

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

AGREEMENT TO TERMINATE THE RENEWAL LEASE AGREEMENT BY LANGKAWI HOLIDAY VILLA SDN BHD, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF ASB

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1. INTRODUCTION

The Board of Directors of ASB (“Board”) wishes to announce that Langkawi Holiday Villa Sdn Bhd (“LHV” or “Lessee”) has on 28 June 2023 entered into an Agreement to Terminate (“Lease Termination Agreement”) with Pacific Trustees Berhad (“Pacific Trustees”) [Company No.: 199401031319 (317001-A)] (acting as trustee for AmanahRaya Real Estate Investment Trust (“AmanahRaya REIT”)) (“Lessor”) for the mutual termination of the Renewal Lease Agreement (including the Lease and the Renewal Lease Agreement Rights as defined herein) of the 4-star beach resort hotel building with 238 rooms known as “Holiday Villa Beach Resort & Spa Langkawi” (“Hotel”) located on the Property (as defined herein) which is being leased by the Lessee from the Lessor, for a cash compensation sum of RM45 million (“Lessee Compensation Sum”) to be paid to the Lessee subject to the terms and conditions as stipulated in the Lease Termination Agreement (“Proposal”).

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

2. INFORMATION ON THE PROPOSAL

By a lease agreement dated 20 February 2006 made between Amanah Raya Berhad (Company No.: 199501015784 (344986-V)) (“ARB”) and the Lessee (“First Lease Agreement”), ARB had agreed to lease out the Property (as described in Section 2.1 below) to the Lessee for a term of ten (10) years from 12 June 2006 to 11 June 2016 (“Lease”), upon the terms and conditions contained in the First Lease Agreement.

Pursuant to the Novation Agreement dated 22 December 2006 made between ARB, CIMB Islamic Trustee Berhad (as trustee for AmanahRaya REIT) and the Lessee, ARB assigned and transferred its rights and obligations under the Lease to CIMB Islamic Trustee Berhad (as trustee for AmanahRaya REIT).

By the Renewal Lease Agreement dated 16 December 2016 made between CIMB Islamic Trustee Berhad (as trustee for AmanahRaya REIT) and the Lessee, the Lease was renewed for a further term of ten (10) years, commencing from 13 July 2016 to 12 July 2026 (“Renewed Lease Term”) upon the terms and conditions contained in the Renewal Lease Agreement. Under the Renewal Lease Agreement, the Lessee has:-

- a. an Option To Renew Lease (i.e. the option granted by the Lessor to the Lessee under Clause 14 of the Renewal Lease Agreement) for the Lessee to renew the Lease for a further term of ten (10) years commencing from the expiry of the Renewed Lease Term upon the terms and conditions therein contained; and
- b. an Option To Purchase (i.e. the option granted by the Lessor to the Lessee under Clause 15 of the Renewal Lease Agreement) for the Lessee to purchase the Property upon the terms and conditions therein contained.

(collectively “the Renewal Lease Agreement Rights”).

The Lessor has informed the Lessee of their agreement to sell the Property to Plenitude Gateway Sdn Bhd (“Plenitude”), a wholly-owned subsidiary of Plenitude Berhad, subject to the terms and conditions to be mutually agreed upon between the Lessor and Plenitude. Consequential thereto, the Lessor and Lessee agreed to mutually terminate the Renewal Lease Agreement (including the Lease and the Renewal Lease Agreement Rights) subject to the terms and upon the conditions set out in the Lease Termination Agreement.

2.1 Information on the Property

The Hotel is a beachfront resort erected on all that piece of Land held under the three (3) separate land titles as set out below together with the assets owned by the Lessor (“Property”):-

- a. H.S.(M) 667 PT 107, Charok Genyit, Bandar Padang Mat Sirat, Langkawi, Negeri Kedah;
- b. H.S.(M) 668 PT 108, Charok Genyit, Bandar Padang Mat Sirat, Langkawi Negeri Kedah; and
- c. GM 2100 Lot 2504 Charok Genyit, Mukim Kedawang, Daerah Langkawi Negeri Kedah.

The Property is strategically located within the popular tourist beach resort of Langkawi Island known as Pantai Tengah and it is about 15 minutes away from Langkawi International airport and Pantai Cenang shopping and entertainment area. The Hotel has 238 rooms & suites comprising superior, deluxe, deluxe premium rooms and 5 styles of suites. All en-suite rooms feature private balcony with a view of the pool or garden. There are 4 meeting rooms, 1 banquet room, 3 restaurants and 90 car park bays. The hotel recreation services include swimming pool, spa, tennis court, gym / fitness centre, beach and massage. Upon the delivery of vacant possession to the Lessor, LHV will cease to operate the Hotel (“Completion”).

