

KOBAY TECHNOLOGY BHD. (199401022600 (308279-A))

Subject:

Proposed Acquisition of 70.00% Equity Interest in Medicwave (M) Sdn. Bhd.

1. INTRODUCTION

The Board of Directors of Kobay Technology Bhd. ("**Kobay**") ("**Board**") wishes to announce that on 23 February 2024 Avelon Healthcare Sdn. Bhd. ("**AHSB**"), its 70% owned subsidiary company proposes to undertake a proposed acquisition and subscription of a total of 116,669 ordinary shares in Medicwave (M) Sdn. Bhd. ("**Medicwave**"), representing 70.00% of the enlarged issue share capital of Medicwave for a total cash consideration of RM15,120,000, by entering into the following agreements:

- (a) a Share Sale Agreement dated 23 February 2024 ("**SSA**") entered into between AHSB as purchaser ("**Purchaser**"), Chin Wai Foong, Ho Pei Si and Lim Lai Choo as the vendor ("**Vendors**"), for the proposed acquisition of 50,001 ordinary shares in Medicwave ("**Sale Share**"), representing 50.00% equity interest in Medicwave for a cash consideration of RM10,800,000 ("**Purchase Price**") ("**Proposed Acquisition**"); and
- (b) a Subscription Agreement dated 23 February 2024 ("**Subscription Agreement**") entered into between AHSB as subscriber, Medicwave as issuer, for the proposed subscription by AHSB of 66,668 new ordinary shares in Medicwave ("**Medicwave Share(s)**") ("**Subscription Share(s)**") for a cash subscription price of RM4,320,000 ("**Proposed Subscription**").

(The Proposed Acquisition and Proposed Subscription are collectively referred to as the "**Proposed Acquisition**")

Further details of the Proposed Acquisition are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED ACQUISITION

The Proposed Acquisition involves the acquisition and subscription by AHSB of a total of 116,669 Medicwave Shares, representing 70.00% of the enlarged issued share capital of Medicwave for a total cash consideration of RM15,120,000 ("**Purchase Consideration**") via the SSA and Subscription Agreement.

Further details on the Proposed Acquisition are as follows:

Acquisition Method	Consideration (RM)	No. of shares acquired	No. of new shares issued	Total no. of shares acquired
1. Cash *	10,800,000	50,001	-	50,001
2. Subscribe for new shares issued #	4,320,000	-	66,668	66,668
Total investment	15,120,000	50,001	66,668	116,669

Notes :

* The Proposed Acquisition entails the acquisition of 50,001 Sale Shares by AHSB from the Vendors for a cash consideration of RM10,800,000, subject to the terms and conditions of the SSA.

The Proposed Subscription of 66,668 Subscription Share for a cash consideration of RM4,320,000 will be by subscription and allotment of new shares by AHSB or its nominees upon the terms and conditions stipulated in the Subscription Agreement.

The shareholdings in Medicwave before and after the Proposed Acquisition are as follows:

Shareholding	Before the Proposed Acquisition		After the Proposed Acquisition	
	No. of shares	%	No. of shares	%
AHSB and/or its nominee, Avelon Healthcare Group Sdn Bhd (“AHGSB”)	-	-	116,669	70%
The Vendors	100,002	100%	50,001	30%
	100,002	100%	166,670	100%

The Proposed Acquisition in Medicwave respectively from the Vendors are as follows:

Name of Vendors	No. of shares owned in Medicwave	Number of shares to be sold to AHSB and/or its nominee AHGSB	Cash consideration (RM)
Chin Wai Foong (f)	33,334	16,667	3,600,000
Ho Pei Si (f)	33,334	16,667	3,600,000
Lim Lai Choo (f)	33,334	16,667	3,600,000
	100,002	50,001	10,800,000

Pursuant to the SSA and the Subscription Agreement, the Sale Share shall be transferred to AHSB and/or its nominee and the Subscription Share shall be allotted and issued in the name of its nominee respectively. For avoidance of doubt, AHSB’s nominee is AHGSB. As such, upon completion of the Proposed Acquisition, Medicwave will become a 70% owned subsidiary of AHSB or its nominee, AHGSB.

