

ADVANCE SYNERGY BERHAD (“ASB” OR “THE COMPANY”)

PROPOSED BUYBACK OF HOLIDAY VILLA BEACH RESORT & SPA CHERATING FROM AMANAH RAYA BERHAD

1. INTRODUCTION

The Board of Directors of ASB wishes to announce that Cherating Holiday Villa Berhad (Company No. 118734-W)(“CHV” or “Purchaser”), an indirect wholly-owned subsidiary of the Company, had on 8 August 2019 entered into a Sale and Purchase Agreement (“Agreement”) with Amanah Raya Berhad (Company No. 344986-V) (as Trustee for the Common Fund)(“AmanahRaya” or “Vendor”) to buyback a resort hotel consisting of an administration building, hotel / apartment blocks, standard and individually designed chalets and villas and other ancillary buildings and structures known as Holiday Villa Cherating (“Property”) which are erected on the following five (5) parcels of freehold lands:

- a. GM 857, Lot 1303, Tempat Cherating, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang, measuring approximately of 9,961.25 square metres;
- b. Agriculture Land under GM 424, Lot 1302, Tempat Cherating, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang, measuring approximately of 0.8524 hectares;
- c. GM 1126, Lot 1301, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang, measuring approximately of 9,585.9759 square metres;
- d. Agriculture Land under GM 3522, Lot 7058, Tempat Baging, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang, measuring approximately of 0.4927 hectares; and
- e. GM 405 Lot 1305, Tempat Cherating, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang, measuring approximately of 9,636.5616 square metres.

measuring in aggregate area of approximately 42,634.7875 square metres (collectively referred to as “Property”) for a buyback price of RM22,965,600.00 only (“Buyback Price”) free from all encumbrances and on an “as is where is” basis (“Proposed Buyback”).

2. DETAILS OF THE PROPOSED BUYBACK

2.1 INFORMATION ON THE PROPERTY

CHV is currently the lessee of the Property after the completion of the sale of the Property to AmanahRaya (as Trustee for the Common Fund) on 23 June 2006 for a cash consideration of RM21.872 million (“Sale Price”) under the sale and leaseback arrangement with AmanahRaya and CHV has an option to buy back from AmanahRaya the Property upon expiry of the leaseback period at RM23.0 million pursuant to the Lease Agreement dated 20 February 2006 (“Sale and Leaseback Agreement”). The said lease will expire on 22 June 2021 (“Existing Leases”).

CHV is a company incorporated in Malaysia on 26 April 1984 and operates the hotel and resort business at the Property. The postal address of the Property is Lot 1303, Mukim Sungai Karang, Cherating, 26080 Kuantan, Pahang. The Property has 100 guest rooms and 12 exclusive Malaysian Boutique Villas known as Eastern Pavilion, 4 meeting rooms, restaurants, pub and karaoke lounge.

The Property is approximately 25.5 to 31 years' old and was acquired by CHV in 1987 at a cost of RM16.3 million. Based on the audited financial statements of ASB Group for the financial year ended 31 December 2018, the net book value of the Property was RM36.9 million after taking into consideration the last revaluation of the Property conducted in 2016.

There is no valuation carried out on the Property for the Proposed Buyback.

2.2 INFORMATION ON THE VENDOR

AmanahRaya is a trustee company established as the Department of Public Trustee and Official Administrator on 1 May 1921. AmanahRaya has served the nation for over 90 years and is the market leader in providing trust, estate administration, legacy management and will services. Subsequently, the Department of Public Trustee & Official Administrator was corporatised and was incorporated under Companies Act 1965 on 1 August 1995 under the name Amanah Raya Berhad pursuant to Section 3 of the Public Trustee Act 1995. AmanahRaya is wholly-owned by the Government of Malaysia with its shares held by the Minister of Finance (Incorporated).

The Directors of AmanahRaya are as follows:

1. Datuk Mohd Nasir bin Ali (Chairman)
2. Encik Adenan bin Md Yusof
3. Dato' Haji Che Pee bin Samsudin
4. Encik Ahmad Suhaimi bin Endut
5. To' Puan Azian binti Mohd Aziz
6. Dato' Haji Ramli bin Chik
7. Professor Dato' Dr. Noor Inayah binti Yaakub
8. Dr. Khalid bin Abdul Hamid

2.3 PAYMENT OF BUYBACK PRICE

The Buyback Price which is 5% above the Sale Price and below the original buyback price of RM23.0 million, shall be paid in the following manner:

