

ADVANCE SYNERGY BERHAD (“ASB” or “the Company”)

TERMINATION OF HOTEL MANAGEMENT AGREEMENT DATED 1 JANUARY 2017 (“HOTEL MANAGEMENT AGREEMENT”) AND THE LETTER OF VARIATION DATED 7 MAY 2021 TO THE HOTEL MANAGEMENT AGREEMENT BETWEEN LANGKAWI HOLIDAY VILLA SDN BHD, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF ASB, AND HOLIDAY VILLA HOTELS & RESORTS SDN BHD (HEREINAFTER REFERRED TO AS “TERMINATION”)

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1. INTRODUCTION

The Board of Directors of ASB (“Board”) wishes to announce that upon the completion of the termination of Renewal Lease Agreement between Langkawi Holiday Villa Sdn Bhd (“LHV”) and Pacific Trustees Berhad (acting as trustee for AmanahRaya Real Estate Investment Trust) for the lease of the Hotel (as defined in section 2 below) as announced by the Company on 2 January 2024, LHV ceased its business and operations at the Hotel after 31 December 2023 onwards and consequently, a notice of termination dated 31 December 2023 (“Notice of Termination”) was served to Holiday Villa Hotels & Resorts Sdn Bhd (“HVHR” or “Management Company”) for the Termination. Pursuant to the Termination, by the letter dated 14 March 2024, LHV and HVHR have mutually agreed that liquidated damages of RM4,283,653 (“Liquidated Damages”) shall be paid in cash by LHV to the Management Company.

Further details of the Termination are set out in the ensuing sections.

2. INFORMATION ON THE TERMINATION

LHV, an indirect wholly-owned subsidiary of the Company, had on 1 January 2017 entered into the Hotel Management Agreement with Antara Holiday Villas Sdn Bhd (“AHV”), another indirect wholly-owned subsidiary of the Company, for its provision of hotel management services to LHV to operate a 4-star beach resort hotel building with 238 rooms known as “Holiday Villa Beach Resort & Spa Langkawi” (“Hotel”).

LHV had on 15 December 2020 given its approval for AHV to novate and assign absolutely all the rights, title and interest as well as obligations, covenants and responsibilities of AHV under the Hotel Management Agreement to HVHR and AHV was replaced by HVHR as the new management company under the Hotel Management Agreement. On 7 May 2021, the parties via a letter of variation (“Letter of Variation”) agreed to vary the operation period of the Hotel Management Agreement to expire on 12 July 2026 or 31 December 2028 if the lease of the Hotel is renewed beyond 31 December 2028.

Upon the completion of the termination of Renewal Lease Agreement with Pacific Trustees Berhad (acting as trustee for AmanahRaya Real Estate Investment Trust) for the lease of the Hotel, a notice of termination of the Hotel Management Agreement and Letter of Variation was served to HVHR on 31 December 2023 to terminate the Hotel Management Agreement and Letter of Variation on 31 December 2023 at 23:59:59. By the letter dated 14 March 2024 issued by LHV and accepted by HVHR, LHV and HVHR mutually agreed on the quantum of the Liquidated Damages (“Agreement on Liquidated Damages”) which was computed based on the formula agreed by the parties in the Hotel Management Agreement for the unexpired term of the operation period.

2.1 Information on LHV and HVHR/Management Company

a. Information on LHV

LHV was incorporated on 2 November 1989 in Malaysia. Its registered office is located at Ground Floor, Synergy 9, 9 Jalan Kajibumi U1/70, Temasya Glenmarie, 40150 Shah Alam, Selangor. LHV which previously operated the Hotel is an indirect wholly-owned subsidiary of ASB held via Alangka-Suka Hotels & Resorts Sdn Bhd (“ASHR”), a wholly-owned subsidiary of ASB, and its issued share capital is RM14,000,000 represented by 14,000,000 ordinary shares issued at RM1 each.

The directors of LHV are Mr Sng Ngiap Koon, Ms Lee Su Nie and Ms Aryati Sasya Dato’ Ahmad Sebi.

b. Information on Management Company

HVHR was incorporated on 20 April 2007 in Malaysia with an issued share capital of RM1,000,000 represented by 1,000,000 ordinary shares of RM1 each. Its registered office is located at 20-A4, Jalan SS 6/3, Kelana Jaya, 47301 Petaling Jaya, Selangor. The nature of business of HVHR is hotel management.

The directors of HVHR are Tan Sri Dato’ Azman Shah Haron (“Tan Sri Azman”), his daughter, Nina Karina Tan Sri Azman Shah (“Nina Karina”) and Huang Tian Cheng. The shareholders of HVHR and their respective shareholdings are as follows:-

Shareholders	No. of shares held	Shareholding
Holiday Villa Hotels And Resorts Limited	750,000	75.0000%
Tan Sri Azman	249,997	24.9997%
Nina Karina	3	0.0003%

Puan Sri Datin Masri Khaw Abdullah (“Puan Sri Masri”), is a former Director of the Company who has resigned on 31 October 2023, a former/current board member of other subsidiaries of the Company and a family member of the directors and shareholders of HVHR (i.e. Tan Sri Azman and Nina Karina are spouse and daughter of Puan Sri Masri respectively). Puan Sri Masri and her spouse have deemed interest in the shares of the Company by virtue of their interest in ASH Holdings Sdn Bhd which holds 5,000,000 shares or 0.2% equity interest in the Company as at 29 February 2024.

The Termination is regarded a related party transaction by virtue of the aforesaid directorships (including former directorship of less than 6 months) and shareholdings.

