%)	1,654,154 (2.70%)	17,523,007* (28.60%)
Koay Cheng Lye	1,058,995 (1.57%)	17,523,007* (26.02%)	1,058,995 (1.73%)	17,523,007* (28.60%)
Koay Ah Bah @ Koay Cheng Hock	884,665 (1.31%)	17,523,007* (26.02%)	884,665 (1.44%)	17,523,007* (28.60%)
Lim Swee Chuan	-	-	-	-
Tan Yok Cheng	1,250 <sup>#</sup>	-	1,250 <sup>#</sup>	-
Dr. Mohamad Zabdi Bin Zamrod	-	-	-	-
Khaw Eng Peng	-	-	-	-

Notes :

\* Deemed interest by virtue of their substantial shareholdings in KHSB, a substantial shareholder of Kobay

# Interest is less than 0.01%

<sup>^</sup> The percentage of shareholding is calculated based on 67,352,550 shares after deducting 728,200 treasury shares (retained by the Kobay as per Record of Depositors) from the fully issued and paid-up capital of Kobay as at LPD.

<sup>@</sup> The percentage of shareholding is calculated based on 61,272,675 shares after deducting 6,079,875 shares (being purchased from the public shareholders and retained by Kobay as treasury shares pursuant to the Proposed Share Buy-back) from the fully issued and paid capital of Kobay as stated in section 3.1 above.

### 3.2.2. Major Shareholders

	As at LPD <sup>^</sup>		After Proposed share buy-back <sup>@</sup>	
	Direct	Indirect	Direct	Indirect
KHSB	17,523,007 (26.02%)	-	17,523,007 (28.60%)	-
Norinv Kapital Sdn. Bhd.	8,884,400 (13.19%)	-	8,884,400 (14.49%)	-
Dato' Koay Hean Eng	1,654,154 (2.46%)	17,523,007* (26.02%)	1,654,154 (2.70%)	17,523,007* (28.60%)
Koay Cheng Lye	1,058,995 (1.57%)	17,523,007* (26.02%)	1,058,995 (1.73%)	17,523,007* (28.60%)
Koay Ah Bah @ Koay Cheng Hock	884,665 (1.31%)	17,523,007* (26.02%)	884,665 (1.44%)	17,523,007* (28.60%)

Notes :

- \* Deemed interest by virtue of their substantial shareholdings in KHSB, a substantial shareholder of Kobay
- ^ The percentage of shareholding is calculated based on 67,352,550 shares after deducting 728,200 treasury shares (retained by the Kobay as per Record of Depositors) from the fully issued and paid-up capital of Kobay as at LPD.
- @ The percentage of shareholding is calculated based on 61,272,675 shares after deducting 6,079,875 shares (being purchased from the public shareholders and retained by Kobay as treasury shares pursuant to the Proposed Share Buy-back) from the fully issued and paid capital of Kobay as stated in section 3.1 above.

### **3.3 Earnings**

The Proposed Share Buy-back is not expected to have any material impact on the earnings of the Group. However, the resultant reduction in the number of Kobay shares in issue would be expected to correspondingly increase the EPS of Kobay, at Company and Group levels, if the shares so purchased are cancelled or retained as treasury shares.

### **3.4 Dividends**

The Proposed Share Buy-back will reduce the amount of distributable reserves of the Company available for payment of dividends if the retained profits have been utilised to facilitate the Proposed Share Buy-back.

The Board of Directors of Kobay has recommended a final tax exempt dividend of 2.0 sen to be declared for the FYE 30 June 2013.

### **3.5 Net Assets**

The Proposed Share Buy-back may increase or decrease the net assets of Kobay and the Group depending on various factors which include the treatment of the shares purchased, i.e. to cancel or retain as treasury shares, the timing, purchase price and the number of shares so purchased, if any, and the eventual treatment of any treasury shares arising.

The Proposed Share Buy-back will reduce the net assets per share of Kobay Group when the purchase price exceeds the net assets per share of Kobay Group at the relevant point in time. On the contrary, the net assets per share of Kobay Group will be increased when the purchase price is less than the net assets per share of Kobay Group at the relevant point in time.

### **3.6 Working capital**

Although the Proposed Share Buy-back would reduce the working capital of the Group to the extent of the amount of funds utilized for the purchase of the Company's shares, it is not expected to have an adverse material effect on the working capital of the Group.

## **4. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS**

Save for the inadvertent increase in the percentage shareholdings and/or voting rights of the shareholdings as a consequence of the Proposed Share Buy-back renewal, none of the Directors and major shareholders of Kobay or any other companies which is its subsidiary and/or persons connected with them has any interest, whether direct or indirect, in the Proposed Share Buy-back.

## **5. IMPLICATIONS RELATING TO THE CODE**

Based on the shareholdings as set out in Section 3.2 above, should the Company acquire the full amount of shares representing ten per cent (10%) of its issued and paid up capital each in the maximum scenario, the total direct and indirect equity interests of the substantial shareholder, namely KHSB, and the Directors, namely Dato' Koay Hean Eng, Mr. Koay Cheng Lye and Mr. Koay Ah Bah @ Koay Cheng Hock that deemed acting in concert with each other would increase by approximately 3.11% from 31.36% to 34.47% respectively. In this instance, KHSB and the said three Directors would be obliged to undertake a mandatory offer for the remaining shares in the Company not held by them pursuant to the Code.

However, an exemption to undertake a mandatory offer may be granted by the SC under Paragraph 24.1, Practice Note 9 of the 2010 Code, subject to the aforesaid substantial shareholder and Directors obtaining the approval from the independent/minority shareholders of the Company, on a poll, at a meeting of shareholders, to increase their shareholdings in the Company to more than 33%, if the increase in shareholding of the aforesaid substantial shareholder and Directors in the Company is inadvertent and a mandatory offer obligation is triggered as a result of any action outside its direct participation. The aforesaid substantial shareholder and Directors intend to apply for an exemption under Paragraph 24.1, Practice Note 9 of the 2010 Code if the obligation is expected to be triggered as a result of the Proposed Share Buy-back.

