

**ADVANCE SYNERGY BERHAD (“ASB”)
 PROPOSED DISPOSAL OF A HOTEL PROPERTY KNOWN AS CITY VILLA KUALA LUMPUR LOCATED AT NO. 69, JALAN HAJI HUSSEIN, OFF JALAN TUANKU ABDUL RAHMAN, 50300 KUALA LUMPUR BY MAYOR HOTELS SDN BHD (“MHSB” OR “Vendor”), AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF ASB [HELD VIA ALANGKA-SUKA HOTELS & RESORTS SDN BHD (“ASHR”), A WHOLLY-OWNED SUBSIDIARY OF ASB]**

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1. INTRODUCTION

The Board of Directors of ASB (“Board”) wishes to announce that MHSB has on 6 November 2020 entered into a sale and purchase agreement (“SPA”) for M1 Plaza Sdn Bhd [Company No.: 202001025905 (1382225-K)] (“Purchaser”) to purchase from MHSB the hotel property known as City Villa Kuala Lumpur (“City Villa” or “Hotel”) as more particularly described in 2.1 hereinbelow, on “as is where is” basis for a total cash consideration of RM24,000,000 (“Purchase Price”) subject to the terms and conditions as stipulated in the SPA (“Proposed Disposal”).

Further details of the Proposed Disposal are set out in the ensuing sections.

2. INFORMATION ON THE PROPOSED DISPOSAL

2.1 Information on City Villa

City Villa, located in the heart of Kuala Lumpur at No. 69, Jalan Haji Hussein, Off Jalan Tuanku Abdul Rahman, 50300 Kuala Lumpur, is an 18-storey building with 4 levels of annexed multi-level car park building (Levels 2 to 5), 206 guest rooms, 1 banquet room, 3 meeting rooms, coffee house and approximately 183 car park bays. MHSB owns and operates City Villa.

Other information on City Villa are summarised as follows:

Master Lot No.	2034 S. 41	2034 S. 41
Strata Title No.	Geran 85/M1/1/1	Geran 85/M1/1/4
Parcel No.	1	4
Storey No.	1	1
Building No.	M1	M1
Accessory Parcel No.	A9, A10, A1, A2, A11, A3, A6, A16, A17, A7, A12, A18, A4, A5, A18	
Registered Area	10,718 square metres	10,053 square metres
Lot No.	Lot No. 2034 Section 41, Bandar Kuala Lumpur District and State of Wilayah Persekutuan	
Postal Address	No. 69, Jalan Haji Hussein, Off Jalan Tuanku Abdul Rahman, 50300 Kuala Lumpur	
Tenure	Freehold with strata title	
Existing Use and Percentage of occupancy	City Villa ceased operations on 1 January 2020	
Approximate age of building (years)	44	
Category of Use	Building	
Special Condition	Commercial	
Registered Proprietor	Mayor Hotels Sdn Bhd	
Restriction-in-interest	Nil	
Encumbrance	3 Charges with Affin Bank Berhad (“Chargee”), registered on 20 May 2005, 3 May 2011 and 19 August 2014	
Endorsement	Nil	
Audited Net Book Value as at 31 December 2019	RM25,750,000	

Market Value	RM25,750,000 based on the valuation conducted by Messrs Suleiman & Co. on 6 January 2020 using the comparison method of valuation
Impact on operational work	None following cessation of operations

2.2 Information on Vendor and Purchaser

1. Information on Vendor

The Vendor, MHSB, was incorporated on 12 November 1988 in Malaysia. Its registered address is located at Ground Floor, Synergy 9, 9 Jalan Kajibumi U1/70, Temasya Glenmarie, 40150 Shah Alam, Selangor. MHSB owns and operates City Villa which has ceased operations since 1 January 2020. MHSB is an indirect wholly-owned subsidiary of ASB held via ASHR, a wholly-owned subsidiary of ASB and its issued share capital is RM19,500,000.

The directors of MHSB are Tan Sri Dato' Azman Shah Haron, Puan Sri Datin Masri Khaw Abdullah and Mr Ahmad Kamal Ali Merican.

