

**ADVANCE SYNERGY BERHAD**

*(Company No. 1225-D)  
(Incorporated in Malaysia)*

**Registered Office:**

Level 29, Menara Shahzan Insas  
30, Jalan Sultan Ismail  
50250 Kuala Lumpur

11 April 2000

**Board of Directors:**

Dato' Ahmad Sebi Bakar *(Executive Chairman)*  
Dato' Nik Ibrahim Kamil bin Tan Sri Nik Ahmad Kamil  
En Aznan bin Haji Ismail  
Mr Wong Ah Nam @ Wong Joon Tuang  
Pn Masri Khaw binti Abdullah  
Mr Sng Chong Khian

**To: The Stockholders of Advance Synergy Berhad**

Dear Sir/ Madam,

- **Proposed restructuring of bank borrowings of Ringgit Malaysia (“RM”) 224,823,179, Australian Dollar (“AUD”) 8,569,705 and US Dollar (“USD”) 33,045,814 of Advance Synergy Berhad (“ASB”) and five (5) of its subsidiaries equivalent to an amount estimated at approximately RM371,221,654 calculated up to 30 April 2000 by the proposed issuance by ASB of the following:-**
  - **Approximately RM126,544,751, AUD1,041,917 and USD14,946,753 nominal value equivalent to a total of approximately RM185,874,269 nominal value of 5-year 7% redeemable loan stocks with approximately 84,568,264 detachable Warrants 2000/2003; and**
  - **Approximately RM98,278,428, AUD7,527,788 and USD18,099,061 nominal value equivalent to a total of approximately RM185,347,385 nominal value of 5-year 7% convertible loan stocks with approximately 84,328,545 detachable Warrants 2000/2003; and**
- **Proposed renounceable restricted offer for sale of the rights to allotment of up to a maximum of 168,896,809 Warrants 2000/2003 to the stockholders of ASB on the basis of one (1) Warrant for every two (2) existing stock units of RM1.00 each held in ASB on a date to be determined later at an offer price of RM0.20 per Warrant.**

**1. INTRODUCTION**

On 6 January 1999, it was announced that the Company proposed to issue convertible loan stocks with detachable warrants as repayment for the existing banking facilities of ASB and certain of its offshore subsidiaries' bank borrowings.

Subsequent to the announcement, ASB has held several discussions with its lenders, comprising secured, partially secured and unsecured financial institutions, in respect of the Company's proposed restructuring of bank borrowings under the auspices of the CDRC, BNM.

On 1 October 1999, Perdana Bankers, on behalf of the Board of Directors of ASB, announced to the KLSE that the approvals of the Identified FIs have been secured in respect of the Proposals and a Restructuring Agreement has been entered into between ASB and the Identified FIs on even date.

The Proposals were approved by the SC vide its letters dated 3 January 2000, 21 March 2000 and 28 March 2000 and BNM vide its letters dated 15 December 1999 and 23 December 1999. Approval from the FIC was obtained on 17 January 2000.

The purpose of this Circular is to provide the stockholders of ASB with the relevant information on the Proposals and to seek your approval for the resolutions to be tabled at the forthcoming EGM to be convened at Dewan Berjaya, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara Off Jalan Damansara, 60000 Kuala Lumpur, on Friday, 28 April 2000 at 10.30 a.m.. The notice of the EGM together with the Form of Proxy is set out in this Circular.

**STOCKHOLDERS OF ASB ARE ADVISED TO READ THIS CIRCULAR CAREFULLY BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS AT THE FORTHCOMING EGM.**

## 2. DETAILS OF THE PROPOSALS

### 2.1 Proposed Restructuring of Bank Borrowings

The Proposed Restructuring of Bank Borrowings entails the restructuring of local and foreign currency bank borrowings owed to the Identified FIs by ASB and five (5) of its subsidiaries, namely Hotel Golden Dragon Sdn Bhd, Alangka-Suka International Limited, Synergy Petroleum Incorporated, Calmford Incorporated and Synergy Gold Incorporated. The bank borrowings of these five subsidiaries will be assumed by ASB.

The breakdown of the Restructuring Bank Borrowings attributable to ASB and its five (5) subsidiaries are as follows:-

Company	Estimated Borrowings Owed	Estimated RM equivalent
ASB	RM221,569,980 USD7,797,986	RM251,202,325
Hotel Golden Dragon Sdn Bhd	RM3,253,199	RM3,253,199
Alangka-Suka International Limited	USD19,142,945	RM72,743,191
Synergy Petroleum Incorporated	USD6,104,883	RM23,198,557
Calmford Incorporated	AUD2,926,950	RM7,112,489
Synergy Gold Incorporated	AUD5,642,754	RM13,711,893
<b>Total</b>		<b>RM371,221,654</b>

In order to assume the bank borrowings of its five subsidiaries involved, ASB shall enter into Novation Agreements with these subsidiaries and the respective Identified FIs.

As at 30 April 2000 (the date of expiry of the Standstill Period unless further extended), it is estimated that the total local and foreign currency bank borrowings then owed by ASB to the Identified FIs would amount to a total of RM371,221,654 equivalent\*.

ASB proposes to undertake the Proposed Restructuring of Bank Borrowings via implementation of the following:-

- (i) Proposed issuance of approximately RM126,544,751, AUD1,041,917 and USD14,946,753 (a total of RM185,874,269 equivalent\*) nominal value of 5-year 7% RLS at 100% of its nominal value by ASB in exchange for the bank borrowings in USD, AUD or RM of ASB amounting to the sum of RM185,874,269 equivalent\* due and owing to the Identified FIs.