Other information on Property are summarised as follows:-

Postal Address	Lot 1698, Pantai Tengah, Mukim Sg Kedawang, 07000 Daerah Langkawi, Kedah, Malaysia.
Gross Floor Area	183,190 square feet
Land Area	39,732 square metres
Tenure	Freehold
Existing Use and Percentage of occupancy	Hotel operation with average occupancy of around 60%
Approximate age of building (years)	Approximately 30 years
Registered Owner	Pacific Trustees Berhad (acting on behalf of AmanahRaya REIT)
Latest Valuation Date	30 December 2022
Valuation	RM104,740,000
Valuer	Rahim & Co International Sdn Bhd
Method of Valuation	Income Approach (Investment Method) & Comparison Approach
Audited Net Book Value	RM104,740,000 (based on AmanahRayaREIT Annual Report 2022, the Hotel was classified as Investment Properties and is carried at fair value as at 31 December 2022)

2.2 Information on Lessor and LHV/Lessee

- a. Information on Lessor
 - aa. Pacific Trustees Berhad

Pacific Trustees is the trustee of Amanahraya REIT for the Property. It was incorporated on 21 September 1994 under the Companies Act 1965 and registered as a Trust Company under Section 4 of the Trust Companies Act 1949. Its registered address is at Unit A-11-8, 11th Floor, Megan Avenue 1, 189, Jalan Tun Razak, 50400 Kuala Lumpur.

bb. Amanahraya Real Estate Investment Trust

Amanahraya REIT was established pursuant to the Trust Deed dated 10 October 2006 between the Manager, AmanahRaya-Kenedix REIT Manager Sdn Bhd (formerly known as Amanah-Raya REIT Managers Sdn Bhd) and the then trustee, CIMB Islamic Trustee Berhad. On 13 May 2019, the Manager, CIMB Islamic Trustee Berhad and Pacific Trustees Berhad entered into a Supplementary Deed to effect the change of trustee of AmanahRaya REIT from CIMB Islamic Trustee Berhad to Pacific Trustees Berhad which took effect on 21 May 2019. AmanahRaya REIT is classified as a real estate investment fund and was listed on the Main Market of Bursa Malaysia Securities Berhad on 26 February 2007.

b. Information on Lessee

The Lessee was incorporated on 2 November 1989 in Malaysia. Its registered address is located at Ground Floor, Synergy 9, 9 Jalan Kajibumi U1/70, Temasya Glenmarie, 40150 Shah Alam, Selangor. The Lessee which currently operates the Hotel is an indirect wholly-owned subsidiary of ASB held via Alangka-Suka Hotels & Resorts Sdn Bhd, 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 the Lessee are Mr Sng Ngiap Koon, Ms Lee Su Nie and Ms Aryati Sasya Dato' Ahmad Sebi.

2.3 Basis of arriving at the Lessee Compensation Sum

The Lessee Compensation Sum was arrived at through direct negotiation after taking into consideration the net present value of projected and extrapolated cash flows of different scenarios for the years 2023 up to 2036 assuming a further renewal of the Lease for another ten (10) years from 2026 and the exercise of the option to purchase, and based on past and projected performance.

2.4 Liabilities which remain with and guarantees given by ASB Group

There are no liabilities, including contingent liabilities, to be assumed by ASB Group and no guarantees have been given by ASB Group to the Lessor in relation to the Proposal.

2.5 Salient terms of the Lease Termination Agreement

The salient terms of the Lease Termination Agreement are set out below:-

- a. The parties agree to terminate the Renewal Lease Agreement (including the Lease and the Renewal Lease Agreement Rights) in its entirety subject to and upon the terms and conditions of the Lease Termination Agreement.
- b. Subject to the terms and conditions of the Lease Termination Agreement including the condition precedent sets out in section 2.5(c) below, the Lessee Compensation Sum shall be paid in the following manner:-
 - aa. within five (5) business days from the date of execution of the Lease Termination Agreement, the Lessor shall pay to the Lessee's solicitors as stakeholders the sum of RM4.5 million only ("Deposit") towards payment of the Lessee Compensation Sum. Upon receipt of the Deposit, the Lessee's solicitors shall forthwith place the Deposit in an interest-bearing account with a licensed financial institution in Malaysia and the Lessee's solicitors are authorised to release the Deposit together with interest to the Lessee within five (5) business days from the actual date of delivery and surrender of vacant possession of the Property to the Lessor ("VP Surrender Date"); and