2. Information on Purchaser

The Purchaser was incorporated on 1 September 2020 in Malaysia as a private limited company. Its registered address and principal place of business is at F-9-6, Block F, Setiawalk, Persiaran Wawasan, Pusat Bandar Puchong, 47160 Puchong, Selangor. The principal activities are buying, selling, renting and operating of self-owned or leased real estate including but not limited to non-residential buildings, leasing of intellectual property and similar products. The Purchaser has an issued share capital of RM2,000,000. The sole director of the Purchaser is Mr Cheng Chin Heng ("CCH").

The shareholders of the Purchaser and their respective shareholdings are as follows:

No.	Name	No. of shares held	Shareholding
1	CCH Bumi Resources Sdn Bhd Company No. 200801039008 (840356-A), where CCH is the sole director and sole shareholder.	1,600,000	80%
2	Chong Kok An	200,000	10%
3	Yap Kian Ann	200,000	10%

2.3 Basis of arriving at the Purchase Price

The Purchase Price was arrived at on a willing-buyer willing-seller basis through direct negotiation after taking into consideration the net book value of City Villa as at 31 December 2019, market value of the Hotel on 6 January 2020, current condition of the Hotel and overall hotel market condition.

2.4 Liabilities which remain with and guarantees given by ASB Group

Save for the commitments in relation to the rental of the Hotel to the Purchaser, there are no liabilities, including contingent liabilities, to be assumed by ASB Group and no guarantees have been given by ASB Group to the Purchaser in relation to the Proposed Disposal.

2.5 Salient terms of the SPA

The salient terms of the SPA are set out below:

1. on "as is where is" basis;
2. free from all encumbrances;
3. with legal possession;

4. the terms of payment are as follows:
 - a. payment of RM2,400,000 being 10% of the Purchase Price ("Deposit") comprising:
 - i) the earnest deposit of RM480,000 (2% of the Purchase Price) and the balance deposit of RM1,200,000 (5% of the Purchase Price) paid to the Vendor;
 - ii) the retention sum of RM720,000 (3% of the Purchase Price) paid to the Purchaser's solicitors as stakeholders for the purpose of compliance with the Real Property Gains Tax Act ("RPGT"); and
 - b. the balance 90% of the Purchase Price ("Balance Purchase Price") shall be paid on the due date which is forty-eight (48) months from the date of the SPA, or any earlier date at the absolute discretion of the Purchaser whereby notice in writing shall be given by the Purchaser to the Vendor for early completion which shall be three (3) months from the date of the notice ("Completion Date");
5. the Completion Date of the SPA shall be forty-eight (48) months from the date of the SPA or any earlier date at the discretion of the Purchaser;
6. pursuant to Clause 4A of the SPA, the Vendor (as "Landlord") will, at the Annual Rental of RM330,000 ("Annual Rental"), grant the Purchaser a 3-year tenancy with one (1) year automatic renewal upon such terms and conditions ("Proposed Tenancy") as stipulated in item 2.6 below;

7. Default

- a. If the Purchaser fails to pay the Balance Purchase Price in accordance with the terms of SPA, or if the Purchaser fails to pay any Annual Rental for any year in accordance with the terms of SPA or otherwise fails to comply with any of the terms of the Proposed Tenancy, or if the Purchaser shall breach any of the terms and conditions of SPA or shall fail to complete the purchase herein in accordance with the provision of SPA, then the Vendor shall be entitled to give the Purchaser a written notice to remedy the said breach within twenty-one (21) days from the date of the said notice and in the event that such notice has not been remedied within twenty-one (21) days after the expiry of the said notice, the Vendor shall be entitled to elect either to:
 - i) immediately terminate the agreement to let under the Proposed Tenancy whereupon the Balance Purchase Price shall be paid by the Purchaser to the Vendor's Solicitors as stakeholders immediately (and not within forty-eight (48) months as stipulated under the SPA), failing which the Vendor is entitled to immediately terminate the SPA and forfeit the Deposit together with the Annual Rental received for the calendar year in which the termination has occurred as agreed liquidated damages. In the event that the Annual Rental or any part thereof has yet to be received for the calendar year in which the termination has occurred, then the Purchaser shall immediately pay such amount to the Vendor as agreed liquidated damages in addition to the forfeiture of the Deposit; or
 - ii) at the Vendors' option to specific performance;

Upon forfeiture by the Vendor of the Deposit, the Vendor shall refund any other sum paid by or on behalf of the Purchaser towards account of the Purchase Price only and after deducting any amounts due or owing by the Purchaser to the Vendor under the Proposed Tenancy and/ or Clause 28 of the SPA in relation to the indemnity by the Purchaser free of interest within fourteen (14) working days from the date of the forfeiture, failing which interest at 8% p.a. calculated on a daily basis shall be paid by the Vendor on such sums remaining outstanding until the date of full settlement.