The indicative terms of the RLS are set out in Appendix II(i).

- (ii) Proposed issuance of approximately RM98,278,428, AUD7,527,788 and USD18,099,061 (a total of RM185,347,385 equivalent\* or such adjusted amount to take into account any fluctuation in interest rates on the amount due and owing to the Identified FIs up to 30 April 2000 and/or any interest that will accrue from 1 May 2000 up to the date of issue of the RLS/CLS) nominal value of 5-year 7% CLS at 100% of its nominal value.

The issuance of CLS by ASB is undertaken in exchange for the balance of the bank borrowings in USD, AUD or RM of ASB amounting to the sum of RM185,347,385 equivalent\* (or such adjusted amount to reflect the aforementioned increase or decrease in the balance outstanding) due and owing to the Identified FIs. Any adjustments to the CLS issued will be made in the respective currencies as owed to each Identified FI.

The indicative terms of the CLS are set out in Appendix II(ii).

\* *Assuming the exchange rates of AUD1.00 = RM2.43 and USD1.00 = RM3.80 to arrive at the RM equivalent.*

- (iii) A total of up to 168,896,809 detachable Warrants will be issued together with the RLS and CLS to the Identified FIs on a basis which reflects the proportionate outstanding amount due to each Identified FI as compared to the Restructuring Bank Borrowings.

The indicative terms of the Warrants are set out in Appendix II(iii).

The ASB new stock units of RM1.00 each to be issued upon the conversion of the CLS and exercise of Warrants shall rank pari passu in all respects with the existing issued stock units of the Company except that such new stock units shall not be entitled to any rights, allotments, dividends or other distributions declared or to be declared in respect of the financial period prior to the financial period in which such new stock units are issued or for any interim dividends or distributions that may be declared prior to the date of allotment of such new stock units.

The unaudited outstanding borrowings (inclusive of interests) of the ASB Group as at 31 December 1999 was approximately RM613.1 million. This includes an Exchangeable Subordinated Capital Loan granted by Danamodal Nasional Berhad of RM50.0 million under the UMG Group, which was subsequently fully repaid. The Proposed Restructuring of Bank Borrowings of RM371.2 million is expected to generate estimated interest savings of RM8.0 million per annum to the ASB Group.

## **2.2. Proposed ROS**

After the Proposed RLS Issue and Proposed CLS Issue, the Identified FIs will immediately detach the Warrants from the RLS and CLS and undertake a renounceable offer for sale of the rights to allotment of up to 168,896,809 Warrants to the stockholders of ASB on the basis of one (1) Warrant for every two (2) existing stock units of RM1.00 each held on the Entitlement Date to be determined later at an offer price of RM0.20 per Warrant. Any fractional entitlements of Warrants will be disregarded and dealt with by the Directors of ASB in such manner as they deem fit. The Warrants in relation to the Proposed ROS will be underwritten and a prospectus pursuant to the Proposed ROS will be issued to the stockholders of ASB in due course.

The offer price of RM0.20 per Warrant was determined by ASB in order to arrive at the desired yield of 9.0% in respect of the RLS and CLS for the Identified FIs, based on, inter alia, the prevailing market price of ASB stock units, the general market conditions and the coupon rate of the RLS/CLS. The number of Warrants attached to RLS and CLS to be issued to the Identified FIs are in proportion to the RLS and CLS total amounts.

Each Warrant will entitle its registered holder to subscribe for one (1) ASB new stock unit at the proposed exercise price of RM1.00 subject to adjustments in accordance with the provisions of the Deed Poll governing the Warrants.

The gross proceeds of RM33,779,362 arising from the Proposed ROS will accrue entirely to the Identified FIs as cash payment pursuant to the Proposed Restructuring of Bank Borrowings.

### 3. RISK FACTORS

Stockholders should carefully consider the following information (which may not be exhaustive), in addition to the information contained herein, before voting on the resolutions pertaining to the Proposals:-

**(i) *Business Risks***

The ASB Group is subject to various risks inherent in the ordinary course of business relating to the financial services, hotels and resorts, property and manufacturing. These include changes in general economic conditions such as, but not limited to, inflation, taxation, interest rates and exchange rates of foreign currencies and constraints in labour supply, and changes in business conditions such as, but not limited to, deterioration in prevailing market conditions, changes in pricing, increased competition, machinery breakdown, facilities obsolescence, industrial disputes and raw material shortage.

Although the Group seeks to limit these risks, no assurance can be given that any change of these factors will not have a material adverse effect on the Group's businesses.

**(ii) *Competition***

The Group faces competition from other participants in the financial services, hotel and resorts, property development, plastic packaging manufacturing, marble and marble products processing, sawmilling and sawn timber trading industries. While the ASB Group will continue to seek to maintain its competitive position within the aforementioned industries, no assurance can be given that the Group will be able to maintain its existing market position in the future.

**(iii) *Political, Economic, Regulatory and Environment Considerations***

Adverse developments in political and economic conditions in Malaysia and countries where the ASB Group has business operations, such as United Kingdom, United Arab Emirates, Sudan, Cambodia, China and Australia, could materially and adversely affect the financial prospects of the Group. Other uncertainties include risks of war, expropriation, nationalisation, renegotiation or nullification of existing contracts, changes in interest rates, methods of taxation and currency exchange controls.

**(iv) *Continuity of Management***

The ASB Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its Directors and senior management. The loss of any member of the Group's key personnel could adversely affect the Group's continued ability to maintain and improve its performance.

