

KOBAY TECHNOLOGY BHD ("KOBAY" OR THE "COMPANY")

- I. PROPOSED EXEMPTION UNDER PARAGRAPH 4.15(1) OF THE RULES OF TAKE-OVERS, MERGERS AND COMPULSORY ACQUISITIONS ("RULES") TO KOBAY HOLDINGS SDN BHD ("KHSB") AND PERSONS ACTING IN CONCERT WITH IT FROM THE OBLIGATION TO UNDERTAKE A MANDATORY TAKE-OVER OFFER FOR ALL THE REMAINING ORDINARY SHARES IN KOBAY ("KOBAY SHARES" OR "SHARES") NOT ALREADY OWNED BY THEM ARISING FROM THE PURCHASE BY KOBAY OF ITS OWN SHARES PURSUANT TO ITS SHARE BUY-BACK AUTHORITY ("PROPOSED EXEMPTION"); AND
- II. PROPOSED BONUS ISSUE OF 204,187,202 NEW KOBAY SHARES ("BONUS SHARES") ON THE BASIS OF TWO (2) BONUS SHARES FOR EVERY ONE (1) EXISTING KOBAY SHARE HELD ON AN ENTITLEMENT DATE TO BE DETERMINED AND ANNOUNCED LATER ("PROPOSED BONUS ISSUE OF SHARES")

(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

1. INTRODUCTION

On behalf of the Board of Directors of Kobay ("**Board**"), RHB Investment Bank Berhad ("**RHBIB**") wishes to announce that the Company proposes to undertake the following:

- i. an exemption under Paragraph 4.15(1) of the Rules to KHSB and persons acting in concert with it from the obligation to undertake a mandatory take-over offer for all the remaining Kobay Shares not already owned by them arising from the purchase by Kobay of its own Shares pursuant to its Share Buy-Back Authority (as defined below); and
- ii. an issuance of 204,187,202 Bonus Shares on the basis of two (2) Bonus Shares for every one (1) existing Kobay Share held on an entitlement date to be determined and announced later ("**Entitlement Date**").

Further details of the Proposals are set out in the ensuing sections of this Announcement.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Exemption

The Board is authorised to purchase and/or hold up to 10% of the total number of issued shares of the Company pursuant to the renewal of the Company's share buy-back authority obtained from the shareholders of the Company at the Company's Twenty sixth (26th) Annual General Meeting ("**AGM**") convened on 26 November 2020 ("**Share Buy-Back Authority**"). The Company's Share Buy-back Authority shall continue to be in force until the conclusion of the next AGM of the Company or at the expiry of the period within which the next AGM is required to be held, whichever is earlier. For shareholders' information, during the last financial year ended ("**FYE**") 30 June 2020 and up to the LPD, the Company did not purchase any of its own Shares pursuant to its Share Buy-Back Authority. As at 31 December 2020, being the latest practicable date prior to the date of this Announcement ("**LPD**"), the Company has an issued share capital of RM102,103,907 comprising 102,093,601 Kobay Shares and it does not hold any treasury shares.

The Proposed Exemption will entail an exemption under Paragraph 4.15(1) of the Rules to KHSB, a major shareholder of Kobay, and persons acting in concert with it from the obligation to undertake a mandatory take-over offer for all the remaining Kobay Shares not already owned by them arising from the purchase by Kobay of its own Shares pursuant to its Share Buy-Back Authority.

As at the LPD, KHSB holds 32.75% direct equity interest in Kobay. In the event Kobay purchases a number of 782,000 Kobay Shares or approximately 0.77% of its issued share capital pursuant to its Share Buy-back Authority, it will result in KHSB's shareholding in Kobay to increase from 32.75% and exceed 33%. In addition, in the event Kobay purchases a maximum number of 10% of its issued share capital pursuant to the Share Buy-Back Authority, it will result in KHSB's shareholding in Kobay to increase from 32.75% and to 36.39%.