## **6. DIRECTORS' RECOMMENDATION**

The Board of Directors recommends that you vote in favour of the resolution relating to the Proposed Share Buy-back Renewal to be tabled at the forthcoming AGM.

## **7. AGM**

The relevant extract of the Notice convening the Nineteenth (19<sup>th</sup>) AGM of the Company for the Proposed Share Buy-back Renewal is enclosed. The AGM will be held at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang on Wednesday, 18 December 2013 at 2.30 p.m. for the purpose of considering and if thought fit, passing the resolution to approve the Proposed Share Buy-back Renewal.

If you are unable to attend and vote at the AGM in person, please complete, sign and return the Form of Proxy in accordance with the instructions printed thereon as soon as possible and in any event, so as to arrive at the Registered Office of the Company not later than forty eight (48) hours before the time appointed for holding the AGM. The completion, signing and return of the Form of Proxy will not preclude you from attending and voting in person at the AGM should you subsequently wish to do so.

## **8. FURTHER INFORMATION**

Shareholders are advised to refer to the attached Appendix I for further information.

This Statement is dated 26 November 2013

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**PART B : PROPOSED DIVERSIFICATION OF THE BUSINESS OF KOBAY  
GROUP INTO PROPERTY DEVELOPMENT AND PROPERTY INVESTMENT**

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(Company No.: 308279-A)  
(Incorporated in Malaysia)

Registered Office:  
Plot 30, Hilir Sungai Kluang 1,  
Bayan Lepas Industrial Park,  
Phase 4, 11900 Bayan Lepas,  
Penang.

Date : 26 November 2013

**Board of Directors:-**

Dr. Mohamad Zabdi Bin Zamrod	- Independent Non-executive Chairman
Dato' Koay Hean Eng	- Chief Executive Officer/Non-independent Executive Director
Koay Cheng Lye	- Chief Administrative Officer/Non-independent Executive Director
Koay Ah Bah @ Koay Cheng Hock	- Non-independent Non-executive Director
Lim Swee Chuan	- Chief Financial Officer/Non-independent Executive Director
Tan Yok Cheng	- Senior Independent Non-executive Director
Khaw Eng Peng	- Independent Non-executive Director

**To : All Shareholders of Kobay Technology Bhd.**

Dear Sir/Madam,

**PART B - PROPOSED DIVERSIFICATION OF THE BUSINESS OF KOBAY GROUP INTO PROPERTY DEVELOPMENT AND PROPERTY INVESTMENT**

**1.0 INTRODUCTION**

On 7 October 2013, the Board of Kobay announced that its wholly owned subsidiary, 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 LPD.

Prior to the acquisition of Langkawi Land, the Group via its subsidiary, 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, 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”).

On 21 October 2013, the Company has announced to Bursa Securities that it proposes to seek its shareholders approval for the proposed diversification of the business of Kobay Group into property development and property investment (“Proposed Diversification”) at the forthcoming AGM.



In accordance with Paragraph 10.13(1) of the Listing Requirements, 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 Circular. You are advised to read the content of this Circular before voting on the Ordinary Resolution to give effect to the Proposed Diversification at the forthcoming AGM.

## **2.0 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.

Kobay Group's 3 years summary financial performance are listed below :-

<b><u>FYE</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	111,216	98,263	91,165
Profit Before Tax	12,884	3,923	1,736
Profit After Tax	9,782	1,293	545
Net Profit/(Loss) Attributable To Equity Holders	6,553	(1,292)	(549)

For the FYE 2013, approximately 84% Kobay Group's revenues are contributed by precision metal components, precision tooling and equipment divisions of which was heavily depends on electronics and semiconductor industries that is cyclical in nature. The balance of 16% was contributed by metal fabrication division and other segments which consist of money lending, property letting and hotel operation.

The Group's results were dependent solely on manufacturing sector which are subject to global economic condition, highly competitive market and cyclical product demand. In order to improve the performance, the Group intends to explore into non-manufacturing sector to diversify its earning streams.

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 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 2013 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	<u>Tanjung Bungah Land</u> Lot 990, 992, 996, 36, 249, 993, 995, 35, 251, 34, 991, 994, & 947 Bandar Tanjung Bungah, Daerah Timur Laut, Penang.	1.5	Vacant	13.2
2013 (pending completion of SPA)	<u>Langkawi Land</u> Lot 2032, Mukim Kedawang, Pantai Tengah, Pulau Langkawi, Kedah	6.9	Vacant	14.0
Aggregate :		8.4		27.2

On pro-forma basis, the aggregate purchase considerations of RM27.2 million for the above land acquisitions constitute approximately 23% of the Group's FYE 2013 audited net assets of RM118.3million. The property development and property investment activities are not expected to contribute any revenue or profits to Kobay Group for the 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. As such, no cost will be incurred for land conversion.

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 in one phase 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. The development of Tanjung Bungah Land is currently at pre-consultation stage. Barring unforeseen circumstances, formal application to the authority for development of the Tanjung Bungah Land is expected to be submitted in the fourth quarter of calendar year 2014 and the application for developer's license shall be in the first quarter of calendar year 2015. The project is estimated to be completed three years after the issuance of developer's license.

Below is the information in respect of the development of the Tanjung Bungah Land :

a)	Project name:	Yet to be determined.
b)	Number of phases:	One phase
c)	Type of development:	Mix commercial and residential
d)	Expected commencement date:	First quarter of calendar year 2015
e)	Expected completion date:	3 years from the commencement date
f)	Gross development value/ cost:	Yet to be finalised
g)	Estimated breakdown of the financing of development cost:	Yet to be ascertained

Location of the Tanjung Bungah land is illustrated below.



### 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.

- (f) The completion of the proposed acquisition of Langkawi Land is not subject to the approval of the land conversion being obtained.

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 LPD, the outcome of the land conversion application is still unknown. The management expects the outcome of the land conversion application be known by early 2014. The estimated land conversion premium is approximately RM200,000.

