

BHS INDUSTRIES BERHAD (“BHS” OR “THE COMPANY”)

LEASE AGREEMENT ENTERED BETWEEN BHS PALAU INCORPORATED, A WHOLLY-OWNED SUBSIDIARY OF BHS INDUSTRIES BERHAD AND KALEB UDUI JR.

1. INTRODUCTION

The Board of Directors of BHS Industries Berhad (“**BHS**”) wishes to announce that BHS Palau Incorporated (“**BHS Palau**” or “**Lessee**”), a wholly owned subsidiary of BHS, had on 23 June 2016 entered into a lease agreement (“**Lease Agreement**”) with Kaleb Udui Jr. of P.O. Box 1027, Palau PW 96940 (“**Kaleb Udui Jr. or the “Lessor”**”) to lease from Lessor all those premises located in Ngetkib Hamlet of Airai State, Palau, more particularly described as Cadastral Lot No. 037N06 measuring approximately 16,225 square metres (“**Property**”) for a total consideration of U.S. Dollars One Million Two Hundred Thousand (USD1,200,000) equivalent to RM4,824,000 (“**Consideration**”) (“**Transaction**”).

2. INFORMATION ON BHS PALAU

BHS Palau was incorporated in Republic of Palau on 6 May 2016 with an authorised capital of USD500,000. The current issued capital of BHS Palau is USD450,000.00 comprising 4,500 common stock of USD100.00 each.

The principal business activity of BHS Palau is property investment holding & development and real estate related activities and is currently dormant.

3. INFORMATION ON KALEB UDUI JR

Kaleb Udui Jr, a Palau citizen having his address at P.O Box 1027, Palau PW96940.

4. INFORMATION ON THE SAID PROPERTY

The said Property is currently not encumbered by a mortgage, lien, deed of trust and the term of lease is expiring on 30 September 2065 and the Lessee has the option to renew the Property under the same terms and conditions as set out in this Lease Agreement for a Consideration of USD10 for an additional forty-nine (49) year-term. The Lessee may exercise such option by giving a written notice to Lessor at any time not later than 90 days prior to the expiration of the initial term. The information on net book value of the said Property was not made available by the Lessor to the Lessee.

The said Property is free from all encumbrances and with vacant possession.

5. DETAILS OF THE TRANSACTION AND SALIENT TERMS OF THE LEASE AGREEMENT

5.1 Basis of arriving at the Consideration

The consideration for the Transaction was arrived at on a willing buyer-willing seller basis and was based on the prevailing market price in the Republic of Palau.

5.2 Settlement of the Consideration

The Consideration was entirely satisfied in cash via internally-generated funds.

5.3 Liabilities to be assumed and additional financial commitment

Save for the existing liabilities and other obligations and liabilities in and arising from the Lease Agreement and for the liabilities arising from the ordinary course of business of BHS Palau and BHS, there are no liabilities, contingent liabilities or guarantees to be assumed by BHS Palau pursuant to the Transaction. The Board does not expect to incur any additional financial commitment for the Transaction.

5.4 Completion of the Transaction

The Transaction is completed on the date of signing the Lease Agreement.

6. RATIONALE FOR THE TRANSACTION

The Transaction forms part of BHS's expansion plan for the next 5 years and it is expected to positively contribute to the future earnings and thereby improve shareholders' value.

7. FUTURE PLAN AND PROSPECTS OF THE PROPERTY

The said Property is for investment purpose with potential for future development.

8. RISK FACTORS

The Board of Directors is unaware of any risks arising from the Transaction which could materially or adversely affect the financial and operating conditions of the BHS Group.

9. EFFECTS OF THE TRANSACTION

9.1 Share capital and substantial shareholders' shareholdings

The Transaction does not involve any issuance of new shares in the Company and therefore will not have any effect on the share capital and substantial shareholders' shareholding of the Company.

9.2 Net Assets ("NA") and NA per share

The Transaction is not expected to have any material effect on the NA or NA per share of BHS as the Consideration will be satisfied wholly in cash and does not involve any issuance of new shares.

9.3 Earnings

The Transaction is not expected to have any material impact on the earnings or earnings per share of BHS for the financial year ending 30 June 2017.

Barring any unforeseen circumstances, the Transaction is expected to positively contribute to the future earnings of BHS Group.

9.4 Gearing

The Transaction is not expected to have any effect on the gearing of BHS Group as the Consideration will be wholly funded via internally-generated funds.

10. APPROVAL REQUIRED

The Transaction is not subject to the approval of the shareholders of BHS.

11. PERCENTAGE RATIOS

The highest percentage ratio applicable to the Transaction pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 5.78% based on the latest audited financial statements for the financial year ended 30 June 2015.

12. DIRECTORS AND MAJOR SHAREHOLDERS' INTEREST

None of the directors and/or major shareholders of BHS or any person connected with them have any interest, direct or indirect, in the Transaction.

13. DIRECTORS' STATEMENT

The Board, after having considered all aspects of the Transaction, is of the opinion that the Transaction is in the best interest of the Company.

14. DOCUMENTS FOR INSPECTION

A copy of the Lease Agreement will be made available for inspection at the registered office of the Company at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan during normal working hours for a period of three months from the date of this announcement.

This announcement is dated 30 June 2016.