**(v) *Estimate and Forecast***

This Circular contains the loss estimate and forecast for the financial years ended/ ending 31 December 1999 and 2000 for the ASB Group based on assumptions, which the Directors deem to be reasonable, but which nevertheless are subject to uncertainties and contingencies. Due to the subjective judgements and inherent uncertainties of estimate and forecast and because events and circumstances frequently do not occur as expected, there can be no assurance that the estimate and forecast contained herein will be realised and actual results may be materially different than those shown. Stockholders will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the estimate and forecast that are contained herein.

## 4. RATIONALE FOR THE PROPOSALS

### 4.1 Proposed Restructuring of Bank Borrowings

The recent economic downturn has adversely affected the ASB Group which is involved in, among others, the financial services and hotel sectors. With significant lower contribution from both its financial services and hotel divisions, the bank borrowings servicing capability of the Group has been impaired to a certain extent. As part of its proactive approach to address the well being of the Company, its creditors and stockholders, ASB intends to implement the Proposed Restructuring of Bank Borrowings so that the existing bank borrowings and interest obligations of the Group could better match its cash flow.

As the bank borrowings outstanding with the Identified FIs are largely secured, the realisation of the security pledged to the Identified FIs would not jeopardise the solvency of ASB. However, realisation of the security pledged will severely affect the operations and well-being of ASB, which could in turn be detrimental to the Company and its stockholders. The Proposed Restructuring of Bank Borrowings will therefore allow ASB to retain the assets pledged to the Identified FIs and to continue operations as usual.

### 4.2 Proposed ROS

The Proposed ROS will provide the stockholders of ASB with the opportunity to purchase the Warrants which grant them the rights to subscribe to new stock units in ASB at a pre-determined exercise price over a period of time. In addition, the exercise of the Warrants will enable the stockholders to minimise the dilution of their stockholdings as a result of conversion of CLS. Moreover, the exercise of the Warrants would raise additional funds for ASB to redeem/repurchase part of the RLS and/or CLS.

## 5. FINANCIAL EFFECTS

### 5.1 Share Capital

The proforma effects of the Proposals on the share capital of ASB as at 31 December 1999 is as follows:-

	No. of Stock Units of RM1.00 each
Existing as at 31 December 1999	337,793,619
To be issued upon full exercise of Warrants <sup>1</sup>	168,896,809
	506,690,428
To be issued upon full conversion of CLS <sup>2</sup>	181,022,612
Enlarged	687,713,040

1. Each Warrant will allow the holder to exercise the right to subscribe for one (1) ASB new stock unit of RM1.00 each. Up to a total of 168,896,809 Warrants will be issued in conjunction with the Proposed RLS Issue and Proposed CLS Issue.
2. Assuming a total of RM185,347,385 equivalent\* nominal value of CLS will be converted. The conversion price of the CLS is RM1.20 per ASB new stock unit and shall be satisfied by the tendering of RM1.00 nominal value CLS together with interest at 4% per annum accumulated up to the date of conversion. As the CLS is convertible in three stages, the detailed workings of the number of ASB new stock units to be issued is as follows:-

Conversion period	CLS to be converted		Cumulative interest at 4% per annum** RM	Total conversion value RM	No. of ASB new stock units to be issued at RM1.20 each
	%	RM			
Commencing from end of 3rd year from the date of issue	20	37,069,477	4,448,337	41,517,814	34,598,178
Commencing from end of 4th year from the date of issue	30	55,604,216	8,896,674	64,500,890	53,750,742
At end of 5th year from the date of issue	50	92,673,692	18,534,738	111,208,430	92,673,692
		185,347,385	31,879,749	217,227,134	<b>181,022,612</b>

\* *In respect of AUD and USD-denominated CLS, upon conversion of the CLS, ASB shall issue such number of new stock units based on the average of the opening selling and buying rates quoted by Malayan Banking Berhad ("MBB") or a mutually agreed bank if quotation from MBB is not possible for whatever reasons, at the date of conversion.*

\*\* *Calculated on the basis of:-*

<i>CLS to be converted RM</i>		<i>Cumulative Interest</i>		<i>Cumulative Interest RM</i>
37,069,477	X	12%	=	4,448,337
55,604,216	X	16%	=	8,896,674
92,673,692	X	20%	=	18,534,738

For illustration purposes only, the proforma effects of the Proposals on the audited consolidated balance sheet of ASB as at 31 December 1998 are as follows:-

	(A)	(B)	(C)	(D)	(E)
	Audited as at 31.12.98 RM'000	After (A) and Proposed RLS and CLS Issues RM'000	After (B) and full exercise of Warrants RM'000	After (C) and full conversion of CLS RM'000	After (D) and full redemption of RLS RM'000
Share capital	337,794	337,794	**506,690	687,713	687,713
Share premium	432,423	*430,423	430,423	***466,627	466,627
Accumulated losses	(222,218)	(222,218)	(222,218)	****(254,098)	(254,098)
Other reserves	30,660	30,660	30,660	30,660	30,660
Stockholders' funds	578,659	576,659	745,555	930,902	930,902
Less: Goodwill on consolidation	(209,904)	(209,904)	(209,904)	(209,904)	(209,904)
Purchased goodwill	(1,776)	(1,776)	(1,776)	(1,776)	(1,776)
Expenditure carried forward	(28,754)	(28,754)	(28,754)	(28,754)	(28,754)
NTA	338,225	336,225	505,122	690,468	690,468
NTA per stock unit (RM)	1.00	1.00	1.00	1.00	1.00

\* After deducting estimated expenses of RM2,000,000 for the Proposals

\*\* Assuming full exercise of 168,896,809 Warrants at an assumed exercise price of RM1.00 per stock unit, to be satisfied in cash.