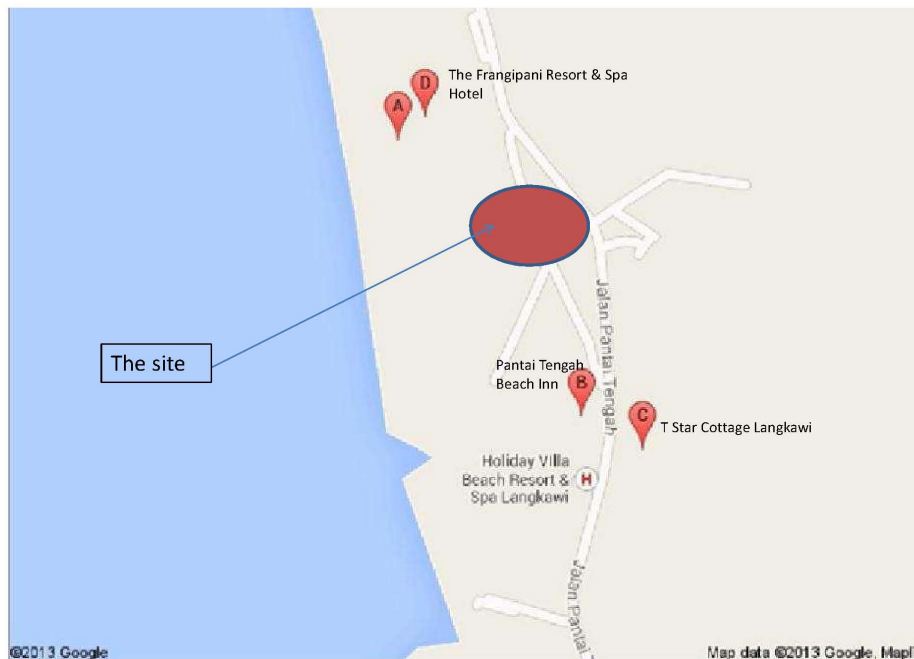
On 1 November 2012, the Vendor via its nominee company has obtained Planning Permission from Majlis Perbandaran Langkawi to develop part of the land into 39 units of serviced villas ("Phase I"). Phase I and the infrastructure shall utilise about 5.3 acres of the land. The remaining land will be developed 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. As of the LPD, the outcome of the renewal application is still unknown.

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.

Below is the information in respect of the development of the Langkawi Land:

a)	Project name:	Yet to be determined.
b)	Number of phases:	Two phases
c)	Type of development:	Phase 1 – 39 units of serviced villas Phase 2 – yet to be determined
d)	Expected commencement date:	End of calendar year 2014
e)	Expected completion date:	3 years from the commencement date
f)	Gross development value/ cost:	Phase 1 – RM50 million/RM34 million (include land cost of RM14 million) Phase 2 – yet to be determined
g)	Estimated breakdown of the financing of development cost:	Phase 1 – internal fund 60%, bank borrowings 40% Phase 2 – yet to be determined

Location of the Langkawi land is illustrated below.



### 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. As such, there is no cost incurred for land conversion. The development land is currently tenanted of which the information of the tenant is not privy to 12AVE. However, in accordance to the terms of the JVA, the Proprietors shall deliver the vacant possession upon all relevant approvals being 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. The management estimates the cost for the river diversion at approximately RM500,000 which shall be funded by internal generated funds.

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, which is mutually agreed by the parties. 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 basis was derived at negotiation between both parties based on the market norm in property joint venture project of 20%-30% for land owner and 70%-80% for developer.

#### 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.

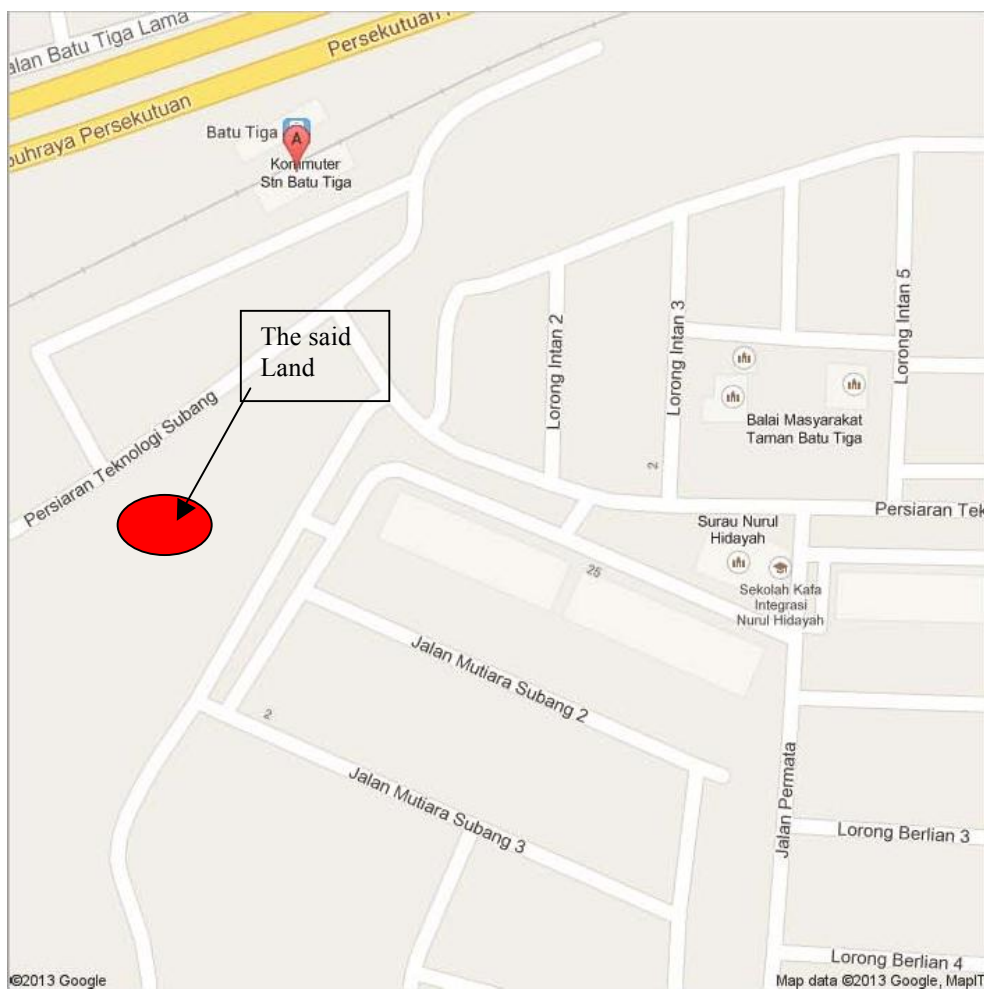
The Sungai Renggam JV project is not expected to have any impact to the Group's net assets, earnings, cashflow and gearing for FYE 2014 as the project will be commenced in mid of calendar year 2016.

