

General Announcement
Reference No **KG-101214-57392**

Company Name : **KNM GROUP BERHAD**
Stock Name : **KNM**
Date Announced : **14/12/2010**

Type : **Announcement**
Subject : **- JOINT VENTURE AGREEMENT WITH PETROSAB LOGISTIK SDN BHD**
- INVESTMENT IN COMPANIES IN SABAH
Contents : **1. INTRODUCTION**

KNM Group Berhad (“KNM” or “the Company”) is pleased to inform that:

(i) KNM had on 13 December 2010 entered into a joint venture agreement with Petrosab Logistik Sdn Bhd (“PETROSAB”) (“JVA”) towards inter alia:

(a) the establishment of a joint venture company to be known as KNM Petrosab Sdn Bhd (“KNMP”) to act as an investment holding company on 51% (KNM) : 49% (PETROSAB) basis, whereby KNM and PETROSAB shall invest in 51,000 and 49,000 ordinary share of RM1.00 each respectively in KNMP (“Shareholding Structure”);

(b) KNMP in turn, shall form Project Companies to target oil and gas projects in Sabah;

(ii) KNM and PETROSAB had respectively on 13 December 2010 invested in one (1) ordinary share of RM1.00 in KNMP (“Investment 1”); and

(iii) KNMP had on 13 December 2010, invested in two (2) ordinary shares of RM1.00 each in KNM Petrosab Engineering Sdn Bhd (“KNMPE”) as one of the Project Companies (“Investment 2”),

(hereinafter Investment 1 and Investment 2 are collectively referred to as “Investments”).

2. INFORMATION ON PETROSAB, KNMP AND KNMPE

PETROSAB was incorporated in Malaysia on 14 August 2004 and officially launched by YAB Datuk Seri Chief Minister of Sabah in

February 2005, and having its registered address at Level 13, Wisma Innoprise, Teluk Likas, 88400 Kota Kinabalu, Sabah, Malaysia. It is a joint venture subsidiary company between Yayasan Sabah Group and Asian Supply Base Sdn Bhd to engage with business of providing oil and gas services to oil majors and contractors in East Malaysia.

KNMP was incorporated on 20 October 2010 as a private limited company under the laws of Malaysia and having its registered address at Level 19, Menara Tun Mustapha, Yayasan Sabah Headquarters Complex, Likas Bay, 88400 Kota Kinabalu, Sabah, Malaysia. Its initial authorised share capital is currently RM100,000 comprising 100,000 ordinary shares of RM1.00 each and its paid-up share capital is RM2.00. It is currently dormant but will principally be an investment holding company. Upon completion, KNMP will be a 51% subsidiary company of KNM while the remaining 49% is owned by PETROSAB.

KNMPE was incorporated on 20 October 2010 as a private limited company under the laws of Malaysia and having its registered address at Level 19, Menara Tun Mustapha, Yayasan Sabah Headquarters Complex, Likas Bay, 88400 Kota Kinabalu, Sabah, Malaysia. Its initial authorised share capital is currently RM100,000 comprising 100,000 ordinary shares of RM1.00 each and its paid-up share capital is RM2.00. It is currently dormant but will principally be involved, inter alia, in the provision of engineering, manufacturing of process equipment, construction, piping, and other services related to the oil, gas and power industry in Sabah and throughout Malaysia. KNMPE is a wholly-owned subsidiary of KNMP.

3. DETAILS OF THE INVESTMENT

KNMP and KNMPE are currently dormant. KNM's total initial investment outlay in KNMP and/or KNMPE will be RM51,000. The shares are subscribed at par value of RM1.00 each and the Investments shall be fully settled in cash through internally generated funds.

4. SALIENT TERMS OF THE JVA

(i) KNM and PETROSAB ("Parties") wish to complement each other by combining each Party's respective skills and expertise to establish a joint venture company in Malaysia to act as an investment holding company in special purpose companies ("Project Companies") to be incorporated for the purpose carrying out the various oil and gas projects in Sabah ("Designated Projects").

(ii) The Parties have agreed to cause KNMP to invest in Project Companies which shall carry out the Designated Projects exclusively. KNM will lead fund raising for the Designated Projects and optimize capitalization for the Project Companies throughout the development and/or operation stage of the Designated Projects, either via issuance of new equity, bond, financial derivatives and/or convertible instruments to third party if necessary.

(iii) The total capital and investment outlay, number and timing for the incorporation, of the Project Companies shall be determined by the Parties depending on the successful award, scope and size of the Designated Projects.

(iv) The joint venture is conditional upon satisfaction of the following conditions which have been met:

- (a) the establishment of KNMP; and
- (b) KNMP obtaining any required approval for the Shareholding Structure.

(v) The issued and paid-up share capital of KNMP shall be held by the Parties in the proportions set out in the Shareholding Structure, unless among others:

- (a) varied to comply with any law, regulation, directive or policy of any Government or other relevant authority; or
- (b) varied in such manner as may be mutually agreed in writing between the Parties.

5. RATIONALE FOR THE INVESTMENTS

The Investments are generally aimed to tap into various existing and future capital expenditure for oil, gas and petrochemical projects in Sabah which is in line with KNM's overall objective of expanding and growing the businesses of KNM and its group of companies ("KNM Group") throughout Malaysia.

6. FINANCIAL EFFECTS OF THE INVESTMENTS

6.1 Share Capital

The Investments do not affect the share capital of KNM.

6.2 Earnings

The Investments are not expected to have any material effect on the

consolidated earnings of KNM for the financial year ending 31 December 2010.

6.3 Substantial Shareholders' Shareholdings

The Investments do not affect the substantial shareholders' shareholdings in KNM.

6.4 Net Assets and Gearing

The Investments are not expected to have any material effect on the consolidated net assets and gearing of KNM and/or KNM Group for the year ending 31 December 2010.

7. RISK FACTORS

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

The Investments do not alter the risk profile of KNM as KNM Group is already operating in these industries and hence will continue to be exposed to risk factors that they currently face whilst operating in these industries.

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 KNM and/or KNM Group.

8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

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

9. DIRECTORS' STATEMENT

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

10. CONDITION OF THE INVESTMENTS

The Investments are not subject to the approvals of any governmental authority and the shareholders of KNM.

11. DOCUMENTS FOR INSPECTION

Details of 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 pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad applicable to the Investment 1 and Investment 2 is 0.003% and 0.0000001% respectively.

Announcement Details :