The Sale Shares to be acquired by AHSB shall be free and clear from all mortgage, charge (whether fixed or floating), pledge, lien, encumbrance, hypothecation, security interest, title retention or other security arrangement of any kind or any other encumbrance of any nature whatever and with all attached or accrued rights as at the Completion Date.

2.1 Purchase Consideration and Payment

The Purchase Consideration of the Proposed Acquisition was arrived on a willing-buyer-willing-seller basis after taking into consideration, amongst others, the following:

- (i) the average guaranteed PAT of RM10,800,000 for the next 36 months since 1 August 2023;
- (ii) the rationale and benefits of the Proposals as set out in Section 3 of this announcement; and
- (iii) the prospects of this acquisition as set out in Section 3 of this announcement.

The Purchase Consideration of up to RM 15,120,000 was determined and agreed upon based on a price-to-earnings multiple (“PE Multiple”) of 6.00 times to 70.00% of the aggregate PAT of the Target Companies for average guaranteed PAT as stated above.

In accordance with the terms and conditions of the SSA, the Purchase Consideration shall be paid by AHSB in the following manner:

Tranche	RM	Remark
1 st	5,400,000	On the completion date
2 nd	5,400,000	(i) within 14 days after 1 st Tranche Payment; or (ii) within 7 days upon the Vendors (the existing shareholders) depositing an amount equivalent to RM 5.4 million to AHGSB as Security Deposit to guarantee their obligations under the joint and several profit guarantees by the Vendors as set out in the SSA ; whichever is later.

In accordance with the terms and conditions of the Subscription Agreement, the payment of RM4,320,000 for allotment and issuance of new Medicwave Shares shall be paid by AHSB before the issuance and allotment of the Subscription Shares.

2.2 Information on Medicwave

Medicwave is a private limited company incorporated in Malaysia under the Companies Act, 1965 on 26 September 2008. It has an issued share capital of RM100,002.00 comprising 100,002 ordinary shares. It does not have any subsidiaries nor associated companies under Medicwave.

Medicwave is a distributor of medical products and devices to public and private hospitals, specialist and general practice clinics in Malaysia operating from its place of business located at Selangor. The Company had obtained Goods Distribution Practice for Medical Device (GDPMD) Standard in year 2015. Medicwave's principal products include Hyaluronic Acid, Cartilage Scaffold, Platelet-Rich Plasma System and OA Supplements. [source : www.medicwave.com.my]

Its principal market is solely in Malaysia whereby 100% of Medicwave's revenue for the FYE 31 July 2023 was derived from its local operations.

The Directors and Shareholders of Medicwave and their respective shareholdings are as follows:

Name	Nationality	Designation	Direct	
			No. of shares	%
Chin Wai Foong (f)	Malaysian	Director/Shareholders	33,334	33.33
Ho Pei Si (f)	Malaysian	Director/Shareholders	33,334	33.33
Lim Lai Choo (f)	Malaysian	Director/Shareholders	33,334	33.33

2.3 Summary of Financial Information

The summary of the financial information of Medicwave based on its audited financial statements for the FYEs 31 July 2021 to 31 July 2023 is as follows:

	Audited FYE 31 July		
	2021	2022	2023
	RM	RM	RM
Revenue	6,217,044	7,095,708	10,375,170
PAT	1,740,412	2,061,039	2,900,972
Share capital	100,002	100,002	100,002
Shareholders' funds/ Net Assets	2,365,820	3,376,859	3,277,831
Borrowings	-	-	-
EPS (RM)	17.40	20.61	29.01
NA per Medicwave share (RM)	23.66	33.77	29.01

2.4 Information on the Vendors

The Vendors are Malaysians as well as founders of Medicwave as stated in item 2 above.

Upon completion of the Proposed Acquisition, the Vendors will respectively each hold 10.00% equity interest in Medicwave.

