

OTHERS Joint Venture Agreement between KNM Process Systems Sdn Bhd ("KNMPS") and Ho Hup Construction Company Berhad ("Ho Hup")

KNM GROUP BERHAD

Type	Announcement
Subject	OTHERS
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1. INTRODUCTION

KNM Group Berhad ("**KNM**") is pleased to announce that on 9 March 2016, KNM's wholly-owned subsidiary, KNM Process Systems Sdn Bhd ("**KNMPS**") had entered into a Joint Venture Agreement ("**JVA**") with Ho Hup Construction Company Berhad ("**Ho Hup**"), *inter alia* to jointly collaborate in undertaking any contracts and such other project works in Malaysia and elsewhere as the parties may mutually agree ("**the Contracts**"), under a joint venture company called "KHH Infrastructures Sdn Bhd" ("**JVCO**").

2. INFORMATION ON KNMPS, HO HUP AND JVCO

KNMPS was incorporated on 28 June 1990 as a private limited company. It is principally involved in the design, manufacture, assembly and commissioning of process equipment, pressure vessels, heat exchangers, skid mounted assemblies, process pipe systems, storage tanks, specialised structural assemblies and module assemblies and EPCC turnkey contracting for the oil, gas, petrochemical, power and renewable energy industries. Its authorised share capital is RM2,500,000,000 divided into 2,500,000,000 ordinary shares of RM1.00 each and its issued and paid-up is RM1,600,000,000.

Ho Hup, a public limited company listed on the Main Market of Bursa Malaysia Securities Berhad was incorporated on 24 March 1973 and having its business address at No. 18, Jalan 17/155C, Bandar Bukit Jalil, 57000 Kuala Lumpur. Ho Hup is primarily involved in building, civil engineering, foundation, sub-structure works, specialized intelligent building, trading, and related services. Its authorised share capital is presently RM500,000,000 divided into 990,000,000 ordinary shares of RM0.50 each, 200,000,000 Irredeemable Convertible Preference Shares ("**ICPS**") of RM0.01 each and 300,000,000 Redeemable Convertible Preference Shares ("**RCPS**") of RM0.01 each. Ho Hup's issued and paid-up capital as at 31 December 2015 is RM173,665,580 which comprise of ordinary shares of RM173,388,611, ICPS of RM80,377 and RCPS of RM196,592.

JVCO was incorporated on 9 March 2016 as a private limited company and having its place of business at 15, Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor. It is principally involved in the provision of all kinds of infrastructure, civil engineering, building and construction, project development, roadwork, sanitary facilities and utilities, engineering works and consultancy services for all industries. Its authorised share capital is presently RM400,000 divided into 400,000 ordinary shares of RM1.00 each and its issued and paid-up capital is RM100.

3. SALIENT TERMS OF THE JVA

(i) KNMPS and Ho Hup (collectively “**the Parties**”) shall invest in the JVCO on 50% KNMPS : 50% Ho Hup basis (“**participation ratio**”) and subscribe for an initial issued and paid up capital of JVCO as follows (“**the Investment**”):-

Party	Number of Shares	Percentage of Shareholding (%)	Subscription Price (RM)
KNMPS	50	50	50
HO HUP	50	50	50
TOTAL	100	100	100

(ii) the issued and paid up capital shall be increased from RM100.00 to RM100,000.00 and each of the Parties intends to invest/subscribe for additional shares in the Company in accordance to the participation ratio within thirty (30) days from date of JVCO’s formation or such later date as may be mutually agreed by the Parties (“**Subscription Date**”).

(iii) The Parties shall jointly participate in all commercial and technical execution related issues for undertaking the Contracts and shall be responsible and liable in respect of the award, execution and completion of works, services or supplies to be performed or provided by the JVCO in relation to the Contracts in proportion to their participation ratio.

(iv) All profits, costs and liabilities shall be shared amongst KNMPS and Ho Hup as per the participation ratio too.

(v) The JVCO may be terminated upon occurrence of the following events:-

(a) any Parties commit a material breach of any of its obligations under the contract in which such breach failed to be remedied within thirty (30) days after service of any written notice thereof by any of the other parties; and

(b) any Parties shall be dissolved or go into voluntary liquidation or otherwise other than for the purpose of reconstruction, re-organisation or amalgamation or shall enter into any composition or arrangement with its creditors or shall have a receiver appointed over the whole or any material part of its assets.

4. DETAILS OF THE INVESTMENT

KNMPS shall initially subscribe for 50 ordinary shares of RM1.00 each in JVCO at par value of RM1.00 each and subscribe for additional 49,950 new ordinary shares of RM1.00 each pursuant to the Parties' intention to increase the initial issued and paid up capital from RM100.00 to RM100,000.00.

KNMPS shall fully subscribe for its shares in cash through internally generated funds and/or shareholders' advances.

5. RATIONALE FOR THE JVCO/JVA

The JVCO will undertake the Contracts and complement KNMPS's existing engineering, procurement, construction and commissioning businesses. In addition, the JVA serves to combine and strengthens both KNMPS's and Ho Hup's bids for selective engineering, procurement and construction projects.

6. FINANCIAL EFFECTS OF THE INVESTMENT

6.1 Share Capital

The Investment does not affect the share capital of KNM.

6.2 Earnings

The JVCO is expected to contribute positively to KNMPS/KNM Group's earnings once Contracts are secured.

6.3 Substantial Shareholders' Shareholdings

The Investment does not affect the shareholdings of the substantial shareholders in KNM.

6.4 Net Assets and Gearing

The Investment is not expected to have any material effect on the consolidated net assets and gearing of KNMPS and KNM Group for the year ending 31 December 2016.

7. RISK FACTORS

The JVCO is subject to certain risks mainly in the oil, gas, petrochemical, and energy industries. These include changes in general economic conditions such as, but not limited to inflation, taxation, foreign exchanges, interest rates, labour and material supply, changes in business and operating conditions such as, but not limited to government and statutory regulations and deterioration in prevailing market conditions.

The JVCO does not alter the risk profile of KNM as KNM Group is already operating in this industry and hence would continue to be exposed to risk factors that they currently face whilst operating in the industry.

Although KNM Group with its vast experience may undertake efforts to mitigate the various risks, there is no assurance that any change in the above factors will not have a material adverse effect on the business and operations of KNMPS/KNM Group.

8. DIRECTORS' STATEMENT

Having considered all aspects of the JVCO, the Board of Directors is of the opinion that the Investment is in the best interest of the Company.

9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

None of the Directors, major shareholders or persons connected to the Directors and/or major shareholders of the Company has any interest, direct or indirect in the JVCO.

10. APPROVALS

The JVCO is not subject to the approval of any governmental authority and/or the shareholders of KNM.

11. DOCUMENTS FOR INSPECTION

Details of the JVA are available for inspection at the registered office of KNM at 15 Jalan Dagang SB 4/1, Taman Sungai Besi Indah, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia for three (3) months from date of this Announcement during normal business hours from Mondays to Fridays.

12. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Investment pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 0.002% based on the audited financial statements of the Company for the year ended 31 December 2014.

This announcement is dated 10 March 2016.