PART	PARTICULAR
a.	<p>DEPOSIT: Ringgit Malaysia Twelve Million (RM12,000,000.00) Only to be satisfied through deduction of the security deposits ("Deposit") under the Lease Agreement made between Cherating Holiday Villa Berhad and Alor Setar Holiday Villa Sdn. Bhd. with the Vendor both dated February 20, 2006 ("CHV and ASHV Lease Agreements") upon the acceptance by the Purchaser of the Vendor's Buyback Option letter dated 5 July 2019 addressed to the Purchaser.</p>

PART	PARTICULAR
b.	<p>BALANCE BUYBACK PRICE:</p> <p>The Balance Buyback Price amounting to Ringgit Malaysia Ten Million Nine Hundred Sixty Five Thousand Six Hundred (RM10,965,600.00) Only ("Balance Buyback Price") shall be paid by the Purchaser to the Vendor by way of One Hundred and Twenty (120) equal monthly instalments over a period of Ten (10) years together with an interest rate of 5.5% per annum to be calculated on a reducing balance method on the balance of Buyback Price.</p> <p>The first instalment shall commence on the last day of the calendar month upon execution of this Agreement.</p> <p>The subsequent installments shall due on the 25th of each calendar month.</p> <p>In the event any monthly instalments are not paid on the due date, extension is allowed for one (1) month at an interest rate at 5.50% per annum and thereafter interest rate at 8.00% per annum up to the date of actual payment.</p>

2.4 SOURCE OF FUNDING

This Proposed Buyback shall be funded by the Deposit currently held with the Vendor under the CHV and ASHV Lease Agreements and the internal resources of the Group for the instalment payments to the Vendor under the SPA.

2.5 LIABILITIES TO BE ASSUMED

The Property is presently not charged to any financier and is free from any encumbrances. CHV and ASB Group will not assume any liabilities, including contingent liabilities and guarantees, arising from the Proposed Buyback.

2.6 SALIENT TERMS OF THE AGREEMENT

The salient terms of the Agreement are as follows:

- a. The Vendor shall sell and the Purchaser shall purchase the Property subject to any express or implied condition affecting the same (if any) but otherwise free from all encumbrances whatsoever on an 'as is where is basis' at the Buyback Price and upon the terms and conditions of the Agreement.
- b. The Buyback Price shall be payable by the Purchaser to the Vendor's Solicitors in the manner described in section 2.3 above.

- c. In the event that the Purchaser shall fail to pay the Balance Buyback Price on or before the expiry of the Completion Period (i.e. 10 years from the Unconditional Date as defined below), the Vendor agrees to grant to the Purchaser an extension of time of 1 month from the expiration of the Completion Period (hereinafter referred to as "the Extended Completion Period") for the Purchaser to make payment of the Balance Buyback Price PROVIDED ALWAYS THAT the Purchaser shall pay to the Vendor interest on the Balance Buyback Price or any part thereof remaining unpaid at the rate of 8% per annum calculated on a day to day basis from the day next after the Completion Date to the date of full payment of the Balance Buyback Price based on a 365 day year, such interest to be payable together with the Balance Buyback Price.

"Unconditional Date" shall mean the business day after the day upon which the Purchaser's Solicitors receipt of the confirmation together with supporting documentary evidence from the Vendor's Solicitors that the approval by the Board of Directors of ASB being obtained and forwarded to the Vendor's Solicitors.

- d. Upon execution of the Agreement, the parties agree that the extended Existing Leases expiring on 22 June 2021 entered into between the parties shall be deemed terminated.

Notwithstanding the above, in the event of default by the Purchaser and/or the Vendor to perform or comply with the terms and conditions of the Agreement, the Purchaser is at liberty to continue with the Existing Leases agreement with the Vendor and the Lease Agreement in its original form shall be reinstated. Payment of the lease rental as set out in the Lease Agreement by the Purchaser to the Vendor shall commence from the date of the reinstatement of the Lease Agreement with no penalty and/or late payment interest and/or any charges as may be set out in the extended Existing Leases.

- e. In the event the Purchaser wish to obtain loan with any banking institution ("Loan") or to sell, transfer or dispose the Property within the Completion Period of the Agreement so as to finance the payment of the Balance Buyback Price, the Purchaser shall give 30 days' notice in writing to Vendor on or before the expiry of the Completion Period, of its intention and deposit or cause to be deposited with the Vendor's Solicitors the following as stakeholders:
- i. the difference between the Balance Buyback Price and the Loan, if any; and
 - ii. a letter of undertaking from the Purchaser's Financier in favour of the Vendor to pay the Loan to the Vendor's Solicitors as stakeholders in accordance with the provisions of this Agreement in any event on or before the expiry of the Completion Period or the Extended Completion Period, as the case may be.