There is no valuation carried out on the piece of Sungai Renggam land because the Proprietors shall provides the land for development with RM1,000 consideration being paid as per the terms of JVA.

Below is the information in respect of the development of the Sungai Renggam JV:

a)	Project name:	Yet to be determined.
b)	Number of phases:	One phase
c)	Type of development:	Residential
d)	Expected commencement date:	Mid of calendar year 2016
e)	Expected completion date:	3 years from the commencement date
f)	Gross development value/ cost:	Yet to be finalised
g)	Estimated breakdown of the financing of development cost	Yet to be ascertained

Location of the Sungai Renggam JV land is illustrated below.





## 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. He has through the development projects stated below 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.

Listed below are the projects Mr. Koay Cheng Hock had involved in :-

Commence date	Completion date	Project Name	Type of Development /(units)	Value of the Development (RM'000)	Mr. Koay Cheng Hock's responsibilities
1994	1996	Taman Jaya, Penang	Residential (29 units)	9,590	Planning, executing, marketing & managing
1997	2000	Taman Mesra Indah, Penang	Residential 120 units) & Commercial (16 units)	20,200	Planning, executing, marketing & managing
2001	2002	Tmn Industri Ringan Idaman, Penang	Commercial (6 units)	2,970	Planning, executing, marketing & managing
2001	2003	Wisma Kobay, Penang	1 block of 8 storey commercial building	4,460	Planning, executing, marketing & managing
2003	2005	Taman Permatang Indah, Penang	Residential (42 units) & Commercial (8 units)	19,860	Planning, executing, marketing & managing
2007	2009	Desa Scotland, Penang	Residential (20 units)	13,280	Planning, executing, marketing & managing
2010	2013	South Homes, Penang	Residential (47 units) & Commercial (8 units)	57,660	Planning, executing, marketing & managing

### Key Management

Kobay Group intends to further strengthen its competency in property development and property investment by engaging experienced management team to run the new activities. The Group has recruited a Project Manager to spearhead the property development business. The Project Manager, who will be on board as a full time employee in February 2014, has more

than 9 years of experience in property development industry and has assumed managerial roles in managing various development projects which include factory, commercial shop lots, hospital and residential. He holds a Master Degree in Science (Project Management). The detailed profile of the Project Manager is withheld herewith for confidentiality pending his official joining to the Group.

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 group of companies that involved in property development and property management. The Karsan Group is owned by Mr. James Karsan, a British citizen. The information of KASB is as follow:

Date of Incorporation:	10/9/2009
Commencement date of business:	2013
Issued and paid up share capital:	RM1,000
Name of directors and substantial shareholders:	James Al-Munir Karsan, 60% Vanvari Al-Munir Karsan, 40%
Name of projects and developments involved:	Not applicable. The company is solely for the Langkawi Land project

Karsan Group is focusing on developing small luxury villas project and currently is developing 4 units of luxury villas at Lembah Batu Ara, Langkawi with Gross Development Value RM10million.

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. The information of Nova is as follow:

Date of Incorporation:	29/10/1996
Commencement date of business:	1997
Issued and paid up share capital:	RM50,000
Name of directors and substantial shareholders:	Ng Tiat Seng, 90% Ng Tiat Cheun, 10%
Name of projects and developments involved:	Desa Saujana (2001-2005), 336 residential units with gross development value (“GDV”) of RM65 million D’Bolouverd (2009-2012), 42 units residential with GDV of RM43 million D’Oasis (2010-2012), 100 residential units with GDV of RM73 million Symphony Hotel & shop office (2009-2013), 22 shop units cum 1 block of 11 floors Hotel with GDV of RM56 million

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 and has completed various mix development projects covering residential, commercial, industrial building and hotel property.

Other than KASB that was appointed on 7 October 2013 as project management consultant in Langkawi Land project, there is no management agreement entered into with key management involved in the projects. However, as for the Sungai Renggam JV project, Nova holds 30% equity interest in 12AVE, the developer of the project. As such, the Board views that there is minimum risk of Nova discontinuation in service and support in view of its interest in 12AVE.

As property development business is a new venture to the Group, the Group may not have the required capabilities, capacity and resources to run the operations efficiently. The Group will seek to limit this shortfall by seeking advice from various experts and its joint venture partner, and intends to recruit experienced management team to drive the property development and property investment division.

### **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. Having considered the property industry's outlook and prospects as mentioned in Section 5, the Board is of the view that the property development and property investment business will offer good growth prospects for the Group. 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 did not contribute any profit to the earning of the Group in the past financial years, and it is not expected to have any immediate effect on the earnings of the Kobay Group for the FYE 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 FYE 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 constituted 23.0% of the Group's net assets as at 30 June 2013.

As the management intends 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 2.4% to 9.1% as illustrated as below:-

<u>Audited Figures</u>	<u>FYE2013</u> <u>RM'million</u>	<u>(Pro-forma basis)</u> <u>RM'million</u>
Aggregate Land Cost (as per section 2.2)	13.2	27.2
Total Loans and Borrowings	2.9	10.9
Total Equity	120.0	120.0
Equity attributable to owners/Net Assets	118.3	118.3
Land Costs to Net Assets	11.1%	23.0%
Gearing Ratio	2.4%	9.1%

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, tiling, 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 : 5,481 units). 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 affordable 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.

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

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.

Save for the aforementioned landbank held by the Company under Section 2, the Group does not have other landbank for future property development activities. However, the Group is looking forward to invest more landbank in Penang, Klang Valley and KL should the opportunity arise either with borrowings or internal generated funds.

## **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, however 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 as 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.