2.5 Information on AHSB

AHSB was incorporated under the Companies Act, 1965 on 18 June 2013. As at the date of this announcement, AHSB has a share capital of RM700,000 consisting of 700,000 ordinary shares, which have been issued and are fully paid-up.

AHSB is principally involved in the wholesale and retail sale of pharmaceutical and healthcare products. As at the date of this announcement, AHSB operates one (1) pharmacy under the "Park@City" brand name and one (1) warehouse store in Malaysia.

2.6 Information on AHGSB

AHGSB was incorporated under the Companies Act, 2016 on 20 December 2023. As at the date of this announcement, AHGSB has a share capital of RM100 consisting of 400 ordinary shares, which have been issued and are fully paid-up.

AHGSB's principal activity is investment holding.

2.7 Salient terms of the Agreements

2.7.1 Salient Terms of SSA are as follow :

- (i) The SSA is conditional upon the satisfaction of the Condition Precedents stated in the SSA.
- (ii) Upon execution of the SSA, the Vendors shall cause the following documents to be delivered to AHSB:
 - (a) original share certificates in respect of the Sale Shares;
 - (b) duly executed transfers (Section 105 Form) by the Vendors in respect of the Sale Shares;
 - (c) board resolution of the Company consenting to the sale, transfer and registration of the Sale Shares to AHSB and or its nominee(s).

2.7.2 Salient Terms of Subscription Agreement are as follow:

- (i) AHSB shall subscribe for the Subscription Shares to be allotted for which Medicwave shall effect the allotment and issuance of the Subscription Shares to AHGSB, the nominee, on the Completion Date;
- (ii) This Agreement shall become unconditional on the date of completion of sale shares pursuant to the terms of the SSA (“Unconditional Date”); and
- (iii) On the completion date, Medicwave shall deliver to AHSB or if so nominated, AHGSB, certified true copies of the Board Resolution, Members’ Resolution for the issue and allot of the Subscription Shares and enter into the Company’s Register of Members as the holder thereof and deliver the original share certificate(s) for the Subscription Shares accordingly to the registered shareholder of the Subscription Shares.

3. RATIONALE AND PROSPECT OF THE PROPOSED ACQUISITION

The Proposed Acquisition would provide opportunity for AHSB or its nominee to expand into another business segment of the healthcare business other than pharmaceutical retail and wholesale business.

We are expecting a bright future from the Proposed Acquisition judging from the below:

Cartilage Repair & Regeneration Market Research Report 2024 Trends, Growth Opportunities, and Forecast Scenarios up to 2030.

[source : <https://www.linkedin.com/pulse/2024-cartilage-repair-regeneration-market-analysis-zebwf/>]

“Osteoarthritis has become more prevalent across the globe over the last several decades & the increasing incidence of osteoarthritis is driving the cartilage repair market.”

[source : <https://www.futuremarketinsights.com/reports/cartilage-repair-market>]

4. BASIS OF VALUATION, RISK AND LIABILITIES ASSUMED BY AHSB OR ITS NOMINEES

The Purchase Consideration was arrived at a willing buyer and willing seller basis as stated in item 2.1 above.

The Shares were acquired by AHSB or its nominee free from all liens, charges, pledges, mortgages and any encumbrances whatsoever and with all rights and advantages attaching thereto or accruing thereon including all dividends and distributions declared, paid or made in respect thereof.

Save for the liabilities arising in the ordinary course of business of the Medicwave, there are no liabilities, including contingent liabilities and guarantees to be assumed by the Company arising from the Proposed Acquisition.

Save for the financial risk and operation risk as listed below, there are no other risk associated with the Proposed Acquisition.

- (a) The Vendors will remain as Shareholders and Directors of the Company after the Proposed Acquisition and Mr Lim Beng Cheong, a Founder and Director of AHSB has possessed experience in the industries.
- (b) Should there be any shortfall of the RM10,800,000 profit guaranteed in 36 months, the Vendors has given their undertakings to make good of the shortfall under the SSA.

5. SOURCE OF FUNDS

The total Purchase Consideration of RM 15,120,000 will be funded by loan to be obtained from financial institution.