The Vendor shall within 21 days from the date of receipt of such written request from the Purchaser to obtain loan from any financial institution, provide to the Purchaser's Solicitors letter of no objection together with the statement of account on the outstanding of Buyback Price and interest if any.

- f. In the event the Purchaser were to sell the Property to a Prospective Buyer (hereinafter referred to as “the PB”) prior to the Completion Date as defined below and subject to the full payment of all the outstanding Balance Buyback Price and interest, if any by the Purchaser to the Vendor, the Vendor shall at the request of the Purchaser, execute an Instrument of transfer to the Property directly from the Vendor to the PB. The Purchaser shall indemnify and keep the Vendor indemnified against all damages, proceedings legal or otherwise, costs and whatsoever liabilities that the Vendor may suffer as a result of the Vendor executing the Instrument of transfer of the Property to the PB at the request of the Purchaser.

Completion Date shall mean the date within the Completion Period that the Balance Buyback Price, the late payment interest, if any and the Purchaser’s portion on outgoings are received by the Vendor’s Solicitors.

3. **BASIS OF AND JUSTIFICATION FOR THE CONSIDERATION**

The Buyback Price is arrived at after taking into consideration, amongst others, the assessment by management of the original buyback price of RM23.0 million set out in the Sale and Leaseback Agreement, the net book value of RM36.9 million based on the audited financial statements of ASB Group as at 31 December 2018 and the market value of the Property of RM38.0 million based on the last valuation dated 15 April 2016 carried out by an independent valuer.

4. **RATIONALE AND PROSPECTS**

The Proposed Buyback will enable saving on lease rental and thus increase the profitability of CHV. With the ownership of the Property, CHV will have full control over any future development/upgrading/renovation plans on the Property which may be undertaken to improve the value of the Property and to create greater economic value to enhance the earnings potential to ASB Group.

5. **RISKS OF THE TRANSACTION**

The risks involved would be industry specific associated with the property market and tourism and hospitality industry, and general risks, for example, risks relating to general economic and political climate, customer preferences as well as seasonal vagaries, natural disasters, epidemic and terrorism. The investment may be exposed to certain risks inherent in the economic risk due to the global economy slowdown. With an experienced management team in the hospitality industry, the Management believes that it is able to mitigate these risks which are inherent in the industry in which it operates in. In addition, the operational risks would be managed by the operational staff and the Management, in the course of running the business.

The investment may be exposed to 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 condition to remain competitive.

Besides the risk relating to tourism and hospitality industry affecting the revenue of the investment, gross income and value of the Property may be affected by a number of factors, including:

- a. lower rooms book that lead to a decrease in the occupancy rates, average room rate and gross room revenue;
- b. the ability to collect room revenue from credit customers, if any on a timely basis;
- c. surge in operating expenses of the hotel without a corresponding increase in room rates and/or reimbursements. The increase in operating expenses may result from, amongst others, increases in utilities' 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;
- d. the room rates being less favourable than the current room rates; and
- e. changes in statutory laws, regulations or government policies which may affect the value of the hotel property.

There will be no risk in fluctuations of any exchange rate as the investment is in Malaysian Ringgit.

There is a potential financing default risk to ASB Group should the investment fail to operate successfully and is unable to meet the instalment payment obligations to the Vendor. The Management will continue to undertake prudent financial management practices so as not to affect the Group's ability to service its repayment obligations.

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

6. EFFECTS OF THE TRANSACTION

The Proposed Buyback 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 2019 and there will not be any effect on the share capital and substantial shareholders' shareholding in ASB as the Proposed Buyback does not involve any issuance of shares or other securities by the Company.

7. APPROVAL/ CONSENT REQUIRED

The Proposed Buyback is not subject to any approval of the shareholders of ASB or any relevant government authorities.

The highest percentage ratio pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 5.44% based on the latest audited consolidated financial statements of the Company for financial year ended 31 December 2018.

8. **INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED**

None of the directors and major shareholders of ASB and/or persons connected with them has any interest, direct or indirect, in the Proposed Buyback.

9. **DIRECTORS STATEMENT/RECOMMENDATION**

The Board of Directors, after due consideration of all aspects of the Proposed Buyback, is of the opinion that the Proposed Buyback is in the best interest of ASB Group.

10. **ESTIMATED TIME FRAME FOR COMPLETION**

Barring any unforeseen circumstances, the Proposed Buyback is expected to be completed in the second half of year 2029.

11. **DOCUMENT FOR INSPECTION**

The Agreement is available for inspection at the registered office of ASB at Level 3, East Wing, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan during normal business hours on Monday to Friday (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 8 August 2019.