## **6.6 Dependence on key personnel**

The Group's success in the property development and property investment depends largely on the abilities, skills, experience, competency and efforts of the key personnel, i.e Mr. Koay Cheng Hock and the Project Manager and management team to be appointed to manage the Group's projects. The loss of any of the said Director and/or relevant key management personnel without and timely replacement, or the inability of the Group to attract and retain other qualified personnel could adversely affect the Group's property development and property investment operations and consequently, its revenue and profitability.

With Mr. Koay Cheng Hock's supervision in the property development division and his experience, who is also the major shareholder of Kobay, the risk of his discontinuation in service should be minimal in view of his interest in the Group. The involvement of project management consultant (i.e KASB) and shareholder of 12AVE (i.e Nova) in the existing projects that have vast experience in property development will also mitigate the reliance of key management staff in running the projects. The Group will adopt appropriate approaches to retain key personnel and strives to attract qualified and experience employees to complement the management team.

## **6.7 Hike in the Real Property Gain Tax ("RPGT") in Budget 2014**

In the recently tabled Malaysia Budget 2014, the government has extended the quantum of RPGT with an increase from 15 % within the first two years of disposal to 30% within the first three years of disposal. It has also re-imposed a prevailing 5% tax on companies and non-citizens in the sixth and subsequent years. The proposed effective date is from 1 January 2014. There are also proposals on the removal of Developers' Interest Bearing Scheme and the minimum purchase price of properties that can be purchased by foreigners that to be increased from RM500,000 to RM1 million. Tailored to promote a more stable and sustainable property market, the changes made in RPGT will undoubtedly curb the speculators who are looking for short term gain. To certain extend, the measures may bring negative impact to the property development business in the short term.

Although it will have a knee-jerk reaction on the cooling-off in demand of property market, the Budget proposals along with macro-prudential measures taken by Bank Negara will stabilize and strengthen the property market in the long term. It may not have great impact onto genuine buyers whom buy for own occupation or long term investment. Moreover, buyers of residential property can seek a once-in-a-life-time exemption from RPGT. The projects in Tanjung Bungah and Langkawi are targeting affluent local and overseas inventors that looking for second home and high net-worth investors where their investment decision is based on attractiveness and location of the project and will not be affecting by the changes made in the Budget. As for the Sungai Renggam project, it is based on affordable medium cost housing model which is in high demand and targeting the medium cost house buyers.

## **6.8 Forward-Looking Statements**

This Circular contains some forward-looking statements, i.e. those other than statements of historical facts. All forward-looking statements are based on estimates and assumptions made by Kobay Group, and although believed to be reasonable at the time of this Circular, are subject to known and unknown risks, uncertainties and other factors which may result in the actual results, performance or achievement expressed or implied in such forward-looking statements. Such factors include inter-alia general economic and business conditions, competition, the impact of new laws and regulations, changes in interest rates and foreign

exchange rates. Hence, any forward-looking statement in this Circular should not be regarded as a representation or warranty by Kobay Group that the plans and objectives of Kobay Group will be achieved.

#### **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' INTERESTS**

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. CORPORATE PROPOSAL ANNOUNCED BUT NOT YET COMPLETED**

Save for the Proposed Diversification, there are no other outstanding corporate Proposal which have been announced to Bursa Securities but not yet completed prior to the dispatch of this Circular. The Proposed Diversification is also neither conditional nor inter-conditional upon any other corporate exercise or scheme.

#### **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<sup>th</sup>) quarter of 2013.

#### **11. DIRECTORS' RECOMMENDATION**

The Board of Directors having considered all aspects of the Proposed Diversification including the rationale as set out in Section 3 above, the effects as set out in Section 4, the prospects as set out in Section 5, the risk factor as set out in Section 6, and after careful deliberation, is of the opinion that the Proposed Diversification is fair and reasonable and is in the best interest of the Kobay Group. Accordingly, the Board recommends that you vote in favour of the resolution pertaining to the Proposed Diversification to be tabled at the forthcoming AGM to be convened.

#### **12. AGM**

The AGM and the notice of which are enclosed with this Circular, shall be held at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Penang on Wednesday, 18 December 2013 at 2.30 pm for the purposes of considering the Proposal contained herein and if thought fit, passing the resolution so as to give effect to the Proposed Diversification.

If you are unable to attend and vote in person at the AGM, you may complete and return the enclosed Form of Proxy in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the Registered Office of the Company not less than forty-eight (48) hours before the time stipulated for holding the meeting. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you subsequently decide to do so.

**13. FURTHER INFORMATION**

Shareholders are requested to refer to the attached Appendix I for the further information.

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**FURTHER INFORMATION****1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board of Kobay and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

**2. MATERIAL CONTRACTS**

Saved as disclosed below, the Board of Kobay is not aware of any material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by Kobay and/or its subsidiary companies within the two (2) years immediately preceding the LPD.

- a) On 16 April 2012, Kobay acquired the remaining 15% equity interest in Polytool Integration Sdn. Bhd. from Mr Ong Eng Seng and Mr Yee San Khien collectively consisting of 75,000 ordinary shares of RM1.00 each for a total cash consideration of RM225,000. Upon the shares acquisition, Polytool Integration Sdn. Bhd. became a 100% wholly-owned subsidiary of Kobay;
- b) On 18 May 2012, LD, a wholly owned subsidiary company of Kobay, accepted credit facilities of USD Back-to-Back Letter of Credit and Foreign Currency Trade Finance of USD10 million offered by OCBC Bank (Malaysia) Berhad to facilitate the company's intention to trade fertilizer urea. Kobay entered into a financial guarantee contract for the facilities granted. The facilities and guarantee were subsequently cancelled on 30 October 2012;
- c) On 16 May 2013, a 70% owned subsidiary company, 12AVE entered into a Joint Venture Agreement with two individuals to develop a 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;
- d) On 7 October 2013, LD, the wholly owned subsidiary company of Kobay, entered into a sale and purchase agreement to acquire a piece of freehold land in Pantai Tengah, Pulau Langkawi, for a purchase consideration of RM14,000,000;
- e) On 7 October 2013, LD entered into a Consultancy Agreement with Messrs. Karsan Asia Sdn. Bhd. (871779-A) ("KASB") to appoint KASB as the Project Management Consultant for LD's intended project located at Lot No. 2032 Mukim Kedawang, Pantai Tengah, Pulau Langkawi, Kedah; and
- f) On 18 October 2013, Kobay has accepted a credit facilities of RM10 million from Public Bank Berhad to finance additional working capital of the Group.

