

## **KOBAY TECHNOLOGY BHD.**

### **Consultancy Agreement entered into by wholly owned subsidiary**

#### **1. INTRODUCTION**

On 7 October 2013, LD Global Sdn. Bhd. (518757-T) ("LD"), a wholly owned subsidiary of Kobay Technology Bhd. ("Kobay"), has entered into a Consultancy Agreement ("CA") 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 ("the Property").

#### **2. BACKGROUND INFORMATION**

##### **2.1 INFORMATION ON LD**

LD, a wholly owned subsidiary of Kobay, was incorporated in Malaysia on 3 July 2000 as a private limited company under the Companies Act, 1965. It is presently inactive. On 7 October 2013, LD has entered into a Sale and Purchase Agreement to acquire the Property for RM14 million. LD shall change its principal activities to property development upon acquisition of the Property and commencement of project. The existing authorized share capital of LD is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 400,000 ordinary shares of RM1.00 each have been issued and fully paid up.

##### **2.2 INFORMATION ON THE CONSULTANT**

KASB is a company incorporated in Malaysia on 10 September 2009 as a private limited company under the Companies Act, 1965. The principal activities of KASB are to carry on the business of real property, housing development, and to manage land, building and property. The authorized share capital of KASB is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 1,000 ordinary shares of RM1.00 each have been issued and fully paid up. KASB is jointly owned by Mr. James Al-Munir Karsan, a British and his spouse.

##### **2.3 INFORMATION OF THE PROJECT**

On 7 October 2013, LD has entered into a Sale and Purchase Agreement with Tengku Fauziah Bt. Tengku Abdul Rashid ('the Vendor') to acquire the Property for RM14 million ("the Principal Agreement").

Karsan Land Sdn Bhd ("KLSB"), a sister company of KASB, was the original Intending Purchaser of the Property and had done substantial works on the project, including obtaining the Planning Permission from Majlis Perbandaran Langkawi to develop the property into serviced villas. KLSB, with the consent of the Vendor, has also initiated the application to the authority to convert the land from agriculture use to commercial use, of which as of to-date, is still pending the state authority approval.

After numerous discussion and negotiation, KLSB agreed to rescind the agreement with the Vendor and let LD to be the Purchaser of the Property at the same purchase consideration. In consideration of KLSB's contribution in the preliminary works and assigning the property acquisition to LD without any profit, coupled with Karsan Group's expertise in project and property management, LD has decided to appoint KASB ("the Consultant") to be the Project

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Management Consultant for the Property to assist LD in the development of the Property into accommodation .

### **3. PROPOSED DEVELOPMENT**

LD is desirous of developing the Property into a two-phase housing scheme (Phase I & II) comprising villas and apartments for sale and/or for rental as serviced villas and/or apartments (hereinafter referred to as “the Project”). Nevertheless, the development plan is still preliminary and subject to LD’s review in due course.

Pending completion of the Principal Agreement, LD has agreed to conditionally appoint and the Consultant has conditionally agreed to accept the appointment as a Project Management Consultant for the development of the Property into the Project aforesaid.

### **4. SALIENT TERMS OF THE CA**

#### **4.1 The Consultant’s Scope of Responsibilities and Services**

The Consultant’s tenure of consultancy service shall be as follows:-

- (i) For Phase I, it shall be for a term of five (5) years from the date of receipt of approval of building plan for serviced villas; and
- (ii) For Phase II, it shall be for a period of seven (7) years from the completion of the purchase of the Land pursuant to the Principal Agreement or five (5) years from the date of receipt of approval of the building plan whichever is earlier.

The Consultant’s scope of responsibilities in relation to the Project shall be as follows:-

- (i) Be responsible for submission of land conversion, planning approval and all relevant plans as approved by LD, and obtaining the authorities’ approval thereof.
- (ii) Liaising and coordinating with the architect, engineer and/or other consultants for the Project.
- (iii) Be responsible for the sales and marketing of the Project.
- (iv) Be responsible for developing marketing strategies.
- (v) Generally executing functions not specifically defined in the agreement to ensure the smooth implementation of the Project as would a Project Management Consultant.

#### **4.2 LD’S rights in the CA**

Where the confirmed booking of Phase II is less than fifty percent (50%) of the gross development value, LD shall be entitled at its discretion to deal with the Property and the Project as it sees fit and expedient which includes but is not limited to the discontinuance of Phase II or conversion of the Project to any other type of property for any other use.

