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**NOVO GROUP LTD.**  
**新源控股有限公司\***

*(Incorporated in Singapore with limited liability)  
(Company Registration No. 198902648H)*

**Hong Kong Stock Code: 1048**

**Singapore Stock Code: MR8**

**DISCLOSEABLE TRANSACTION  
FORMATION OF A JOINT VENTURE**

The Board is pleased to announce that Novo Investment, a wholly-owned subsidiary of the Company, has entered into the JVA with Qingdao Port Investment, pursuant to which Novo Investment and Qingdao Port Investment shall incorporate Newco in the PRC with the primary aim to warehousing, processing and sale of iron ore and coal in the PRC.

The registered capital of Newco shall be RMB30,000,000. Novo Investment shall share RMB29,400,000 (representing 98% interest) and Qingdao Port Investment shall share RMB600,000 (representing 2% interest) in the registered capital of Newco.

Based on the Group's initial capital commitment in Newco, the formation of Newco under the JVA shall constitute a discloseable transaction of the Company and is subject to notification and announcement requirements under Chapter 14 of the Listing Rules.

**THE JOINT VENTURE AGREEMENT**

**Date**

11 May 2011

**Parties**

- (1) Novo Investment, a wholly-owned subsidiary of the Company, as one of the joint venture partners
- (2) Qingdao Port Investment, as one of the joint venture partners

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Qingdao Port Investment and its respective ultimate beneficial owners are third parties independent of the Company and its connected persons as defined under the Listing Rules.

## **Subject matter**

The Company is pleased to announce that Novo Investment, a wholly-owned subsidiary of the Company, has entered into the JVA with Qingdao Port Investment, pursuant to which Novo Investment and Qingdao Port Investment shall incorporate Newco in the PRC with the primary aim to warehousing, processing and sale of iron ore and coal in the PRC.

The registered capital of Newco shall be RMB30,000,000. Novo Investment shall share RMB29,400,000 (representing 98% interest), which shall be financed by internal resource, and Qingdao Port Investment shall share RMB600,000 (representing 2% interest) in the registered capital of Newco. Each of Novo Investment and Qingdao Port Investment shall contribute 20% of their respective share in the registered capital of Newco within 3 months of issuance of the business license (營業執照) of Newco and the remaining portion shall be paid by the Group and Qingdao Port Investment respectively within two years of the incorporation date of Newco. Failure to comply with this provision shall cause the default party to bear a penalty charge, being calculated at 0.021% per day on any unpaid portion of contribution. The other joint venture partner has a right of first refusal or a right to dispose of its entirety interest in Newco in accordance with the terms of the JVA if the outstanding amount has not been settled by the default party within 30 days.

Total investment in Newco is approximately RMB90,000,000. The difference between the investment amount and the registered capital of Newco may be financed through bank borrowings.

Change of registered capital is subject to the unanimous approval by all directors of Newco. Pursuant to the terms of the JVA, the joint venture partners should contribute their pro-rata share if there is change of the registered capital of Newco. The joint venture partner has pre-emptive right if the other joint venture partner fails to contribute its pro-rata interest according to the terms of the JVA.

A right of first refusal is provided should either of the joint venture partners wishes to dispose of its shares to any third party in accordance with the terms of the JVA.

Where Newco is becoming insolvent or has incurred significant loss or fails to accomplish its business goals, the joint venture partner has a right to request to negotiate to acquire shares from the other joint venture partner. If consensus agreement(s) cannot be reached within 3 months, Newco should be terminated.

The joint venture partner has a right of first refusal or a right to dispose of its entirety interest in Newco if the other joint venture partner has a material breach of the JVA pursuant to the terms of the JVA. The Company shall comply with the applicable requirements of the Listing Rules on exercising the right(s) to acquire or dispose of interest in Newco in accordance with the terms of the JVA.

## **Condition**

The JVA is conditional upon the approval(s) from the relevant PRC authorities in respect of the incorporation of Newco.

## **Board Composition of Newco**

The board of directors of Newco shall consist of 5 directors, which consist of a chairman (who is also a director), and 4 other directors. The chairman of the board, who is appointed by Novo Investment, shall also act as the legal representative of Newco. Each of Novo Investment and Qingdao Port Investment shall have right to nominate 4 directors and 1 director to the board of Newco respectively.

If the board of the directors of Newco do not reach unanimous decision on certain matters which may have a material impact on the business operations, and such matters cannot be resolved within 60 days, either one of joint venture partner has a right to request to terminate the JVA or seek legal actions in accordance with the terms of the JVA.

## **INFORMATION ON QINGDAO PORT INVESTMENT**

Qingdao Port Investment is a state-owned entity incorporated in the PRC and engaged in the business of port investment and management, and related infrastructure business.

## **GENERAL INFORMATION**

The Group is principally engaged in trading and distribution of steel products and related raw materials.

## **REASONS FOR AND BENEFITS OF THE FORMATION OF THE JOINT VENTURE**

In line with its corporate strategy for continuous growth and development via vertical and horizontal integration, the Company has strived to grow the company via direct investment, mergers and acquisitions and joint venture.

Leveraging on the Group's experience in trading and warehousing arrangement in steel products, the Group's intends to participate in warehousing and processing business in the PRC and considering the promising market of the warehousing, processing and sale of iron ore and coal in the PRC, the Company has decided to enter this market, by setting up a joint venture company with a Chinese local joint venture partner. This joint venture investment complements the present business structure of the Group and the management expects to have a positive multiplier impact to the various business units of the Group. The Directors believe that the joint venture arrangement shall bring substantial benefits to the Group's strategic move with the development of unique and sustainable long term business opportunities.

The global demand for iron ore and coal continue to grow significantly. The Group is expecting the joint venture arrangement shall provide steady income and enhance overall profit margin.

The Directors, including the independent non-executive Directors, consider that the formation of the joint venture is on normal commercial terms and the terms of the JVA are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Based on the Group's initial capital commitment in Newco, the formation of Newco under the JVA shall constitute a discloseable transaction of the Company and is subject to notification and announcement requirements under Chapter 14 of the Listing Rules.

## DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context otherwise requires:

“Board”	the board of Directors of the Company
“the Company”	Novo Group Ltd., a company incorporated in Singapore, whose shares are listed on the Singapore Exchange Securities Trading Limited (Singapore Stock Code: MR8) and the Stock Exchange (Hong Kong Stock Code: 1048)
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“JVA”	a legally binding joint venture agreement entered into between Novo Investment and Qingdao Port Investment on 11 May 2011
“Newco”	the joint venture to be formed in the PRC under the JVA with the primary aim to warehousing, processing and sale of iron ore and coal in the PRC
“Novo Investment”	Novo Investment Limited (香港新源投資有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Taiwan and the Macao Special Administrative Region of the PRC)
“Qingdao Port Investment”	青島港口投資建設(集團)有限責任公司 (Qingdao Port Investment and Construction Group Co., Ltd*), a company registered in the PRC with limited liability
“RMB”	Renminbi, the lawful currency of the PRC

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“%”

per cent

By order of the Board  
**Novo Group Ltd.**  
**Yu Wing Keung, Dicky**  
*Chairman*

Hong Kong, 11 May 2011

*As at the date of this announcement, the Board comprises three executive Directors, being Mr. Yu Wing Keung, Dicky, Mr. Chow Kin Wa, Mr. Chow Kin San and three independent non-executive Directors, being Mr. Foo Teck Leong, Mr. Tang Chi Loong and Mr. Tse To Chung, Lawrence.*

\* *For identification purpose only*