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

Contents:

For consistency purposes, the abbreviations and definitions used throughout this announcement are the same as those previously defined in the Company's announcement on 28 June 2023 in relation to the agreement to terminate the renewal lease agreement by Langkawi Holiday Villa Sdn Bhd, an indirect wholly-owned subsidiary of ASB.

Further to the aforesaid announcement, the Board of Directors of ASB wishes to set out below the additional information:

1. (A) The assumption for a further renewal of the Lease for another ten (10) years from 2026 was made pursuant to 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.

   (B) The following principal assumptions were taken into consideration to derive at the net present value of projected extrapolated cash flows of different scenarios for the years 2023 up to 2036:

      (i) Option 1 – Continue to operate the Hotel up to 2026 and renew for another ten (10) years up to 2036 with no buy-back of the Hotel;

      (ii) Option 2 – Exercise Option to Purchase by acquiring the Hotel now in view of the Lessor's intention to sell the Hotel; and

      (iii) Option 3 – Sell the rights back to the Lessor for RM45 million by termination of the Renewal Lease Agreement including termination of the option to renew the lease and buy-back the Hotel.

   In assessing the options above, the principal assumptions include financial projections from 2023 up to 2036 prepared based on current performance of the Hotel after the Covid-19 pandemic and average profit before tax for 2015 to 2019 (pre-Covid-19 pandemic years), and discounted to the present value at 9% p.a. (being the weighted average cost of capital assessed pursuant to the Company's recent rights issue as computed in the Circular to Shareholders dated 30 June 2022).

   Under the exercise of buy-back option, it is assumed that the buy-back price is RM110 million, about 5% premium above the fair value of the Hotel as at 31 December 2022 (based on AmanahRayaREIT Annual Report 2022), and loan financing for the buy-back of the Hotel is at 80%. There is also a provision of RM3 million for the Hotel renovation under the buy-back option and the terminal value of the Hotel in 2036 is computed based on the profit after tax of the Hotel in 2036 and a yield of 6% p.a. being the indicative return on the Hotel.

   The net present value ranges from a negative RM2.9 million to RM44.6 million under the different scenarios pursuant to Options 1 and 2.

2. RM333,441.00 per month is based on the current monthly lease rental payable by the Lessee to the Lessor. The increased figure of RM666,882.00 is based on twice the current monthly lease rental.

3. (i) In relation to the allocation of RM29.89 million for working capital of the Group, it is estimated that about 60% of such allocation shall be for the Group's day-to-day operations which may include amongst others, staff salaries and related costs, operating and administrative expenses whilst the remaining estimated 40% shall be for repayment of bank borrowing of the Group.

   (ii) For the allocation for any business/investment opportunities which may arise from time to time, we are only able to ascertain the quantum of investment as and when a viable opportunity arises. The amount allocated could therefore be up to RM29.89 million.

(iii) The breakdown and description of the allocation of RM15.05 million for incidental expenses are as follows:

	RM'000	RM'000
Breakdown of estimated incidental expenses		
Estimated termination costs due to cessation of business including early termination of management contract	(7,600)	
Estimated income tax	(7,451)	
Estimated total incidental expenses		**(15,051)**

4. The following illustrated the computation to derive at net loss attributable to the owners of the Company of RM7.78 million based on the Proforma after the Proposal:

	RM'000	RM'000
Audited loss attributable to owners of the Company for FYE 31/12/2022		**(35,291)**
Breakdown of estimated gain before tax		
Proceeds from the Proposed termination of lease agreement	45,000	
Less: Estimated expenses for the Proposal including professional fees	(60)	
Net estimated expenses on writing off of property, plant & equipment, inventories and right-of-use assets, and write back of lease liability	(2,377)	
Estimated gain before tax on termination		**42,563**
Less: Estimated total incidental expenses (as detailed in item 3(iii) above)		**(15,051)**
Proforma loss attributable to owners of the Company after the Proposed termination of lease agreement		**(7,779)**

This announcement is dated 5 July 2023.