2.2 Basis of arriving at the Liquidated Damages

The Liquidated Damages was arrived based on the formula stipulated in clause 15.4 of the Hotel Management Agreement for the number of months of the unexpired term of the operation period to 12 July 2026.

2.3 Salient terms of the Termination

- a. The Termination is by mutual agreement of both LHV and HVHR.
- b. The Liquidated Damages was arrived based on the formula stipulated in clause 15.4 of the Hotel Management Agreement for the number of months of the unexpired term.

3. RATIONALE FOR THE TERMINATION

The Termination follows the cessation of business and operations of the Hotel by LHV after 31 December 2023 onwards following the completion of the termination of Renewal Lease Agreement with Pacific Trustees Berhad (acting as trustee for AmanahRaya Real Estate Investment Trust) for the Hotel.

4. EFFECTS OF THE TERMINATION

The financial effects of the Termination are set out below:-

4.1 Share capital and shareholdings of substantial shareholders

The Termination will not have any effect on the share capital and substantial shareholders' shareholdings in ASB as the Termination does not involve any issuance of shares or other securities by ASB.

4.2 Earnings and earnings per share (“EPS”)

The Termination is expected to result in cash outflow of RM4,283,653 being the liquidated damages payment under the Termination.

For illustrative purposes, based on the latest audited consolidated financial statements of ASB for the financial year ended 31 December 2022, the proforma effects of the Termination on the earnings and EPS of ASB Group assuming that the Termination had been effected at the beginning of the said financial year are set out below:-

	Audited Financial Year Ended 31 December 2022	Proforma after the Termination
Net profit/(loss) attributable to the owners of the Company (RM'000)	(35,291)	(39,575)
Weighted average no. of ASB shares in issue ('000)	1,200,976	1,200,976
Earnings/(Loss) per share (sen)	(2.94)	(3.30)

4.3 Net Assets (“NA”) and gearing

For illustrative purpose, based on the audited consolidated balance sheet of ASB for the financial year ended 31 December 2022, the proforma effects of the Termination on the NA and gearing of ASB Group are shown as follows:-

	Audited as at 31 December 2022 (RM'000)	Proforma after the Termination (RM'000)
Share capital	461,377	461,377
Other reserves	25,288	25,288
Retained earnings	7,240	2,956
Shareholders' funds	493,905	489,621
Non-controlling interests	77,468	77,468
Total equity	571,373	567,089
No. of ASB shares in issue ('000)	2,529,195	2,529,195
NA per share (RM)	0.20	0.19
Total borrowings	138,915	138,915
Gearing (times)	0.28	0.28

5. APPROVALS REQUIRED

The Termination is not subject to ASB shareholders' approval or the approval of any other relevant authorities and/or third parties.

6. ESTIMATED TIMEFRAME FOR COMPLETION OF THE TERMINATION

The Termination is expected to be completed on the payment date of the Liquidated Damages which is by the first quarter of 2024.

7. HIGHEST APPLICABLE PERCENTAGE RATIO

The highest percentage ratio applicable to the Termination pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 0.87% based on ASB's latest audited consolidated financial statements for the financial year ended 31 December 2022.

8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

The Termination is regarded a related party transaction by virtue of the directorships (including former directorship of less than 6 months) and shareholdings of Puan Sri Masri and persons connected to her as set out in item 2.1.b. of this announcement.

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

9. TRANSACTIONS WITH THE SAME RELATED PARTY FOR THE PRECEDING 12 MONTHS

AHV had in August 2023 disposed a motor vehicle to Tan Sri Azman at a nominal value of RM1 in cash. The net book value as at 30 June 2023 of the said motor vehicle is RM1. The motor vehicle was for the official use of Tan Sri Azman and guests of ASB hotel group during Tan Sri Azman's tenure as Chair of ASB hotel group.

AHV had granted HVHR an extension of free rental period from 4 March 2023 to 3 September 2023 ("Extension of Rent Free Period") amounting to a total free rental of RM30,600, being rental from HVHR to occupy AHV's premises located at B-16-8, Megan Avenue II, 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur. Under the terms and conditions of the disposal of management contracts by AHV to HVHR as announced on 7 May 2021 ("Disposal"), there was a provision for free rental period from 4 December 2021 to 3 March 2023. The Extension of Rent Free Period was granted at HVHR's request after taking into consideration the cooperation of the parties in the Disposal.

Save as disclosed above, there are no other transactions entered into between the related party and ASB Group during the 12 months preceding the date of this announcement.

10. AUDIT COMMITTEE'S STATEMENT

The Audit Committee having taken into consideration all aspects of the Termination, is of the opinion that the Termination is in the best interests of ASB, fair, reasonable and on normal commercial terms and is not detrimental to the interest of the minority shareholders of ASB.

11. STATEMENT BY DIRECTORS

The Board, having taken into consideration all aspects of the Termination, is of the opinion that the Termination is in the best interests of ASB, fair, reasonable and on normal commercial terms and is not detrimental to the interest of the minority shareholders of ASB.

12. DOCUMENTS FOR INSPECTION

The Notice of Termination and Agreement on Liquidated Damages, are available for inspection at the registered office of ASB at Ground Floor, Synergy 9, 9 Jalan Kajibumi U1/70, Temasya Glenmarie, 40150 Shah Alam, Selangor from Mondays to Fridays (except public holidays) during normal office hours for a period of three (3) months from the date of this announcement.

This announcement is dated 14 March 2024.