\*\*\* Assuming full conversion of RM185,347,385 equivalent<sup>#</sup> CLS together with cumulative coupon of 4% per annum accumulated up to the respective date of conversion, to be satisfied by tendering the CLS for cancellation without any cash payment at the conversion price of RM1.20 per stock unit resulting in the issue of approximately 181,022,612 new stock units of RM1.00 each and share premium of RM36,204,522, as follows:-

Conversion period	CLS to be converted		(A)		(B)		(A-B)	
	%	RM'000	Cumulative 4% interest p/a	Total conversion value	No. of stock units to be issued	Share premium arising from CLS conversion	RM'000	RM'000
Commencing from end of third year from date of issue	20	37,069	4,448	41,517	34,598	6,919	6,919	6,919
Commencing from end of fourth year from date of issue	30	55,604	8,897	64,501	53,751	10,750	10,750	10,750
At end of fifth year from date of issue	50	92,674	18,535	111,209	92,674	18,535	18,535	18,535
		185,347	31,880	217,227	181,023	36,204	36,204	36,204

# Upon conversion of the foreign currency-denominated CLS, ASB shall issue such number of new stock units based on the average of the opening selling and buying rates quoted by MBB or a mutually agreed bank if quotation from MBB is not possible for whatever reasons, at the date of conversion.

\*\*\*\* As advised by the Reporting Accountants, the accumulated 4% coupon interest on the CLS up to the respective date of conversion is charged out to the profit and loss account of ASB upon conversion of the CLS into ASB new stock units

### 5.3 Stockholding Structure

The proforma effects of the Proposals on ASB's stockholding structure as at 25 February 2000, assuming full exercise of Warrants and full conversion of CLS, are as follows:-

	Existing as at 25 February 2000		Assuming full exercise of Warrants **		Assuming full conversion of CLS	
	No. of stock units	%	No. of stock units	%	No. of stock units	%
<i>Malaysian</i>						
Bumiputra	56,122,462	16.61	84,183,693	16.61	84,183,693	12.24
Non-Bumiputra*	247,325,191	73.22	370,987,786	73.22	370,987,786	53.95
	303,447,653	89.83	455,171,479	89.83	455,171,479	66.19
<i>Foreign</i>	34,345,966	10.17	51,518,949	10.17	51,518,949	7.49
<b>Existing ASB stockholders</b>	337,793,619	100.00	506,690,428	100.00	506,690,428	73.68
<b>Identified FIs</b>	0	0	0	0	181,022,612	26.32
<b>TOTAL</b>	337,793,619	100.00	506,690,428	100.00	687,713,040	100.00

\* Including stock units registered in the name of trustee companies and nominee companies of which the beneficial owners may be Bumiputra.

\*\* Assuming the Warrants are fully subscribed by the existing stockholders of ASB pursuant to the Proposed ROS.

### 5.4 Earnings

The profits and EPS of the ASB Group for the financial year ended 31 December 1999 and financial year ending 31 December 2000 *before* the Proposals are as follows:-

Year ended/ending 31 December	Estimate 1999	Forecast 2000
(Loss)/Profit after tax and MI (RM'000)	(34,713)	(21,528)
No. of stock units in issue ('000)*	337,794	337,794
EPS (sen)	(10.28)	(6.37)

Assuming the Proposed Restructuring of Bank Borrowings are completed by 30 April 2000, the profits and EPS of the ASB Group for the financial year ended 31 December 1999 and financial year ending 31 December 2000 *after* the Proposals are as follows:-

Year ended/ending 31 December	Estimate 1999	Forecast 2000
(Loss)/Profit after tax and MI (RM'000)	(34,713)	(17,146)
No. of stock units in issue ('000)*	337,794	337,794
EPS (sen)	(10.28)	(5.08)

\* The number of stock units in issue does not take into account any ASB new stock units arising from exercise of Warrants over the financial years disclosed above.

The Reporting Accountants' letter on the loss estimate and forecast is included as Appendix III in this Circular.



## 5.5 Dividends

The Board of Directors of ASB does not expect to recommend any dividends for the two (2) financial years ended/ending 31 December 1999 and 2000.

Pursuant to the Restructuring Agreement dated 1 October 1999, ASB will require the consent of the Identified FIs prior to the declaration or payment of any dividend until the RLS and CLS have been fully redeemed or repurchased/converted.

## 5.6 Gearing

The proforma effects of the Proposals on the gearing of the ASB Group based on its audited consolidated balance sheet as at 31 December 1998 are as follows:-

	(A)	(B)	(C)	(D)	(E)	(F)
	Audited as at 31.12.98 RM'000	After (A) and Proposed RLS and CLS Issue RM'000	After (B) and full exercise of Warrants RM'000	After (C) and full conversion of CLS RM'000	After (D) and full redemption of RLS** RM'000	After (E) and ESCLs refund RM'000
Stockholders' funds	578,659	576,659	745,555	930,902	930,902	930,902
Borrowings*	<sup>(1)</sup> 1,637,968	1,266,747	1,266,747	1,266,747	1,266,747	<sup>(2)</sup> 416,747
RLS	-	185,874	185,874	185,874	-	-
CLS	-	185,347	185,347	-	-	-
Total	1,637,968	1,637,968	1,637,968	1,452,621	1,266,747	416,747
Gearing (times)	2.83	2.84	2.20	1.56	1.36	0.45

\* Comprises interest bearing debts.