- b. If the Vendor fails to comply with any of the Vendor’s obligations under this SPA to complete the sale and purchase herein, the Purchaser shall be entitled at the Purchaser’s option, to specific performance or by notice in writing (hereinafter referred to as “the Election Notice”) served on the Vendor to terminate the sale and purchase herein, whereupon the Vendor shall, on or before the expiry of fourteen (14) working days from the date of the Election Notice, pay to the Purchaser:
- i) the sum of equivalent to 10% of the Purchase Price as agreed liquidated damages; and
 - ii) all monies paid by or on behalf of the Purchaser towards account of the Purchase Price pursuant to this SPA (including the Deposit) and after deducting any amounts due or owing by the Purchaser to the Vendor under the Proposed Tenancy and/ or Clause 28 of the SPA in relation to the indemnity by the Purchaser, to be refunded to the Purchaser and/or the Purchaser’s Financier free of interest,

failing which interest at 8% p.a. calculated on a daily basis shall be paid by the Vendor on such sums remaining outstanding until the date of full settlement.

2.6 Salient terms of the Proposed Tenancy

The Proposed Tenancy is given, amongst others, on the following basis:

1. The Purchaser shall accept the Hotel on “as-is where-is” basis;
2. The term of the tenancy shall be for three (3) years from the date of the SPA with a one (1) year automatic renewal and the Annual Rental shall be at RM330,000;
3. The Purchase shall use the Hotel solely for commercial use permissible under all relevant laws and regulations;
4. The personal guarantee of CCH of up to a maximum limit of RM2,400,000 to guarantee payment of the Annual Rental, the covenants and obligations of the Purchaser in relation to the Proposed Tenancy and upon the termination of the SPA for any reason whatsoever to return vacant possession of the Hotel to the Vendor in good and tenatable state and condition free of rubbish and debris; and
5. Termination clause as stipulated in item 2.5(7)(a) above.

2.7 Original cost and date of investment

The original cost and date of investment in the Hotel are as follows:

Date of investment	Original cost of investment (RM’000)
23 February 1989	14,500

3. PROPOSED UTILISATION OF PROCEEDS FROM THE PROPOSED DISPOSAL

At this juncture, the proceeds from the Proposed Disposal are expected to be utilised to finance the working capital of ASB and/or its subsidiaries (“ASB Group” or “Group”), for payment of expenses (including RPGT) in relation to the Proposed Disposal and/or to pare down the bank borrowings of ASB Group.

As the Proposed Disposal is expected to be completed within four (4) years from the date of the SPA, the purpose of utilisation of the proceeds and the breakdown of each component of working capital and bank borrowings other than the expenses to be incurred for the Proposed Disposal will be determined at the time of completion. Further details will be announced on completion of the Proposed Disposal.

Purpose	Note	Amount (RM'million)	Expected timeframe for the utilisation of proceeds
Repayment of bank borrowings and working capital		23.0	within 24 months from the completion of the Proposed Disposal
Estimated expenses for the Proposed Disposal	(1)	1.0	within 6 months from date of the SPA
Total		24.0	

Note:

- (1) Estimated expenses comprise professional fees, RPGT and incidental expenses in relation to the Proposed Disposal. Any shortfall or excess in the funds allocated for estimated expenses will be funded from or used for working capital of the Group.

4. RATIONALE FOR THE PROPOSED DISPOSAL

City Villa has ceased operations since 1 January 2020 and the Group has no intention to re-open the Hotel for business after taking into consideration the ageing Hotel where a refurbishment exercise including upgrading of facilities is necessary for the Hotel to remain attractive and competitive in the industry. The outlay for renovation may not yield the expected returns given the current surrounding of the Hotel which is not conducive for our target markets. With the closure of the Hotel and leaving the building vacant, there is a risk of deterioration in the state of the Hotel without daily upkeep of the rooms and the facilities.