**3. MATERIAL LITIGATION**

Save as disclosed below, the Board of Kobay has confirmed that Kobay was not engaged in any litigation, claims or arbitration, either as plaintiff or defendant, which may have a material effect on the financial position of Kobay and the Board of Kobay has no knowledge of any proceeding pending or threatened against Kobay or its subsidiary companies or of any

facts likely to give rise to any proceeding which may materially affect the business or financial position of Kobay or its subsidiary companies as at the LPD :

- (a) On 27 July 2007, PIN, a subsidiary of the Company, commenced legal proceedings against Jerneh Insurance Berhad (the “Defendant”) claiming the sum of RM705,000 for one of its damaged Dicing Saw Machine that was insured by the Defendant. The Penang High Court had on 24 February 2012 dismissed the claim and on 8 March 2012, PIN had filed a Notice of Appeal to Court of Appeal. The appeal was unsuccessful and was dismissed by the Court of Appeal on 28 October 2013.
- (b) On 2 November 2012, Kewjaya Sdn. Bhd. (“Kewjaya”), a subsidiary of the Company, had served a Bankruptcy Notice to a default loan guarantor for the default loan of RM2.0 million and interest thereof. The loan guarantor’s application to set aside Kewjaya’s Bankruptcy Notice was dismissed by the court on 5 August 2013. The case is now fixed for court hearing to set aside Creditor’s Petition on 27 November 2013.

#### 4. MATERIAL COMMITMENTS

Save as disclosed below, as at the LPD, the Board of Kobay is not aware of any material commitments incurred or known to be incurred by the Kobay Group that has not been provided for, which upon becoming enforceable, may have a material impact on the financial results/ position of the Kobay Group.

	<b>RM’000</b>
Approved but not contracted	4,560
Contracted but not provided for	13,977
	<u>18,537</u>

The capital commitments above are in relation to plant and machineries (RM5,937,000) and development land (RM12,600,000) acquired by the Group.

#### 5. CONTINGENT LIABILITIES

As at the LPD, the Board of Kobay is not aware of any contingent liabilities incurred or known to be incurred which, upon becoming enforceable, may have material impact on the financial results/ position of the Kobay Group.

#### 6. DOCUMENTS FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours from Mondays to Fridays (except public holidays) at the Registered Office of Kobay at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang, from the date of this Circular up to and including the date of the AGM:-

- (a) The audited accounts of Kobay for the past two (2) financial years, FYE 30 June 2012 and 2013;
- (b) The quarterly report on the unaudited 3 months results for the period ended 30 September 2013 will be available for inspection only upon it is approved by the Directors of Kobay and submitted to Bursa Securities latest by 30 November 2013;
- (c) The material contracts referred to in Section 2 above; and
- (d) The relevant cause papers in respect of the material litigations as referred to in Section 3 above.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Nineteenth (19th) Annual General Meeting (“AGM”) of Kobay Technology Bhd. will be held at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang on Wednesday, 18 December 2013 at 2.30 p.m. for the following purposes:-

### ORDINARY BUSINESS

1.	To receive the Audited Financial Statements for the financial year ended 30 June 2013 and the Reports of the Directors and Auditors thereon.	Resolution 1
3	To approve the payment of first and final tax exempt dividend of 2.0 sen in respect of the financial year ended 30 June 2013.	Resolution 2
3.	To re-appoint Dr. Mohamad Zabdi Bin Zamrod as Company Director, who has attained age over seventy years old pursuant to Section 129(6) of the Companies Act 1965 and to retain him as Independent Non-executive Director (“Independent NED”) in accordance with Malaysian Code of Corporate Governance 2012 (“MCCG2012”).	Resolution 3
4.	To re-elect Dato’ Koay Hean Eng as Company Director, who retires in accordance with Article 95 of the Company’s Articles of Association.	Resolution 4
5.	To re-elect Mr. Khaw Eng Peng as Company Director, who retires in accordance with Article 95 of the Company’s Articles of Association.	Resolution 5
6.	To retain Mr. Tan Yok Cheng as Company Director, who has served the Company for a cumulative term of more than 9 years, to continue to act as an Independent Non-executive Director (“Independent NED”) of the Company in accordance to the MCCG 2012.	Resolution 6
7.	To re-appoint Messrs. Crowe Horwath as Auditors of the Company and to authorize the Directors to fix their remuneration.	Resolution 7

### SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:

8.	<p><b>ORDINARY RESOLUTION</b>  <b>PAYMENT OF DIRECTORS’ FEES</b></p> <p>“THAT the payment of Directors’ fees totaling Ringgit Malaysia Twenty Thousand (RM20,000) only to the Non-executive Directors for the financial year ended 30 June 2013 be and is hereby approved.”</p>	Resolution 8
9.	<p><b>ORDINARY RESOLUTION</b>  <b>AUTHORITY TO ALLOT SHARES IN ACCORDANCE TO SECTION 132D OF THE COMPANIES ACT, 1965</b></p> <p>“THAT subject always to the Companies Act, 1965 (“the Act”) and the approvals from the relevant governmental and/or regulatory authorities, the Directors of the Company be and are hereby empowered pursuant to Section 132D of the Act, to issue and allot shares in the capital of the Company from time to time upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit PROVIDED THAT the aggregate number of shares to be issued (inclusive</p>	Resolution 9