<sup>(1)</sup> Total bank borrowings attributable to the United Merchant Group Berhad ("UMG") group as at 31.12.98 was RM1,108,411,000 including RM850,000,000 Exchangeable Subordinated Capital Loans ("ESCLs") granted by Danamodal Nasional Berhad ("Danamodal") to the subsidiaries of UMG.

<sup>(2)</sup> After taking into consideration the full refund of ESCLs of RM850,000,000 to Danamodal in relation to note (1) above.

\*\* Assuming the redemption is funded by internal funds generated over the financial years 2000 to 2005.

## 5.7 Substantial Stockholders

The effects of the Proposals on the substantial stockholders of ASB are as follows:-

Name	No. of stock units held as at 25 February 2000			Assuming full exercise of Warrants *		Assuming full conversion of CLS	
	Direct	Indirect	Total	No. of stock units	%	No. of stock units	%
Dato' Ahmad Sebi Bakar	15,020,009	<sup>a</sup> 27,451,109	42,471,118	63,706,677	12.57	63,706,677	9.26
Lim Hong Liang	6,429,241	<sup>b</sup> 1,981,000	8,410,241	12,615,362	2.49	12,615,362	1.83
Bright Existence Sdn Bhd	11,539,010	-	11,539,010	17,308,515	3.42	17,308,515	2.52
Suasana Dinamik Sdn Bhd	15,912,099	-	15,912,099	23,868,149	4.71	23,868,149	3.47
HDM Nominees (Tempatan) Sdn Bhd	-	-	<sup>c&amp;d</sup> 14,361,000	21,541,500	4.25	21,541,500	3.13
Syarikat Nominee Bumiputra (Tempatan) Sdn Bhd	-	-	<sup>c&amp;e</sup> 10,615,545	15,923,317	3.14	15,923,317	2.32
HLB Nominees (Tempatan) Sdn Bhd	-	-	<sup>c&amp;f</sup> 8,607,000	12,910,500	2.55	12,910,500	1.88
Malpac Nominees (Tempatan) Sdn Bhd	-	-	<sup>c&amp;g</sup> 49,106,682	73,660,023	14.54	73,660,023	10.71
Vickers Ballas & Company Pte Ltd	-	-	<sup>c&amp;h</sup> 14,144,400	21,216,600	4.19	21,216,600	3.09

\* Assuming the Warrants are fully subscribed by the existing substantial stockholders of ASB pursuant to the Proposed ROS.

<sup>a</sup> Deemed interest by virtue of his shareholdings in Suasana Dinamik Sdn Bhd and Bright Existence Sdn Bhd

<sup>b</sup> Deemed interest by virtue of his shareholding in Megasy Sdn Bhd

<sup>c</sup> As bare trustee

<sup>d</sup> Of which 8,909,000 stock units are held for Vickers Ballas & Company Pte Ltd for Suasana Dinamik Sdn Bhd

<sup>e</sup> Of which 10,500,000 stock units are held for Malpac Securities Sdn Bhd

<sup>f</sup> The 8,607,000 stock units are held for Dato' Ahmad Sebi Bakar

<sup>g</sup> Of which 8,909,000 stock units are held for Bright Existence Sdn Bhd

<sup>h</sup> Of which 8,909,000 stock units are held for Suasana Dinamik Sdn Bhd

## **6. FUTURE PROSPECTS**

### **6.1 Prospects of the Malaysian Economy**

The Malaysian economy has recovered in 1999 from the severe impact of the mid-1997 economic and financial crisis. While the economy contracted by 1.3 % in the first quarter of 1999, the country's real gross domestic product ("GDP") registered a positive growth of 4.1% in the second quarter.

According to the Economic Report 1999/2000, the real GDP growth is expected to accelerate to an annual rate of 7.2% during the second half of 1999. As a result, the country is expected to achieve for the whole of 1999 a real GDP growth of 4.3%, a sharp rise from the government's earlier forecast of 1% growth.

*(Source: Economic Report 1999/2000)*

The strong recovery experienced by the economy is attributable to the policies initiated by the National Economic Action Council in line with its National Economic Recovery Plan as well as other favourable domestic and external developments.

The government's initiatives, such as the adoption of an expansionary fiscal policy, the easing of monetary policy, the introduction of selective capital controls and the pegging of the Ringgit to the US dollar, have succeeded in insulating the Malaysian economy from externally generated risks and vulnerabilities. These policies have restored stability, revived economic activities and strengthened the resilience of the economy. In addition, reforms to restructure the financial system have also enabled the banking system to carry out its intermediation function more effectively, thus supporting the economic recovery process.

The conducive domestic environment, coupled with the rise in external demand following improved economic conditions in East Asia and the continued robust economic growth of the US, have enabled output increase especially in the manufacturing sector. The balance of payments, expected to be RM125.5 billion by the end of 1999 which will be sufficient to finance 6.5 months of retained imports, as well as the relatively low inflation rate, at an average of 3% during the first nine months of 1999 compared to an average of 5.3% in 1998, have further boosted prospects for the economic recovery.

With the recovery expected to gain further momentum in the future, the outlook of the Malaysian economy is positive. For year 2000, the economy is forecast to grow at 5%.

The main driver for growth in year 2000 would be domestic demand, which is forecast to strengthen further due to stronger growth in private consumption and a recovery in private sector investment as well as additional fiscal stimulus.