The Proposed Disposal provides an opportunity for ASB Group to unlock the immediate value of City Villa at a value not substantially below its net book value/market value and the proceeds from the Proposed Disposal will strengthen the cash flow position of the Group. Meanwhile, the Annual Rental provides some income pending completion of the Proposed Disposal.

5. EFFECTS OF THE PROPOSED DISPOSAL

The financial effects of the Proposed Disposal are set out below:

5.1 Share capital and shareholdings of substantial shareholders

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

5.2 Earnings and earnings per share ("EPS")

For illustrative purposes, based on the latest audited consolidated financial statements of ASB for the financial year ended 2019, the proforma effects of the Proposed Disposal on the earnings and EPS of ASB Group assuming that the Proposed Disposal had been effected at the beginning of the said financial year are set out below:

	Audited Financial Year Ended 31 December 2019	After the Proposed Disposal
Net profit/(loss) attributable to the owners of the Company (RM'000)	74,944	*72,200
No. of ASB shares in issue ('000)	929,195	929,195
Earnings/(Loss) per share (sen)	8.07	7.77

Note:

- * Including estimated net loss to ASB Group of approximately RM2.7 million after taking into consideration the net book value of City Villa as at 31 December 2019 and the estimated expenses in relation to the Proposed Disposal.

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 2019, the proforma effects of the Proposed Disposal on the NA and gearing of ASB Group are shown as follows:

	Audited As at 31 December 2019 (RM'000)	After the Proposed Disposal (RM'000)
Share capital	381,377	381,377
Other reserves	19,941	19,941
Retained earnings	80,378	77,634
Shareholders' funds	481,696	478,952
Non-controlling interests	69,072	69,072
Total equity	550,768	548,024
No. of ASB shares in issue ('000)	929,195	929,195
NA per share (RM)	0.52	0.52
Total borrowings	48,777	25,777
Gearing (times)	0.09	*0.05

Note:

- * Assuming the net proceeds of approximately RM23,000,000 are utilised for the repayment of bank borrowings.

6. RISK FACTORS

6.1 Risk on payment of Balance Purchase Price

10% of the Purchase Price was paid as Deposit to MHSB upon execution of the SPA. However, the balance 90% of the Purchase Price shall only be paid on the Completion Date which is expected to be four (4) years from the date of the SPA. There can be no assurance that the Purchaser will be able to meet the payment obligations which may result in the termination of the SPA.

The risk is partly mitigated by the commitment from the Purchaser for the rental income during the tenancy term of three (3) years + one (1) year automatic renewal and the improvement works to be incurred for the Hotel which shall be not less than RM3,500,000 and the personal guarantee by CCH for payment of the Balance Purchase Price, the Annual Rental, the covenants and obligations of the Purchaser in relation to the Proposed Tenancy and the obligation to return vacant possession of the Hotel in good and tenable state and condition, up to a maximum aggregate limit of RM2,400,000.

6.2 Risk relating to rental of City Villa

The rental of City Villa is subject to the normal and market risks associated to the transaction of this nature.

Rental payment risk is partly mitigated by the upfront collection of the rental for each year and the personal guarantee of CCH. In the event the Purchaser fails to pay the Annual Rental, this will trigger the early completion of the SPA and failing which termination of the SPA or specific performance at the option of MHSB. Although the risk is mitigated by provisions in the SPA for covenants and obligations of the Purchaser and the personal guarantee of CCH, there is no assurance that the obligations will be fulfilled. MHSB will monitor the performance of the Purchaser and take all necessary and reasonable steps to ensure the fulfilment of the rental obligations by the Purchaser.

6.3 Failure to fulfil the terms and conditions

If any of the terms and conditions of the SPA is not fulfilled or waived within the stipulated period as stated in the SPA, the Proposed Disposal may be delayed or terminated.

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

7. APPROVALS REQUIRED

The Proposed Disposal 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 PROPOSED DISPOSAL

Barring any unforeseen circumstances, the Proposed Disposal is expected to be completed in the fourth quarter of 2024.

9. HIGHEST APPLICABLE PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposed Disposal pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 5.35% based on the Group's latest audited consolidated financial statements for the year ended 31 December 2019.

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 Proposed Disposal.

11. STATEMENT BY DIRECTORS

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

12. DOCUMENTS FOR INSPECTION

The SPA 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 6 November 2020.