As at the LPD, the person acting in concert with KHSB pursuant to Sections 216(2) and 216(3) of the Capital Markets and Services Act 2007 in respect of the Proposed Exemption is Dato' Seri Koay Hean Eng ("**PAC**"). Dato' Seri Koay Hean Eng, the Managing Director/Chief Executive Officer and an indirect major shareholder of Kobay, is a substantial shareholder of KHSB and he does not have any direct equity interest in Kobay.

However, the Company understands that KHSB and the persons acting in concert with it do not intend to undertake a mandatory take-over offer for all the remaining Kobay Shares not already owned by them in the event Kobay's purchase of its own Shares results in KHSB's shareholding in Kobay exceeding 33%.

In this regard, KHSB will seek the approval from the Securities Commission Malaysia ("**SC**") for the Proposed Exemption under Paragraph 4.15(1) of the Rules after the approval from the non-interested shareholders of Kobay for the Proposed Exemption has been obtained at an extraordinary general meeting ("**EGM**") to be convened.

For shareholders' information, Paragraph 4.15(1) of the Rules states that an offeror who triggers a mandatory offer obligation as a result of a share buy-back scheme will be exempted from the mandatory offer obligation subject to fulfilling the conditions below:

- (a) there is no acquisition/purchase of voting shares or voting rights in the company (save for subscriptions for new shares which have been fully disclosed in the whitewash circular) by the offeror and persons acting in concert with him, before the date on which the authority of the share buy-back expires, if such acquisitions, taken together with the share buy-back would cause them to incur a mandatory offer obligation; and
- (b) approval has been obtained from independent holders of voting shares or voting rights of the company at a meeting of the holders of the relevant class of voting shares or voting rights to waive their rights to receive the mandatory offer from the offeror and persons acting in concert.

Any exemption will be invalidated if the offeror or persons acting in concert have engaged in a disqualifying transaction.

Further, pursuant to Paragraph 4.15(3) of the Rules, an exemption granted will expire upon:

- (a) the date of expiry of the relevant shareholders' authority under Section 67A of the Companies Act 1965 (or Section 127 of the Companies Act 2016) or any relevant governing statute or provision;
- (b) the date on which the company announces it has bought back such number of shares as authorised by shareholders at the latest general meeting; or
- (c) the date on which the company announces it has decided to cease buying back its shares, whichever is earlier.

For shareholders' information, KHSB and the PAC did not engage in any disqualifying transaction in the past six (6) months up to the LPD.

2.2 Proposed Bonus Issue of Shares

2.2.1 Basis and number of Bonus Shares to be issued

The Proposed Bonus Issue of Shares will entail the issuance of 204,187,202 Bonus Shares on the basis of two (2) Bonus Shares for every one (1) existing Kobay Share held by the shareholders of Kobay whose names appear in the Record of Depositors of the Company as at the close of business on the Entitlement Date ("**Entitled Shareholders**").

As at the LPD, the Company has an issued share capital of RM102,103,907 comprising 102,093,601 Kobay Shares and it does not hold any treasury shares. For avoidance of doubt, any treasury shares held by the Company on the Entitlement Date will be entitled to the Bonus Shares and such Bonus Shares will be treated as treasury shares held by the Company at the time the Bonus Shares are allotted. The total number of issued shares of the Company will increase from 102,093,601 Kobay Shares to 306,280,803 Kobay Shares based on 204,187,202 Bonus Shares to be issued pursuant to the Proposed Bonus Issue of Shares.

For shareholders' information, the Company has implemented an employee share option scheme of up to 15% of the total number of issued shares of the Company (excluding treasury shares) ("**ESOS**") for the eligible employees and directors of the Company and its subsidiaries ("**Kobay Group**" or "**Group**") (excluding dormant subsidiaries) ("**Eligible Persons**"). The ESOS is in force for a duration of ten (10) years from 19 April 2016. As at the LPD, the Company has not granted any option pursuant to the ESOS ("**ESOS Option**") to the Eligible Persons.