Overall, the economic outlook for the country is rosier with the government's continuous effort to broaden the base of the economic recovery which would in turn provide a stronger foundation for the economy to return to the path of sustainable growth in the next millennium.

*(Source: Economic Report 1999/2000, The Edge 1 November 1999, The New Straits Times 30 October 1999)*

## 6.2 Prospects of the ASB Group

The ASB Group is primarily involved in the hotels and resorts, property development and financial services industries.

### *Hotels and Resorts Sector*

Growth in the utilities, wholesale and retail trade, hotels and restaurants, government services and other services sector decelerated sharply to 0.4% in 1998 from 7.2% in 1997. Within this group, the wholesale and retail trade, hotels and restaurants sub-sector, particularly those trading in non-essential and high-end products, were severely affected by the economic downturn and cautious consumer spending. Value added in hotels and restaurants showed a significant decline mainly due to lower tourist arrivals (-10.6%). The regional economic downturn had also affected tourist arrivals in 1998. This, together with a sharp increase in the supply of hotel rooms (+9,351 rooms), led to a decline in the average occupancy rate for hotels to 49.9% in 1998 (1997: 58%). Meetings and conventions, however, showed a sharp increase and provided some boost to the local tourism industry.

*(Source: BNM Annual Report 1998)*

Statistics compiled by Malaysian Tourist Development Board indicated that average occupancy rate of Malaysian hotels was 52.6% as at the third quarter of 1998, a decrease of 13.5% and 19.4% from the 58.0% and 62.3% average occupancy achieved in 1997 and 1996 respectively.

In terms of tourist arrivals, Peninsular Malaysia received 5.2 million tourists in 1998, a decline of 16.1% from the 6.2 million arrivals recorded in 1997. In line with the decline in the number of tourists, tourism receipts also decreased to RM9.3 billion in 1998 from RM10.5 billion in 1997.

The Malaysian hotel and tourism industry has been adversely affected by the Asian financial crisis due largely to the slowdown in intra-regional business and leisure travel. The joint meeting of the World Tourism Organisation Commissions for East Asia and Pacific and South Asia held in Japan in October 1998 concluded that:-

- The Asian financial crisis had reduced overall demand, especially for intra-regional travel; and
- Nearly all major Asian cities, including Kuala Lumpur, currently experience an over-supply of hotel rooms due to decreasing intra-regional travel since the crisis.

To improve and encourage tourism in Malaysia, the National conference on Tourism in 1998 had proposed the introduction of new products and packages for special interest travellers. These include off-shoots of adventure travel such as eco-tourism and sports-tourism to help widen the choice of packages available to tourists coming to Malaysia. Such efforts are expected to augur well for the hotel and tourism sector in general.

*(Source: World Tourism Organisation; and Malaysian Tourist Development Board; Hotel Industry Outlook: The Malaysian Hotel Industry Update April 1999 - Rating Agency Malaysia Berhad)*

Despite the keen competition currently prevailing in the Malaysian hotel and tourism sector, ASB is confident of the future prospects of its hotel division. Among some of the Group's competitive advantages include its experienced hotel management team, its established niche in the resort hotel market as well as the diversified location of its hotels which are situated in London, Phnom Penh, Khartoum and Dubai, in addition to various locations in Malaysia.

Further, the outlook of the tourism industry is now more positive. For instance, travel operators are generally more optimistic of their prospects following the regional economic recovery and the changes in store for the industry. According to Seventh Malaysian Plan (1996-2000) Midterm Review, total tourism receipts is expected to reach RM10.7 billion in 1999 and RM12.2 billion in 2000 from RM9.3 billion in 1998.

*(Source: The Star, 23 August 1999)*

Following the 2% contraction in 1998, output in the wholesale and retail trade, hotels and restaurants sector is expected to register a positive growth, benefiting from the anticipated recovery in consumer spending as well as the efforts to promote tourism in 1999. According to the Economics Report 1999/2000, the wholesale and retail trade and the hotel and restaurant sub-sector is projected to grow by 4.5% in year 2000.

*(Source: BNM Annual Report 1998)*

### ***Property Sector***

The economic recession has adversely affected the property market as a whole. The total number of property transactions in 1998 was the lowest for the past seven years, recording a drop of 32.3% from 1997 and a mere 13.5% higher than the total transactions in 1991. The decline in the total value of transactions was even more severe, registering a drop in the total values transacted by 47.8% as compared to a small increase of 6.6% in 1997.

In response to the severity of the slump in the property industry, various measures have been undertaken by the government to revitalise the property market. These measures include:-

- ***Relaxation on foreign purchase of local property***

Abolition of the RM100,000 levy for foreign ownership in condominium projects to be increased from 30% to 50%. Permanent residents are now allowed to acquire properties priced from RM60,000 provided that their spouses are Malaysian citizens or had applied for Malaysian citizenship.

- ***New price structure for low cost housing***

New ceiling prices of RM42,000, RM35,000 and RM30,000 to replace the old ceiling price of RM25,000 since 1982. This is aimed at increasing the supply of low-cost housing.

- ***Lending guidelines***

Abolition of the 60% maximum loan margin for the purchase of non-owner occupied residential properties costing RM150,000 and above, shophouses costing RM300,000 and above and the purchase of land lots.

Lending for the construction or purchase of residential properties costing up to RM250,000 (previously RM150,000) were exempted from the 20% limit on lending to the broad property sector. Further, all banking institutions have to achieve a minimum loan growth of 8%.