	<p>employee share option scheme exercised by the employees, if any) pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being AND THAT the Directors are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad ("Bursa Securities") AND THAT such authority shall continue in force until the conclusion of the next AGM of the Company.”</p>	
10.	<p><b>ORDINARY RESOLUTION</b>  <b>PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY</b></p> <p>“THAT subject to the compliance by the Company with all applicable laws, regulations and guidelines pursuant to the Act, the Company’s Memorandum and Articles of Association, the Main Market Listing Requirements of Bursa Securities and the approvals of all relevant authorities, the Company be and is hereby authorized to purchase and/or hold such amount of ordinary shares of RM1.00 each in the Company (“shares”) as may be determined by the Directors of the Company from time to time through the Bursa Securities upon such terms and conditions as the Directors may deem fit in the interest of the Company PROVIDED THAT the maximum number of shares purchased and/or held pursuant to this resolution does not exceed ten per cent (10%) of the total issued and paid-up share capital of the Company at any given point in time and that the maximum amount of fund allocated by the Company for the purpose of purchasing the shares shall not exceed the retained profits and/or the share premium accounts of the Company.</p> <p>THAT authority be and is hereby given to the Directors to treat the shares so purchased by the Company pursuant to this Proposed Share Buy-back in accordance with the provision of the Act, which allows a Company that has purchased its own shares to either retain part of or entire shares as treasury shares or cancel part of or entire shares, or a combination of both. The shares so retained as treasury shares by the Company may, either be distributed as share dividends to shareholders or resell on Bursa Securities or in any manner pursuant to the Act, Bursa Securities Listing Requirements or any other relevant authority for the time being in force.</p> <p>THAT such authority from the shareholders would be effective immediately upon passing of this resolution and would continue to be in force until:-</p> <ul style="list-style-type: none"> <li>(i) the conclusion of the next AGM of the Company following the AGM at which such resolution was passed, at which time it shall lapse unless by ordinary resolution passed at that meeting, the authority is renewed either unconditionally or subject to conditions; or</li> <li>(ii) the expiration of the period within which the next AGM is required by law to be held; or</li> <li>(iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting,</li> </ul> <p>whichever occurs first.</p> <p>AND THAT authority be and is hereby given to the Directors to take all such steps as are necessary or expedient to implement or to give effect of the Proposed Share Buy-back Authority with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments (if any) as may be imposed by the relevant authorities from time to time.”</p>	Resolution 10

11.	<b>ORDINARY RESOLUTION PROPOSED DIVERSIFICATION</b>	Resolution 11
	To consider and if thought fit, to approve the Proposed Diversification of the Company's business into property development and property investment.	
12.	To transact any other ordinary business of which due notice shall have been given.	

## NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS ALSO HEREBY GIVEN THAT, subject to the approval of the shareholders at the Nineteenth (19<sup>th</sup>) Annual General Meeting, the first and final tax-exempt dividend of 2.0 sen per ordinary share in respect of the financial year ended 30 June 2013 will be paid on 20 January 2014 to depositors registered in the Records of Depositors on 31 December 2013.

A depositor shall qualify for entitlement to the dividend only in respect of :-

- a) Shares transferred into the depositor's securities account before 4.00 p.m. on 31 December 2013 in respect of ordinary transfers;
- b) Shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the rules of Bursa Securities.

BY ORDER OF THE BOARD

CHAN MUN SHEE (MAICSA 7003071)  
WONG MEE CHOON (MACS 01562)  
Company Secretaries

Penang, 26 November 2013

### NOTES :

1. A proxy may but need not be a member or a qualified legal practitioner, or an approved company auditor or a person approved by the Registrar and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. To be valid, this form, duly completed must be deposited with the registered office of the Company, at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang not less than forty eight (48) hours before the time for holding the meeting provided that in the event the member(s) duly executes the form of proxy but does not name any proxy, such member(s) shall be deemed to have appointed the Chairman of the meeting as his/their proxy, provided always that the rest of the proxy form, other than the particulars of the proxy have been duly completed by the member(s).
3. A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting and the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
4. Where a member is an authorized nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
5. If the appointor is a corporation this form must be executed under the corporation's common seal, or under the hand of an officer or attorney duly authorized.
6. Where a member is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act, 1991, there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.
7. In respect of deposited securities, only members whose names appear on the Record of Depositors on 26 November 2013 (General Meeting Record of Depositors) shall be eligible to attend the meeting or appoint proxy(ies) to attend and/or vote on his behalf.

## **EXPLANATORY NOTES :**

### Resolution 3

Dr. Mohamad Zabdi Bin Zamrod who has attained the age above 70 years old last year has been re-appointed as Director of the Company under Section 129(6) and his tenure of service ended in the forthcoming AGM. In accordance with MCCG 2012, the Nomination Committee has assessed the independency of Dr. Mohamad Zabdi Bin Zamrod, who has served as Independent and Non-executive Director for a cumulative term of more than 9 years, and recommended to Board of Directors to retain Dr. Mohamad Zabdi Bin Zamrod as Independent Non-executive Director whereby the Board recommends and proposes to the shareholders' approval to retain Dr. Mohamad Zabdi Bin Zamrod as Independent Non-executive Director of the Company on the following justifications :-

- 1) He has fulfilled the criteria under the definition of an Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad thus enable him to perform a check and balance role in the Board;
- 2) He has performed his duty diligently and in the best interest of the Company with his experience and independent view from a different perspective of the management; and
- 3) He does not hold any shares in the Company, no relationship with other Board members nor having any business dealing or transaction with the Company or the Group before his appointment till to-date.

### Resolution 6

The Nomination Committee has assessed the independence of Mr. Tan Yok Cheng, who has served as an Independent Non-executive Director of the Company for a cumulative term of more than 9 years, and the Board, upon the Nomination Committee's recommendation, has recommended for shareholders' approval to retain Mr. Tan Yok Cheng as Independent Non-executive Director until the next AGM based on the following justifications :-

- 1) He has fulfilled the criteria under the definition of an Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad thus enable him to perform a check and balance role in the Board;
- 2) He has performed his duty diligently and in the best interest of the Company with his experience and independent view from a different perspective of the management; and
- 3) He provides the Board with a different set of experience, skill and expertise as his contribution to the Board in the matters of internal control and risk management.

### Resolution 8

The proposed Ordinary Resolution under item 8 is to obtain shareholders' approval for the payment of Directors' fees totalling Ringgit Malaysia Twenty Thousand (RM20,000) only to the four Non-executive Directors for the financial year ended 30 June 2013 as required under Article 103 of the Company's Articles of Association.

### Resolution 9

A mandate was sought and approved by the members during the Eighteenth (18<sup>th</sup>) AGM held on 28 December 2012. No new shares were issued and no proceeds were raised from the previous mandate.