In order to facilitate the Proposals, the Board has confirmed that the Company will not grant any ESOS Option to the Eligible Persons pursuant to the Company's ESOS until the completion of the Proposals.

The Entitlement Date will be determined by the Board and announced by the Company at a later date upon receipt of all relevant approvals for the Proposed Bonus Issue of Shares.

The entitlement basis for the Proposed Bonus Issue of Shares was determined after taking into consideration the following:

- i. dilutive effects arising from the issuance of the Bonus Shares on the consolidated earnings per Share ("**EPS**") and net assets ("**NA**") per Share of the Company; and
- ii. compliance with Paragraph 6.30(1A) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**") which states that the Company must ensure that its share price adjusted for the Proposed Bonus Issue of Shares is not less than RM0.50 based on the daily volume weighted average share price ("**VWAP**") during the three (3)-month period before the application date.

Kobay's share price will be adjusted pursuant to the Proposed Bonus Issue of Shares. For illustration purposes, based on the five (5)-day VWAP of Kobay Shares up to and including the LPD as well as the lowest daily VWAP of Kobay Shares during the three (3)-month period before the LPD, the theoretical ex-bonus price ("**TEBP**") of Kobay Shares after the Proposed Bonus Issue of Shares is set out below:

	VWAP before the Proposed Bonus Issue of Shares RM	TEBP after the Proposed Bonus Issue of Shares RM
Five (5)-day VWAP up to and including the LPD	2.388	0.796
Lowest daily VWAP during the three (3)-month period before the LPD	1.930	0.643

The Proposed Bonus Issue of Shares will be implemented in a single issuance. Further, the Proposed Bonus Issue of Shares will only be implemented upon the expiry of the Proposed Exemption as stated in Section 2.1 of this Announcement.

2.2.2 No capitalisation of reserves

The Bonus Shares will be issued as fully paid, at nil consideration and without capitalisation of the Company's reserves. For the avoidance of doubt, the Proposed Bonus Issue of Shares will increase the number of Kobay Shares in issue but will not increase the value of the share capital of the Company.

2.2.3 Ranking of the Bonus Shares

The Bonus Shares shall, upon issuance and allotment, rank equally in all respects with the then existing Kobay Shares, save and except that they will not be entitled to any dividend, right, allotment and/or any other distribution that may be declared, made or paid prior to the date of allotment of the Bonus Shares.

2.2.4 Listing and quotation of the Bonus Shares

An application will be made to Bursa Securities for the listing and quotation of the Bonus Shares on the Main Market of Bursa Securities.

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSALS

3.1 Proposed Exemption

The management of Kobay intends to purchase its own Shares pursuant to its Share Buy-Back Authority after taking into consideration, amongst others, the following reasons:

- i. the share buy-back may enable Kobay to utilise its financial resources, which are not immediately required, for the purpose of purchasing its own Shares;
- ii. the share buy-back may enhance the EPS of Kobay due to the decrease in the number of Shares outstanding;

- iii. the purchased Shares can be held as treasury shares and/or be resold on Bursa Securities to reap potential capital appreciation without affecting the issued share capital of the Company;
- iv. the treasury shares may be distributed as share dividends which would serve to reward the shareholders of the Company; and
- v. the treasury shares may be transferred as purchase consideration for any potential acquisition of assets in the future.

However, the Company understands that KHSB and the persons acting in concert with it do not intend to undertake a mandatory take-over offer for all the remaining Kobay Shares not already owned by them in the event Kobay's purchase of its own Shares results in KHSB's shareholding in Kobay exceeding 33%. The Proposed Exemption is sought to:

- i. enable Kobay to purchase its own Shares pursuant to its Share Buy-Back Authority without causing KHSB and the persons acting in concert with it to trigger a mandatory take-over obligation; and
- ii. facilitate KHSB and the persons acting in concert with it to obtain an exemption from the obligation to undertake a mandatory take-over offer on all the remaining Kobay Shares not already owned by them arising from the purchase by Kobay of its own Shares pursuant to its Share Buy-Back Authority as KHSB and the persons acting in concert with it do not intend to undertake the mandatory take-over obligation.

