

## **ADVANCE SYNERGY BERHAD ("ASB")**

### **SHAREHOLDERS' ADVANCES TO AND/OR SUBSCRIPTION OF SHARES IN HELENIUM HOLDINGS LIMITED ("HHL"), A 40%-OWNED INDIRECT ASSOCIATED COMPANY OF ASB HELD VIA SYNERGY REALTY INCORPORATED ("SRI"), (AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF THE COMPANY HELD VIA ADVANCE SYNERGY PROPERTIES SDN BHD ("ASP"), A WHOLLY-OWNED SUBSIDIARY OF ASB)**

#### **Contents:**

#### **1. INTRODUCTION**

Pursuant to paragraphs 8.23(1)(iii) and 10.08(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Main LR"), ASB wishes to announce that its indirect wholly-owned subsidiary, SRI, will provide funding via shareholders' advances to and/or subscription of shares in HHL totaling Sterling Pound ("GBP") 1,558,660 (equivalent to approximately RM8.83 million)("Proposal").

HHL owns a property in North London situated on Kilburn High Road comprising 38 serviced apartments and 12 residential apartments ("Kilburn Apartments"), ground floor retail unit and a basement unit (hereinafter referred to as "Property").

#### **2. DETAILS OF THE PROPOSAL**

HHL had submitted a proposal to refurbish and renovate the Kilburn Apartments along with repairs to the building exterior, windows and flat roofs and to convert the 50 existing units into a higher density configuration ("Proposed Redevelopment") by increasing the number of apartments by 20 apartment units to 70 units or a maximum of 27 additional units to expand to 77 units ("best-case scenario"). The construction phase of the Proposed Redevelopment is expected to commence in December 2017 and complete by end-2018. The total capital expenditure budget for the Proposed Redevelopment under best-case scenario is proposed at GBP5,031,000 inclusive of a provision for contingencies.

HHL intends to fund the Proposed Redevelopment and working capital requirements from shareholders and through bank financing.

It is projected that shareholders of HHL are required to provide a total funding of GBP3,896,650 under the best-case scenario after taking consideration the cash flow projections of HHL up to year 2019 and includes working capital incurred for operations in 2016 and for HHL to refresh, refurbish and relaunch the Kilburn Apartments in the interim period leading to the Proposed Redevelopment. SRI's 40% share of the funding requirement is GBP1,558,660 (equivalent RM8.83 million) which will be remitted to HHL from the Group's internal resources as and when required in the form of shareholders' advances to and/or subscription of new shares in HHL. The proposed shareholders' advances shall be unsecured, interest-free and repayable on demand.

The percentage of funding requirement from SRI under the Proposal computed against the latest audited consolidated net tangible assets of ASB Group as at 31 December 2016 of approximately RM356.851 million is 2.47%.

The remaining 60% of the funding requirement will be contributed by Dato' Ahmad Sebi Bakar (Group Executive Chairman of ASB) and Mr Anton Syazi Dato' Ahmad Sebi (Non-Independent Non-Executive Director of ASB) in proportion to their existing shareholding in HHL (35% and 25% respectively) and on the same terms and conditions as the funding provided by SRI.

### **3. RATIONALE**

The Proposed Redevelopment will upgrade the Kilburn Apartments and increase the number of apartments from 50 units to between 70 to 77 units which is expected to improve the capital value of the Property.

With the upgrading to a significantly improved serviced apartment product, the Kilburn Apartments are expected to yield better operating results and the outlook after the Proposed Redevelopment is positive.

To undertake the Proposed Redevelopment, funding support from shareholders is crucial.