- bb. upon the Unconditional Date (as described in section 2.5(e) below), the sum of RM40.5 million ("Balance Sum") shall have been deposited with the Lessor's solicitors as stakeholders and the Lessor's solicitors have been irrevocably authorised and directed and will release the Balance Sum together with interest earned thereon to the Lessee within five (5) business days from the VP Surrender Date. The Lessor's solicitors were irrevocably authorised to deduct from the Lessee Compensation Sum all such Late Delivery Compensation (as described in section 2.5(j) below) accrued in the event of late delivery of vacant possession of the Property and thereafter to forthwith release the Late Delivery Compensation to the Lessor.
- c. The mutual termination of the Renewal Lease Agreement (including the Lease and the Renewal Lease Agreement Rights), is conditional upon the receipt by the Lessee's solicitors of the Lessor's Solicitors' Notice (i.e. a written notice by the Lessor's solicitors within six (6) months from the date of the Lease Termination Agreement (or such other extended date as may be mutually agreed upon between the Parties in writing)) stating that:-
 - aa. the Lessor's solicitors have received the Balance Sum as stakeholder/escrow agent; and
 - bb. the Lessor's solicitors have been irrevocably authorised and directed and will release the Balance Sum together with interest earned thereon to the Lessee within five (5) business days from the VP Surrender Date.
- d. In the event that the Lessor's Solicitors' Notice is not issued by the Lessor's solicitors on or before the expiry of six (6) months from the date of the Lease Termination Agreement (or such other extended date as may be mutually agreed upon between the parties in writing), either party shall be entitled to terminate the Lease Termination Agreement by notice in writing to the other party with immediate effect whereupon the Deposit shall be forfeited by the Lessee and thereafter:-
 - aa. neither party shall have any further claim against the other under the Lease Terminations Agreement save for antecedent breach; and
 - bb. the Renewal Lease Agreement (including the Lease and the Renewal Lease Agreement Rights) shall continue to subsist and remain in full force and effect.
- e. The Lease Termination Agreement shall become unconditional on the date of receipt by the Lessee's solicitors of the Lessor's Solicitors' Notice ("Unconditional Date").
- f. The Renewal Lease Agreement (including the Lease and the Renewal Lease Agreement Rights) shall be effectively terminated in its entirety on the Unconditional Date ("Lease Termination Date").
- g. The Lessee shall, on any day falling three (3) months after the Lease Termination Date or by 30 September 2023, whichever is later ("VP Delivery Period") and at its sole cost and expense, deliver and surrender vacant possession of the Property together with all keys, access cards, pass-codes, passwords or lock combinations in relation to the Property to the Lessor in a good condition (fair wear and tear excepted) and in accordance with the Renewal Lease Agreement.
- h. If vacant possession of the Property is not delivered or surrendered by the expiry of the VP Delivery Period, the Lessor shall automatically grant to the Lessee a further period of one (1) month commencing on the day immediately following the expiry of the VP Delivery Period ("Extended VP Delivery Period") for the Lessee to deliver and surrender the vacant possession of the Property.
- i. During the VP Delivery Period and Extended VP Delivery Period, the Lessee shall pay to the Lessor RM333,441.00 only per month commencing from the day immediately following the Lease Termination Date until the VP Surrender Date.

- j. Without prejudice to any other rights or remedies available to the Lessor under the Lease Termination Agreement or at law, if vacant possession of the Property is not delivered and surrendered by the expiry of the Extended VP Delivery Period, the Lessee shall pay to the Lessor RM666,882.00 per month as late delivery compensation ("Late Delivery Compensation") which shall be calculated according to the number of days of delay commencing from the day immediately following the expiry of the Extended VP Delivery Period until the VP Surrender Date.

3. PROPOSED UTILISATION OF PROCEEDS FROM THE PROPOSAL

The proceeds from the Proposal are expected to be utilised by ASB and/or its subsidiaries ("ASB Group" or "Group") in the following manner:-

Purpose	Amount (RM'million)	Expected timeframe for the utilisation of proceeds
For working capital of the Group (1)	29.89	within 36 months from the Completion
Estimated incidental expenses (2)	15.05	within 12 months from the Unconditional Date
Estimated expenses for the Proposal (3)	0.06	within 6 months from date of the Lease Termination Agreement
Total	45.00	

Note:-

- (1) To meet the working capital requirements of the Group's day-to-day operations which may include amongst others, staff salaries and related costs, operating and administrative expenses and/or repayment of borrowings. In addition, the Board will evaluate any business/investment opportunities which may arise from time to time and will make the necessary announcements in accordance to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad as and when such proposals are finalised and materialised.
- (2) Estimated incidental expenses include amongst others, expenses arising from cessation of business and tax in relation to the Proposal.
- (3) Estimated expenses for the Proposal include professional fees.

Any shortfall or excess in the funds allocated for estimated incidental expenses and estimated expenses for the Proposal will be funded from or used for working capital of the Group.