KHSB and the PAC did not engage in any disqualifying transaction in the past six (6) months up to the LPD. In addition, during the last FYE 30 June 2020 and up to the LPD, the Company did not purchase any of its own Shares pursuant to its Share Buy-Back Authority.

3.2 Proposed Bonus Issue of Shares

The Proposed Bonus Issue of Shares is intended to:

- i. reward the shareholders of the Company for their continuous support by increasing their equity participation in the Company in terms of the number of Shares held and maintaining their percentage equity shareholding without incurring any cost; and
- ii. encourage the trading liquidity of the Shares on the Main Market of Bursa Securities at a lower adjusted trading price and increased number of Shares in issue without affecting the size of the market capitalisation of the Company.

4. EFFECTS OF THE PROPOSALS

The Proposed Exemption will not have any financial effects on the Group. The pro forma effects assuming the Share Buy-Back Authority is implemented in full and after the Proposed Bonus Issue of Shares on the Group are set out in the following page.

4.1 Issued share capital

The pro forma effects and assuming the Share Buy-Back Authority is implemented in full and after the Proposed Bonus Issue of Shares on the issued share capital of Kobay are set out below:

	No. of Shares	RM
Issued share capital as at the LPD	102,093,601	102,103,907
Less: Maximum number of Shares to be purchased pursuant to the Share Buy-Back Authority	(10,209,360)	(24,379,952) ^(a)
	<u>91,884,241</u>	<u>77,723,955</u>
Shares to be issued pursuant to the Proposed Bonus Issue of Shares	204,187,202	-
Less: Bonus Shares entitlement for treasury shares held	(20,418,720)	-
Resultant issued share capital (excluding treasury shares)	<u>275,652,723</u>	<u>77,723,955</u>

Note:

(a) Calculated based on the five (5)-day VWAP of Kobay Shares up to and including the LPD of RM2.388 per Kobay Share excluding any brokerage cost.

4.2 Consolidated NA per Share and gearing

Based on the latest audited consolidated financial statements of Kobay as at 30 June 2020, the pro forma effects assuming the Share Buy-Back Authority is implemented in full and after the Proposed Bonus Issue of Shares on the consolidated NA per Share and gearing of Kobay are set out below:

	Audited as at 30 June 2020 RM'000	I Assuming the Share Buy-Back Authority is implemented in full RM'000	II After I and the Proposed Bonus Issue of Shares RM'000
Share capital	102,104	102,104	102,104
Less: Treasury shares, at cost	-	(24,380) ^(a)	(24,380)
Capital reserve	1,550	1,550	1,550
Retained profits	94,653	94,653	94,203 ^(b)
Shareholders' funds/NA	<u>198,307</u>	<u>173,927</u>	<u>173,477</u>
No. of Shares in issue (excluding treasury shares) ('000)	102,094	91,884	275,653
NA per Share (RM)	1.94	1.89	0.63
Total borrowings (RM'000)	42,256	42,256	42,256
Gearing ratio (times)	0.21	0.24	0.24

Notes:

(a) Calculated based on the five (5)-day VWAP of Kobay Shares up to and including the LPD of RM2.388 per Kobay Share excluding any brokerage cost.

(b) After deducting estimated expenses of RM450,000 in relation to the Proposals.