The Consultant Agreement shall automatically determine if:-

- i) the application for conversion of land use made pursuant to the Principal Agreement is finally rejected by the approving authorities.

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- ii) if the Consultant's shareholders, namely James Karsan Al-Munir Karsan or his spouse, dilutes or disposes of his or her shareholdings of the Consultant to a third party (unless it is a transfer between themselves) or if the Consultant is placed under receivership or is made in the subject of a winding-up proceeding.
- iii) the Principal Agreement is terminated for whatsoever reason.

If LD shall decide not to proceed with the development of the Property after completion of the purchase under the Principal Agreement, for any reason whatsoever the Property shall be disposed off and the net profit of sale shall be distributed as to 70:30 for LD/Kobay and the Consultant respectively. For the avoidance of doubt, the net profit shall be derived after deducting the cost of acquisition of the Property, operating expenses and interest cost incurred in the Project, interest costs at 12% for the outlay that incurred by Kobay up till date of disposal and taxes payable and incidental costs on disposal of the Property.

#### **4.3 Entitlement of the Consultant under the CA**

The Consultant is entitled to a Consultancy Fee to be computed as follows :-

- (i) The Consultant shall be entitled to receive thirty percent (30%) of LD's audited pre-tax profit of the Project after deducting Kobay's Investment and Expected 100% Returns on the property.
- (ii) The Consultant's fee shall be calculated based on the two (2) phases of the Project. If there shall be any shortfall in Phase I, the said shortfall shall be carried forward to Phase II and be deducted from the profits of Phase II.
- (iii) LD shall compulsorily with the Consultant's consent (which consent is hereby given to LD) to utilize the Consultant's fee to purchase for the Consultant a maximum of thirty percent (30%) of the completed but unsold units in the Project at the prevailing market price.

Additionally, the Consultant shall be entitled to 30% of the net rental profit of LD during its tenure of service if the completed but unsold units are converted into accommodations for rental income. The said 30% of net rental profit shall form part of the consultant's fee calculation.

#### **4.4 Payment Terms**

The payment of Consultancy fee (if any) unit shall take place only after completion of Phases I & II of the Project and upon expiry of the Consultant's tenure of service.

Any surplus money from the Consultant's fee, after the Consultant's purchases of the unsold units, shall be paid to the Consultant within thirty (30) days from the conclusion/ finalization of the said transaction.

## **5. FINANCING FOR THE CA**

The CA does not require any upfront payment of deposit or fee. Any fee, if eligible, will be paid after achieving of the desired profit target set by LD. KASB is compulsorily utilize its fee

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entitlement (if any) to purchase the unsold units and the balance of the fee after the purchases will be paid by cash.

**6. RATIONALE, PROSPECT AND RISK OF THE CA**

KASB and Karsan Group are Langkawi base companies that involved in property development and property management in Langkawi. The sister company of KASB has initiated the submission of planning permission and land conversion for the said Property since year 2011. The appointment of KASB will facilitate LD to commence the intended project development plan and marketing of the project instantly.

There is no risk associated with the proposed consultancy agreement.

The appointment of KASB will enable LD to jump start the development project on the Property, yet without incurring any fixed fee on the services provided by KASB as the fee is remunerated by profit based scheme, after Kobay has obtained its expected return on the investment costs. It is a win-win situation that would benefit KASB and LD should the project is successful.

**7. EFFECT ON THE CA**

The proposed consultancy agreement does not have any effect on the net assets, gearing, share capital and substantial shareholders' shareholdings of Kobay. As for the effect on earning, it will depend on the profit to be derived from the entire project during the consultancy tenure. As KASB's consultancy fee is remunerated by profit based scheme cover a period of 5 – 7 years for the entire project, the proposed consultancy service will not have any impact on the earning for FY 2014. The impact on future years' earning will depend on the future phase of the project to be undertaken, and the profit to be derived from the entire project, of which are unable to be determined at this juncture.

**8. HIGHEST PERCENTAGE RATIO APPLICABLE**

The percentage ratio is not applicable to the CA.

**9. APPROVALS REQUIRED**

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

**10. COMPLETION DATE**

Barring any unforeseen circumstances, the CA shall take effect from the completion date of the Principal Agreement and valid until expiry of the service tenure as stipulated in item 4.1 above.

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

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

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

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

**13. DIRECTORS' STATEMENT**

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

**14. DOCUMENT FOR INSPECTION**

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

This announcement is dated 7 October 2013.