- ***Other measures***

These include lowering of the statutory reserve requirement, providing funds to aid developers in building low, low-medium and medium-cost housing with lower interest rates and reclassifying the property sector from "non-productive" to "productive" with its status to be regarded as "priority" in receiving credit facilities.

*(Source: The Star, 10 May 1999)*

On 12 December 1998, the government, together with the Housing Developers Association, launched the month-long Home Ownership Campaign resulting in the sale of RM5 billion worth of properties. This had succeeded in converting idle resources in the form of unsold stock to more productive cash flow which in turn would be channelled to build more affordable housing and in the process generate economic activity for over 140 sectors that are linked to the industry.

*(Source: Business Times, 15 January 1999 and Property Market Report 1998)*

The government has also introduced new property financing guidelines to prohibit financial institutions from financing development of residential properties/ shophouses costing above RM250,000 each, hotels, resorts, office buildings, golf courses, clubs and shopping complexes. These guidelines were introduced to reduce the current oversupply of such properties and decrease the likelihood of further value depression of the excess properties.

*(Source: The Star, 7 July 1999)*

The above measures initiated by the government are gradually showing positive results which should augur well for the outlook of the property sector. As the economy recovers, disposable income would increase and confidence will slowly return to the property market. The residential market, for instance, is perceived to be recovering from the doldrums.

Both the volume and value of transactions for residential units have recorded strong increases in 1999, due partly to the Home Ownership Campaign. During the first half of 1999, turnover volume increased by 20.2% to 76,410 transactions with value increasing by 26% to RM9.2 billion (January to June 1998: 63,573 transactions valued at RM7.3 billion).

*(Source: Economic Report 1999/2000)*

In respect of the non-residential sector, construction of office space and retail outlets remains sluggish. Overbuilding in recent years combined with weak demand has resulted in excess supply in these segments. As a result of over-supply, prices and rentals of office space as well as retail units in shopping complexes have dropped significantly in most urban areas.

*(Source: Economic Report 1999/2000)*

ASB presently has a mixed commercial and residential development project in Kuching, Sarawak. As the residential units of the project are targeted at the low-medium cost market, the Group continues to enjoy reasonable demand for such units. In view of the recent economic downturn, the development strategy for the project has however been modified to extend the completion of the development over a five (5)-year period. Nevertheless, the Company is confident of completing the project in a cashflow positive and profitable manner in the foreseeable future.

### ***Financial Services Sector***

For year 2000, the services sector is forecast to grow at 5.3% with the finance, insurance, real estate and business sub-sector expected to register the second highest growth at 5.6% after the transport, storage and communications sub-sector.

*(Source: Economic Report 1999/2000)*

The financial services sector is expected to perform better as financial institutions refocus on lending activities following the progress made towards strengthening the sector. This has been facilitated by the acquisition of non-performing loans by Pengurusan Danaharta Nasional Berhad, recapitalisation of certain financial institutions by Danamodal Nasional Berhad and the establishment of Corporate Debt Restructuring Committee to provide a platform for both borrowers and creditors to work out feasible debt restructuring schemes.

*(Source: BNM Annual Report 1998)*

In line with BNM's move to consolidate the Malaysian financial services sector, the ASB Group, via UMG, has disposed of its commercial banking business, namely its associated company Ban Hin Lee Bank Berhad, and is presently in the midst of divesting its finance and merchant banking businesses, namely its subsidiaries United Merchant Finance Berhad and Perdana Bankers respectively. Nevertheless, the Group would still be involved in the financial services industry via its interests in subsidiaries/associated company which are engaged in the card and payment services and general insurance sectors.

The performances of ASB's card and payment services and general insurance businesses depend to a certain extent on private consumption and private sector investment. Private sector expenditure is expected to register a small increase in real terms with both private consumption and private sector investment projected to increase by 1.1% and 0.9% respectively in 1999. Consumption and investment spending are likely to increase further with the reduction in personal income tax, higher personal income tax relief, bonus and salary increase for civil servants and encouragement of private sector investment by the government to strengthen management efficiency.

*(Source: BNM Annual Report 1998, Budget 2000, The Edge 1 November 1999)*

In line with the recovery in consumers and business confidence, the Group's card and payment services and general insurance divisions should grow in tandem with the expected increase in private consumption and private sector investment.

## **7. APPROVALS REQUIRED**

The Proposals are conditional upon the approvals of the following:-

- (i) BNM for the Proposed RLS Issue and Proposed CLS Issue, the approval of which has been obtained vide its letters dated 15 December 1999 and 23 December 1999;
- (ii) SC for the Proposals, the approval of which has been obtained vide its letter dated 3 January 2000, 21 March 2000 and 28 March 2000 subject to the following conditions:-
  - a) The incorporation of a 'sinking fund' for the purpose of redeeming the RLS and conversion of CLS. The proceeds from the exercise of the Warrants shall be deposited into the sinking fund;
  - b) A moratorium has been imposed on the directors and parties related to them from selling 50% of their warrant holdings. They also have to provide an undertaking that the Warrants will be exercised once the Warrants are 'in-the-money';
  - c) Perdana Bankers and ASB are required to inform the SC on the final amount of bank borrowings to be restructured as well as the actual amount of the RLS and CLS to be issued;
  - d) ASB is required to comply with the conditions imposed by BNM and FIC; and
  - e) ASB is required to comply with the guidelines set out by the SC under the SC Guidelines;
- (iii) FIC for the Proposals, which was obtained vide its letter dated 17 January 2000, subject to the condition that ASB is required to increase the Bumiputra equity in the Company to 20% immediately and to 30% by 31 December 2000. An appeal has been made requesting an extension of the deadline to 31 December 2001 which is still pending consideration by the FIC;
- (iv) Registrar of Companies for the registration of prospectus for the Proposed ROS;

- (v) KLSE for the admission to the official list and listing of and quotation for the Warrants and new stock units of RM1.00 each in ASB to be issued pursuant to the exercise of the Warrants and conversion of the CLS;
- (vi) Stockholders of ASB at the EGM to be convened;
- (vii) Identified FIs for the Proposals, the approval of which has been obtained on 1 October 1999 with the signing of Restructuring Agreement; and
- (viii) Any other relevant authorities/parties.