If the proposed Ordinary Resolution is passed, the Directors will be empowered to issue and allot shares in the Company at any time and for such purposes as the Directors consider would be in the interests of the Company up to an aggregate not exceeding 10% of the Company's issued capital without the need to convene separate general meetings to obtain its shareholders' approval so as to avoid incurring additional cost and time. This authority unless revoked or varied at the general meeting, will expire at the next AGM.

The mandate will provide flexibility to the Company for any possible fund raising exercises including but not limited to placing of shares for the purpose of funding future investment project(s), working

capital and/or acquisition(s) and such other application as the Directors may deem fit and in the best interest of the Company.

Resolution 10

The proposed Ordinary Resolution under item 10 is of renewal and if passed, will allow the Company to purchase up to ten per cent (10%) of the total issued and paid-up share capital of the Company at any given point in time. This authority unless revoked or varied at the general meeting, will expire at the next AGM. The details of this proposal are set out in the Circular to Shareholders dated 26 November 2013.

Resolution 11

The proposed Ordinary Resolution under item 11, if passed, will diversify the Group's business activity to include property development and property investment as per the proposal set out in Part B of the Circular to Shareholders dated 26 November 2013.

**STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING**

The profile of the Directors who are standing for re-appointment and re-election (as per Resolution 3-6 as stated in the Notice of Annual General Meeting) at the Nineteenth (19<sup>th</sup>) Annual General Meeting of Kobay Technology Bhd. which will be held at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang on Wednesday, 18 December 2013 at 2.30 p.m., are stated on page 8 & 9 of the Annual Report 2013.

There is no individual standing for election as new Director (excluding Directors standing for re-election) at this forthcoming Annual General Meeting.

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(Company No.: 308279-A)  
(Incorporated in Malaysia)

**PROXY FORM**

I / We \_\_\_\_\_ (FULL NAME IN BLOCK LETTERS),  
NRIC/Passport/Company No.: \_\_\_\_\_ of \_\_\_\_\_ (ADDRESS)

being a member / members of Kobay Technology Bhd. hereby appoint \_\_\_\_\_ NRIC/Passport/Company No.: \_\_\_\_\_ of \_\_\_\_\_

\_\_\_\_\_ or failing him, \_\_\_\_\_ NRIC/Passport/Company No.: \_\_\_\_\_ of \_\_\_\_\_

\_\_\_\_\_ or failing him/her,

Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, and if necessary, to demand a poll, at the Nineteenth (19<sup>th</sup>) Annual General Meeting of the Company to be held at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang on Wednesday, 18 December 2013 at 2.30 p.m. or at any adjournment thereof in the manner indicated below:-

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the meeting as indicated hereunder. If no specific directions as to voting is given or in the event of any item arising not summarised below, my/our proxy/proxies may vote or abstain from voting at his/her discretion.

Resolution No.	Title	For*	Against*
1	Receipt of Audited Financial Statements for the year ended 30 June 2013		
2	Payment of first and final tax exempt dividend of 2.0 sen for the year ended 30 June 2013		
3	Re-appoint and retain Dr. Mohamad Zabdi Bin Zamrod as Independent NED		
4	Re-elect Dato' Koay Hean Eng as Director		
5	Re-elect Mr. Khaw Eng Peng as Director		
6	Retain Mr. Tan Yok Cheng as Independent NED		
7	Re-appoint Messrs. Crowe Horwath as Auditors		
8	Payment of Directors' fees		
9	Authority to Directors to issue shares under Section 132D of the Companies Act 1965		
10	Proposed Renewal of Share Buy-back Authority		
11	Proposed Diversification		

\* Please indicate your vote "For" or "Against" with an "X" within the box provided.

Total number of Shares held	
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Signed this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

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Signature / Common Seal of  
Shareholder(s)

**NOTES :**

1. A proxy may but need not be a member or a qualified legal practitioner, or an approved company auditor or a person approved by the Registrar and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. To be valid, this form, duly completed must be deposited with the registered office of the Company, at Plot 30, Hilir Sungai Kluang 1, Bayan Lepas Industrial Park, Phase 4, 11900 Bayan Lepas, Penang not less than forty eight (48) hours before the time for holding the meeting provided that in the event the member(s) duly executes the form of proxy but does not name any proxy, such member(s) shall be deemed to have appointed the Chairman of the meeting as his/their proxy, provided always that the rest of the proxy form, other than the particulars of the proxy have been duly completed by the member(s).
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5. If the appointor is a corporation this form must be executed under the corporation's common seal, or under the hand of an officer or attorney duly authorized.
6. Where a member is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act 1991, there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.
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STAMP

The Secretary  
**KOBAY TECHNOLOGY BHD.**  
Plot 30, Hilir Sungai Kluang 1,  
Bayan Lepas Industrial Park, Phase 4,  
11900 Bayan Lepas,  
Penang.

**To the Shareholders of Kobay Technology Bhd.**

**ANNUAL REPORT 2013**

Please be informed that the printed copy of the Company's Annual Report 2013 is available upon request.

Should you require a copy of the Annual Report, please fill in your details below and mail it to the Company Secretary. A hard copy of the Annual Report will be mailed to you within 4 market days from the date of receipt of the written request.

Shareholders may contact the Company Secretary for any queries and request at:

Plot 30, Hilir Sungai Kluang 1  
Bayan Lepas Industrial Park, Phase 4  
11900 Bayan Lepas, Penang  
e-mail: [cosec@kobaytech.com](mailto:cosec@kobaytech.com)  
website: [www.kobaytech.com](http://www.kobaytech.com)  
Tel: 04-6411888 ext 111 (Ms Chan) /04-2280020 (Ms Wong)  
Fax: 04-6412888/04-2280023

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Please send me a copy of Kobay Technology Bhd.'s Annual Report 2013

No. of Shares	
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Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Tel: \_\_\_\_\_

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STAMP

The Secretary  
**KOBAY TECHNOLOGY BHD.**  
Plot 30, Hilir Sungai Kluang 1,  
Bayan Lepas Industrial Park, Phase 4,  
11900 Bayan Lepas,  
Penang.

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