4. RATIONALE FOR THE PROPOSAL

The performance of the Hotel was adversely affected during the Covid-19 pandemic period and there is uncertainty of the Hotel's ability to achieve the pre-pandemic historical performance without further funding to renovate the Hotel after taking into consideration the age of the Hotel and the increasing competition with the addition of new hotels/rooms in Langkawi coupled with funding requirements considerations for an appropriate return on investment cost being the initial purchase cost upon exercise of the option to purchase, and renovation costs. Based on Amanahraya REIT Annual Report 2022, the Hotel is carried at fair value as at 31 December 2022 of RM104.74 million.

Notwithstanding the loss of income from the operation of the Hotel on Completion, the Proposal provides an opportunity for ASB Group to unlock the immediate value of the lease/operations of the Hotel and the proceeds from the Proposal will strengthen the cash flow position of the Group.

5. EFFECTS OF THE PROPOSAL

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

5.1 Share capital and shareholdings of substantial shareholders

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

5.2 Earnings and earnings per share (“EPS”)

The Proposal is expected to bring positive impact to ASB Group’s profitability as there would be a one-off extraordinary gain before tax of about RM42.6 million based on the proforma balance sheet as at 31 December 2022 after taking into consideration the proceeds of RM45.0 million less estimated expenses and net book value of the related assets to be written off partly offset by the carrying value of liabilities to be written back. The one-off incidental costs (including tax expenses) relating to cessation of business will be charged as expenses in the course of winding down the business.

LHV made a loss before tax of RM0.6 million for the financial year ended 31 December 2022. There will be a loss of revenue from the operations of the Hotel in the future after the Completion.

For illustrative purposes, based on the latest audited consolidated financial statements of ASB for the financial year ended 2022, the proforma effects of the Proposal on the earnings and EPS of ASB Group assuming that the Proposal 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 Proposal *
Net profit/(loss) attributable to the owners of the Company (RM’000)	(35,291)	(7,779)
Weighted average no. of ASB shares in issue (’000)	1,200,976	1,200,976
Earnings/(Loss) per share (sen)	(2.94)	(0.65)

Note:-

* Includes (i) estimated gain before tax to ASB Group of approximately RM42.6 million after taking into consideration the Lessee Compensation Sum, the net book value of assets to be written off, carrying value of liabilities to be written back and the estimated expenses in relation to the Proposal and (ii) the provision of estimated incidental expenses arising from cessation of business and tax.

5.3 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 Proposal on the NA and gearing of ASB Group are shown as follows:-

	Audited as at 31 December 2022 (RM’000)	Proforma after the Proposal * (RM’000)
Share capital	461,377	461,377
Other reserves	25,288	25,288
Retained earnings	7,240	34,752
Shareholders’ funds	493,905	521,417
Non-controlling interests	77,468	77,468
Total equity	571,373	598,885
No. of ASB shares in issue (’000)	2,529,195	2,529,195
NA per share (RM)	0.20	0.21
Total borrowings	138,915	138,915
Gearing (times)	0.28	0.27

Note:-

* Includes (i) estimated gain before tax to ASB Group of approximately RM42.6 million after taking into consideration the Lessee Compensation Sum, the net book value of assets to be written off, carrying value of liabilities to be written back and the estimated expenses in relation to the Proposal and (ii) provision of estimated incidental expenses arising from cessation of business and tax.

6. RISK FACTORS

6.1 Risk on payment of Lessee Compensation Sum

10% of the Lessee Compensation Sum will be paid as Deposit to the Lessee's solicitors as stakeholders within five (5) business days from the date of execution of the Lease Termination Agreement as described in section 2.5(b)(aa) above. However, the balance 90% of the Lessee Compensation Sum shall only be paid to the Lessee within five (5) business days from the VP Surrender Date as described in section 2.5(b)(bb) above. There can be no assurance that the Lessor will proceed with the payment obligations if the disposal of the Property by the Lessor is not completed.

6.2 Failure to fulfil the terms and conditions

If any of the terms and conditions of the Lease Termination Agreement is not fulfilled or waived within the stipulated period as stated in the Lease Termination Agreement, the Proposal may be delayed or terminated.

Our Board and management will take all reasonable steps to ensure that the terms and conditions of the Lease Termination Agreement are met within the stipulated timeframe and that every effort is taken to complete the Proposal in a timely manner.

7. APPROVALS REQUIRED

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

8. ESTIMATED TIMEFRAME FOR COMPLETION OF THE PROPOSAL

Barring any unforeseen circumstances, the Completion is expected to be in the first half of 2024.

9. HIGHEST APPLICABLE PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposal pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 9.11% based on ASB's latest audited consolidated financial statements for the year ended 31 December 2022.

10. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

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

11. STATEMENT BY DIRECTORS

The Board, having taken into consideration all aspects of the Proposal, is of the opinion that the Proposal is in the best interests of the Group.

12. DOCUMENTS FOR INSPECTION

The Lease Termination Agreement is 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 28 June 2023.