### **4. RISK FACTORS**

The Board is not aware of any specific risk/risk factors arising from the Proposal other than but not limited to the following:-

- a. The specific risks associated with the tourism and hospitality industry and general risks, such as risks relating to general economic and political climate, customer preferences as well as seasonal vagaries, natural disasters, epidemic and terrorism. With the appointment of an experienced management company in the hospitality industry, HHL management believes that it is able to mitigate the inherent risks in these industries and the operational risks would be managed in the course of running the business.
- b. Certain risks inherent in property investment such as competition from other new and upgraded properties, loss of attractiveness of the Property, increasing maintenance costs as well as undertaking renovations that necessitate capital outlay as the Property gets older. However, the risks are mitigated as there will be regular repairs and maintenance to the Property to ensure that it will be in good tenantable condition to remain competitive.
- c. Gross income and value of the Property may be affected by a number of factors, including:-
  - i. vacancies following expiry and termination of tenancies that lead to a decrease in the occupancy rates and gross rental income;
  - ii. the ability to collect rent from tenants on a timely basis;
  - iii. tenants that breach the terms and conditions of the tenancies that result in termination of tenancies or non-payment of rental;
  - iv. surge in operating expenses of the Property without a corresponding increase in rental rates and/or tenant reimbursements. The increase in operating expenses may result from, amongst others, increases in utility rates, changes in statutory laws or government policies, increases in sub-contracted services and maintenance cost, increases in insurance premiums and repair work on defects affecting the building soundness;

- v. the rental rates and the terms of renewed leases / tenancies being less favourable than the current leases / tenancies; and
  - vi. changes in statutory laws, regulations or government policies which may affect the value of the Property.
- d. Fluctuations in the exchange rate between the GBP and RM may have an impact to the Group's profits and cash flows although there is a natural hedge as revenues and expenses are both denominated in GBP. The Group will consider using certain financial instruments for hedging purpose, if necessary, in the future depending on costs.
- e. There is a potential financing default risk to ASB Group should HHL fail to operate successfully and is unable to meet its debt obligations to the lenders. HHL management will continue to undertake prudent financial management practices so as not to affect HHL's ability to service its repayment obligations.

Apart from the general business risks and the financing risks mentioned above, the Proposal is not expected to result in any other material potential risks.

## **5. FINANCIAL EFFECTS OF THE PROPOSAL**

The Proposal will not have any material effect on the net assets, gearing and earnings per share of ASB Group for the financial year ending 31 December 2017 and there will not be any effect on the share capital and substantial shareholders' shareholding in ASB and its subsidiaries.

## **6. APPROVALS REQUIRED**

The Proposal is not subject to the approval of the shareholders of ASB or any regulatory authorities.

## **7. DIRECTORS AND MAJOR SHAREHOLDERS' INTEREST**

The Proposal is regarded a related party transaction pursuant to the Main LR by virtue of Dato' Ahmad Sebi Bakar, the Group Executive Chairman and major shareholder of ASB, being a Director of HHL holding 35% equity interest in HHL.

His son, Mr Anton Syazi Dato' Ahmad Sebi, a Non-Independent Non-Executive Director of ASB holding less than 5% equity interest in ASB, is a director of HHL and holds 25% equity interest in HHL. Mr Anton Syazi Dato' Ahmad Sebi is also a director of ASP, the immediate holding company of SRI.

Ms Aryati Sasya Dato' Ahmad Sebi, a Non-Independent Non-Executive Director of ASB, is the daughter of the Group Executive Chairman.

Save as disclosed above, none of the directors, major shareholders of ASB and/or persons connected has any interest, direct or indirect, in the Proposal.

**8. STATEMENT BY THE BOARD OF DIRECTORS**

The Board of Directors (save for the interested directors who have abstained from all deliberations on the Proposal) having considered all aspects of the Proposal, is of the opinion that the Proposal is in the best interests of ASB and is not to the detriment of ASB and its shareholders.

**9. AUDIT COMMITTEE'S STATEMENT**

The Audit Committee having considered all aspects of the Proposal, is of the opinion that the Proposal is in the best interests of ASB, fair, reasonable and on normal commercial terms for our Group advances, and is not detrimental to the interest of the minority shareholders of ASB.

**10. HIGHEST PERCENTAGE RATIO APPLICABLE**

The highest percentage ratio applicable to the Proposal is 2.47% pursuant to paragraph 10.02(g) of the Main LR.

This announcement is dated 15 May 2017.