6. EFFECTS OF THE PROPOSED ACQUISITION

The Proposed Acquisition will not have any effect on the share capital of the Company and the substantial shareholdings of the Company as the Proposed Acquisition does not involve issuance of new shares in the Company.

For illustrative purposes only, based on the latest audited consolidated statement of financial position of Kobay as at 30 June 2023, the pro forma effects of the Proposed Acquisition on the Net Assets("NA"), NA per share and gearing of the Kobay Group are as follows:

	Audited as at 30 June 2023	After the Proposed Acquisition
	RM	RM
Share capital	210,917,984	210,917,984
Treasury shares	(9,522,642)	(9,522,642)
Capital reserve	1,550,000	1,550,000
Retained earnings	177,232,482	⁽ⁱ⁾ 179,053,162
Equity attributable to owners of the Company / NA	380,177,824	381,998,504
Number of Kobay Shares in issue	326,180,803	326,180,803
NA per Kobay Share (RM)	1.17	1.17
Total borrowings (RM)	95,975,293	⁽ⁱⁱ⁾ 111,095,293
Gearing (times)	0.25	0.29

Notes:-

(i) After deducting the estimated expenses for the Proposed Acquisition of approximately RM300,000.

(ii) After taking into consideration the borrowings of be obtained for the Proposed Acquisition of approximately RM15.2 million.

The Proposed Acquisition is not expected to have any material effect on the earnings and EPS of the Group for the financial year ending 30 June 2024 as the Proposed Acquisition is only expected to be completed by the 3rd quarter of 2024. Notwithstanding this, the Proposed Acquisition is expected to contribute positively to the future earnings and EPS of the Kobay Group.

For illustrative purposes only, based on the latest audited consolidated statement of profit or loss and other comprehensive income of Kobay for the FYE 30 June 2023 and the latest audited statement of comprehensive income of Medicwave for the FYE 31 July 2023 and on the assumption that the Proposed Acquisition had been effected on 1 July 2022, the pro forma effects of the Proposed Acquisition on the earnings and EPS of the Kobay Group are set out as follows:

	Audited as at 30 June 2023 RM	After the Proposed Acquisition RM
PAT attributable to owners of the parent	26,507,794	26,507,794
Add: PAT of Medicwave at 70% net of estimated expenses	-	1,820,680
Enlarged PAT	26,507,794	28,328,474
Weighted number of Kobay Shares in issue	320,180,803	320,180,803
Actual / Pro forma EPS (sen)	8.28	8.85

7. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Transaction pursuant to Chapter 10 of the Main Market Listing Requirements of Bursa Securities is 7.66%.

8. COMPLETION DATE

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed within three (3) months from the date of the SSA and the Subscription Agreement.

9. APPROVAL SOUGHT

Save for the members' approval of AHSB or its nominee shareholder(s), the Proposed Acquisition is not subject to any approval of the shareholders of Kobay or any relevant authorities.

10. INTERESTS OF THE DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

None of the directors and major shareholders of Kobay group and/or any persons connected to them (as defined in Section 122A of the Companies Act, 1965) have any direct or indirect interests in the Proposed Acquisition.

11. DIRECTORS' STATEMENT

The Board, after having considered all aspects of the Proposed Acquisition, including but not limited to the basis and justification of the purchase consideration, rationale, salient terms of the SSA and Subscription Agreement, effects of the Proposed Acquisition as well as the prospects of the Medicwave and the risks involved, is of the opinion that the Proposed Acquisition are in the best interests of the Company.

12. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SSA and the Subscription Agreement with the Vendors and Medicwave both dated 23 February 2024 are available for public inspection at Kobay's registered office located at 3rd Floor, Wisma Kobay, No. 42-B Rangoon Road, 10400 Georgetown, Penang, from Monday to Friday (except public holidays) at 9.00a.m. to 12.00noon and 2.00p.m. to 5.00p.m. for a period of three (3) months from the date of this announcement.

This announcement is dated 23 February 2024.