4.3 Substantial shareholders' shareholdings

The pro forma effects assuming the Share Buy-Back Authority is implemented in full and after the Proposed Bonus Issue of Shares on the substantial shareholders' shareholdings of Kobay are set out below:

Substantial shareholders	Shareholding as at the LPD				I Assuming the Share Buy-Back Authority is implemented in full				II After I and the Proposed Bonus Issue of Shares			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
KHSB	33,432,980	32.75	-	-	33,432,980	36.39	-	-	100,298,940	36.39	-	-
Dato' Seri Koay Hean Eng	-	-	33,432,980 ^(a)	32.75	-	-	33,432,980 ^(a)	36.39	-	-	100,298,940 ^(a)	36.39
Norinv Kapital Sdn Bhd	19,904,700	19.50	-	-	19,904,700	21.66	-	-	59,714,100	21.66	-	-
Premiergrow Capital Sdn Bhd	7,939,000	7.78	-	-	7,939,000	8.64	-	-	23,817,000	8.64	-	-

Note:

(a) Deemed interest by virtue of his interest in KHSB pursuant to Section 8(4) of the Companies Act 2016.

Based on the above, in the event Kobay purchases a maximum number of 10% of its issued share capital pursuant to the Share Buy-Back Authority, the shareholding of KHSB in Kobay will increase from 32.75% to 36.39%. However, KHSB and the persons acting in concert with it do not intend to undertake the mandatory take-over obligation. In this regard, KHSB will seek the approval from the SC for the Proposed Exemption under Paragraph 4.15(1) of the Rules after the approval from the non-interested shareholders of Kobay for the Proposed Exemption has been obtained at an EGM to be convened.

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4.4 Earnings and EPS

The Proposed Exemption is expected to be implemented and the Proposed Bonus Issue of Shares is expected to be completed by the second (2nd) quarter of year 2021. The Proposals are not expected to have any effect on the consolidated earnings of the Group for the financial year ending 30 June 2021. However, the consolidated EPS of the Group may be diluted as a result of the increase in the number of Kobay Shares pursuant to the issuance of the Bonus Shares.

Based on the latest audited consolidated financial statements of Kobay for the FYE 30 June 2020, the pro forma effects assuming the Share Buy-Back Authority is implemented in full and after the Proposed Bonus Issue of Shares on the consolidated EPS of the Group assuming the Share Buy-Back Authority and the Proposed Bonus Issue of Shares had been completed at the beginning of the FYE 30 June 2020 are set out below:

	Audited for the FYE 30 June 2020	I Assuming the Share Buy-Back Authority is implemented in full	II After I and the Proposed Bonus Issue of Shares
Profit after tax attributable to the owners of the Company (RM'000)	23,926	23,926	23,926
Weighted average no. of Shares in issue (excluding treasury shares) ('000)	102,094	91,884	275,653
Basic EPS (sen)	23.44	26.04	8.68

4.5 Convertible securities

As at the LPD, Kobay does not have any convertible securities in issue.

5. APPROVALS REQUIRED

The Proposals are subject to the following approvals being obtained:

i. Proposed Exemption

- (a) the SC, for the Proposed Exemption;
- (b) the non-interested shareholders of Kobay, for the Proposed Exemption at an EGM to be convened in respect of the Proposals by way of a poll; and
- (c) any other relevant authorities, if required.

ii. Proposed Bonus Issue of Shares

- (a) Bursa Securities, for the listing and quotation of 204,187,202 Bonus Shares on the Main Market of Bursa Securities;
- (b) the shareholders of Kobay, for the Proposed Bonus Issue of Shares at an EGM to be convened in respect of the Proposals by way of a poll; and
- (c) any other relevant authorities, if required.

The Proposed Exemption and the Proposed Bonus Issue of Shares are not conditional upon each other. However, the Proposed Bonus Issue of Shares will only be implemented upon the expiry of the Proposed Exemption as stated in Section 2.1 of this Announcement.

The Proposals are not conditional upon any other proposals undertaken or to be undertaken by the Company.

6. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED

6.1 Proposed Exemption

As at the LPD, save as disclosed below, there are no other Directors, major shareholders and/or chief executive of Kobay and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Exemption:

- i. Dato' Seri Koay Hean Eng, the Managing Director/Chief Executive Officer and an indirect major shareholder of Kobay, is a PAC and is interested in the Proposed Exemption as he is a director and substantial shareholder of KHSB. He is also a brother of Koay Cheng Lye and Koay Ah Bah @ Koay Cheng Hock;
- ii. Koay Cheng Lye, the Executive Director/Chief Administrative Officer, is deemed interested in the Proposed Exemption as he is a director and shareholder of KHSB. He is also a brother of Dato' Seri Koay Hean Eng and Koay Ah Bah @ Koay Cheng Hock;
- iii. Koay Ah Bah @ Koay Cheng Hock, the Non-independent and Non-executive Director, is deemed interested in the Proposed Exemption as he is a director and shareholder of KHSB. He is also a brother of Dato' Seri Koay Hean Eng and Koay Cheng Lye;
- iv. KHSB, a major shareholder of Kobay, is interested in the Proposed Exemption; and
- v. Koay Zee Ee, the Chief Operating Officer for the Property Development Division of Kobay, is deemed interested in the Proposed Exemption as he is the son of Dato' Seri Koay Hean Eng and nephew of Koay Ah Bah @ Koay Cheng Hock and Koay Cheng Lye.

Dato' Seri Koay Hean Eng, Koay Cheng Lye and Koay Ah Bah @ Koay Cheng Hock (collectively, the "**Interested Directors**") have abstained and will continue to abstain from deliberating and voting on the Proposed Exemption at the relevant board meetings pertaining to the Proposed Exemption. The Interested Directors will also abstain from voting in respect of their direct and/or indirect shareholdings in Kobay on the Proposed Exemption at an EGM to be convened.

Dato' Seri Koay Hean Eng, Koay Cheng Lye, Koay Ah Bah @ Koay Cheng Hock, KHSB and Koay Zee Ee will abstain from voting in respect of their direct and/or indirect shareholdings in Kobay, if any, on the Proposed Exemption at an EGM to be convened. They will also ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in Kobay, if any, on the Proposed Exemption at an EGM to be convened.

As at the LPD, the direct and indirect interests of Dato' Seri Koay Hean Eng, Koay Cheng Lye, Koay Ah Bah @ Koay Cheng Hock, KHSB and Koay Zee Ee are set out below:

Name	Shareholding as at the LPD			
	<-----Direct----->		<-----Indirect----->	
	No. of Shares	%	No. of Shares	%
KHSB	33,432,980	32.75	-	-
Dato' Seri Koay Hean Eng	-	-	33,432,980 ^(a)	32.75
Koay Cheng Lye	-	-	-	-
Koay Ah Bah @ Koay Cheng Hock	-	-	-	-
Koay Zee Ee	-	-	-	-

Note:

(a) Deemed interest by virtue of his interest in KHSB pursuant to Section 8(4) of the Companies Act 2016.

6.2 Proposed Bonus Issue of Shares

None of the Directors, major shareholders and/or chief executive of Kobay and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Bonus Issue of Shares, save from their respective entitlements under the Proposed Bonus Issue of Shares which are available to all Entitled Shareholders on a pro-rata basis.

7. DIRECTORS' STATEMENT

The Board (save for the Interested Directors), having considered all aspects of the Proposed Exemption, is of the opinion that the Proposed Exemption is in the best interest of the Company.

The Board, having considered all aspects of the Proposed Bonus Issue of Shares, is of the opinion that the Proposed Bonus Issue of Shares is in the best interest of the Company.

8. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to receipt of all required approvals, the Board expects the Proposed Exemption to be implemented and the Proposed Bonus Issue of Shares to be completed by the second (2nd) quarter of year 2021.

9. APPLICATION TO THE RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the application to the relevant authorities will be made within two (2) months from the date of this Announcement.

10. ADVISERS

RHBIB has been appointed as the Principal Adviser to Kobay for the Proposals.

Mercury Securities Sdn Bhd has been appointed by the Board (save for the Interested Directors) pursuant to Paragraph 3.06 of the Rules as the Independent Adviser to provide comments, opinions, information and recommendations to the Board (save for the Interested Directors) and the non-interested shareholders of Kobay in respect of the Proposed Exemption.

This Announcement is dated 5 January 2021.