The approvals of BNM and FIC were based on the estimated amount of bank borrowings to be restructured as at 29 February 2000. As the final amount of bank borrowings to be restructured would only be determined as at the actual date of issue of the RLS/CLS, BNM and FIC will be informed of the actual amount of bank borrowings to be restructured once it has been confirmed by the Identified FIs.

## 8. DIRECTORS' AND SUBSTANTIAL STOCKHOLDERS' INTERESTS

None of the Directors and/or substantial stockholders of ASB, nor any persons connected to them, have any interest, direct or indirect, in the Proposals.

The following Directors have direct and/or indirect interest in the stock units of ASB as at 25 February 2000. However, their interests in the Proposed ROS are limited to their entitlement as stockholders of ASB.

Name	No. of stock units held			
	Direct ('000)	%	Indirect ('000)	%
Dato' Ahmad Sebi Bakar	15,020	4.44	<sup>a</sup> 27,451	8.13
Sng Chong Khian	-	-	<sup>b</sup> 3,781	1.12
Masri Khaw Bt Abdullah	6	0.002	<sup>c</sup> 700	0.21

*a Deemed interest by virtue of his shareholdings in Suasana Dinamik Sdn Bhd and Bright Existence Sdn Bhd*

*b Deemed interest by virtue of his shareholding in Gedong Bakti Sdn Bhd.*

*c Deemed interest by virtue of her shareholding in Ash Holdings Sdn Bhd*

The substantial stockholders of ASB as per the Register of Substantial Stockholders and their stockholdings as at 25 February 2000 are as set out below. Their interests in the Proposed ROS are limited to their entitlement as stockholders of ASB.

Name	No. of stock units held			
	Direct	Indirect	Total	%
Dato' Ahmad Sebi Bakar	15,020,009	<sup>a</sup> 27,451,109	42,471,118	12.57
Lim Hong Liang	6,429,241	<sup>b</sup> 1,981,000	8,410,241	2.49
Bright Existence Sdn Bhd	11,539,010	-	11,539,010	3.42
Suasana Dinamik Sdn Bhd	15,912,099	-	15,912,099	4.71
HDM Nominees (Tempatan) Sdn Bhd	-	-	<sup>c &amp; d</sup> 14,361,000	4.25
Syarikat Nominee Bumiputra (Tempatan) Sdn Bhd	-	-	<sup>c &amp; e</sup> 10,615,545	3.14



Name (Cont'd)	No. of stock units held			
	Direct	Indirect	Total	%
HLB Nominees (Tempatan) Sdn Bhd	-	-	<sup>c &amp; f</sup> 8,607,000	2.55
Malpac Nominees (Tempatan) Sdn Bhd	-	-	<sup>c &amp; g</sup> 49,106,682	14.54
Vickers Ballas & Company Pte Ltd	-	-	<sup>c &amp; h</sup> 14,144,400	4.19

- a Deemed interest by virtue of his shareholdings in Suasana Dinamik Sdn Bhd and Bright Existence Sdn Bhd*
- b Deemed interest by virtue of his shareholding in Megasys Sdn Bhd*
- c As bare trustee*
- d Of which 8,909,000 stock units are held for Vickers Ballas & Company Pte Ltd for Suasana Dinamik Sdn Bhd*
- e Of which 10,500,000 stock units are held for Malpac Securities Sdn Bhd*
- f The 8,607,000 stock units are held for Dato' Ahmad Sebi Bakar*
- g Of which 8,909,000 stock units are held for Bright Existence Sdn Bhd*
- h Of which 8,909,000 stock units are held for Suasana Dinamik Sdn Bhd*

## 9. DIRECTORS' RECOMMENDATION

Having considered all aspects of the Proposals, the Board of Directors of ASB is of the opinion that the Proposals are in the long term and best interest of the Group. Accordingly, they recommend that you vote in favour of the relevant resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

## 10. EXTRAORDINARY GENERAL MEETING

An EGM, the notice of which is enclosed in this Circular, will be held at Dewan Berjaya, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara Off Jalan Damansara, 60000 Kuala Lumpur on Friday, 28 April 2000 at 10.30 a.m. for the purpose of considering and, if thought fit, passing the relevant resolutions to give effect to the Proposals.

If you are unable to attend and vote in person at the EGM, please complete, sign and return the Form of Proxy enclosed in this Circular in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the Registered Office of the Company at Level 29, Menara Shahzan Insas, 30, Jalan Sultan Ismail, 50250 Kuala Lumpur, not later than forty-eight (48) hours before the time fixed for the meeting. The completion and return of the Form of Proxy does not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

## 11. FURTHER INFORMATION

Stockholders of ASB are advised to refer to the attached appendices for further information.

Yours faithfully  
For and on behalf of the Board of Directors  
ADVANCE SYNERGY BERHAD

Dato' Ahmad Sebi Bakar  
*Executive Chairman*