

COMPANY	ADVANCE SYNERGY BERHAD
TYPE	Announcement
SUBJECT	TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS) RELATED PARTY TRANSACTIONS
DESCRIPTION	PROPOSED DISPOSAL OF MANAGEMENT SERVICES AGREEMENTS, LICENSING AGREEMENTS AND TRADEMARKS OF ALANGKA-SUKA HOTELS & RESORTS SDN. BHD. GROUP

1. INTRODUCTION

The Board of Directors of Advance Synergy Berhad (“ASB” or “the Company”) wishes to announce that its below-mentioned subsidiaries have on 7 May 2021 entered into the following agreements with Holiday Villa Hotels & Resorts Sdn Bhd (“HVHR”) and Holiday Villas Hotels & Resorts Limited (“HVHRL”) (collectively, referred to as “Purchasers”) for HVHR and HVHRL to acquire the Contracts (“Contracts”) and Trademarks (“Trademarks”) as detailed under items 2.1 and 2.2 respectively of this announcement for a total cash consideration of RM7.0 million only (“Consideration”) (collectively, referred to as “Proposal”):-

- Antara Holiday Villas Sdn Bhd (“AHV”), Holiday Villas International Limited (“HVIL”) and Holiday Villa Middle East Limited (“HVME”) have entered into three (3) agreements relating to transfer of each of their respective Contracts and/or Trademarks and Cherating Holiday Villa Berhad (“CHV”) entered into one (1) agreement relating to the transfer of its Trademarks (“ASA”)(collectively, referred to as “Agreements” and respectively, referred to as “Agreement”).

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

2. DETAILS OF THE PROPOSAL

The Proposal involves the acquisition by HVHR and HVHRL of the Contracts under AHV, HVIL and HVME and Trademarks registered under AHV, CHV and HVIL (collectively, referred to as “Vendors” and respectively, referred to as “Vendor”).

2.1 Information on the Agreements, Contracts and Trademarks

- The details of the Agreements are as follows:

No.	Agreements	Vendors	Purchasers
1	AHV Agreement	AHV	HVHR
2	HVIL Agreement	HVIL	HVHRL
3	HVME Agreement	HVME	HVHRL
4	CHV Agreement	CHV	HVHR

- The Agreements involve the Contracts relating to the hotel management agreements or licence agreements entered into with the respective owners of the hotels for the 19 Holiday Villa and D-Villa hotels in Malaysia (6), Indonesia (1), Qatar (2), Saudi Arabia (3) and China (7).
- The hotel management agreements principally set out the terms and conditions for the Vendors to manage and operate the hotels under the name and style of Holiday Villa and/or D-Villa in return for the payment of management fees to the Vendors during the operational period of the hotel management contracts. Whilst the licence agreements principally set out the terms and conditions for the Vendors as licensor to grant to the

hotel owners as licensee the right to use the Trademark and the Vendors' operations and reservation system in return for payment of licence fees to the Vendors during the term of the licence agreement.

- iv. As part of the Proposal, the Trademarks shall be transferred to the Purchasers.

2.2 Information on the Trademarks

There are 49 Trademarks (AHV (23), CHV (7) and HVIL (19)) in total to be assigned to the Purchasers. The Trademarks are Amoras Relaxation Spa, D-Villa Residence, Holiday Villa, City Villa, 豪利维拉国际酒店 and 国际假日别墅酒店 which are registered and/or pending registration in Malaysia and/or other countries which amongst them are India, Hong Kong, Europe (European Community Trademark), Switzerland, Cambodia, Myanmar, Japan, Bahrain, Qatar, Saudi Arabia, Singapore, United Kingdom, China, Thailand, Philippines, South Korea, Vietnam and Indonesia.

2.3 Information on the Vendors and Purchasers

2.3.1. Information on the Vendors

The Vendors are direct or indirect subsidiaries of Alangka-Suka Hotels & Resorts Sdn Bhd ("ASHR"), a wholly-owned subsidiary of ASB. The principal activities of the Vendors are providing hotel management services to hotels and/or resorts as stated under item 2.1 of this announcement ("Hotels") while CHV operates Holiday Villa Beach Resort & Spa Cherating and is one of the owners of the Trademarks stated under item 2.2 of this announcement.

AHV and CHV are companies incorporated in Malaysia while HVIL and HVME are incorporated in the British Virgin Islands.

2.3.2. Information on the Purchasers

HVHR

HVHR, a dormant company, was incorporated on 20 April 2007 in Malaysia as a private limited company with an issued share capital of RM10 represented by 10 ordinary shares of RM1.00 each. The directors of HVHR are Tan Sri Dato' Azman Shah Haron ("Tan Sri Azman") and his daughter, Nina Karina Tan Sri Azman Shah ("Nina Karina"). The shareholders of HVHR and their respective shareholdings are as follows: -

Shareholders	No. of shares held	Shareholding
Tan Sri Azman	7	70%
Nina Karina	3	30%

Tan Sri Azman is the Chairman and director of ASHR as well as a director of the Vendors and Purchasers. His spouse, Puan Sri Datin Masri Khaw Abdullah ("Puan Sri Masri"), is a Non-Independent Non-Executive Director of ASB and the Managing Director & Chief Executive Officer and director of ASHR as well as a director of the Vendors.

HVHRL

HVHRL, a dormant company, was incorporated on 20 January 2020 in Hong Kong as a private limited company with an issued share capital of HK\$100,000.00 represented by 100,000 ordinary shares of HK\$1.00 each. The directors of HVHRL are Tan Sri Azman,

Nina Karina and Alex Shuguang Xu (non-related party). The shareholders of HVHRL and their respective shareholdings are as follows:-

Shareholders	No. of shares held	Shareholding
ASH Holdings Sdn Bhd	99,980	99.98%
Greentree Fortune Co., Limited (non-related party)	20	0.02%

The directors of ASH Holdings Sdn Bhd are Tan Sri Azman, his son, Hamzah Alang Tan Sri Azman Shah and Nina Karina. The shareholders are Tan Sri Azman and Puan Sri Masri each holding 50% equity interest therein.

Tan Sri Azman and Puan Sri Masri have deemed interest of 1.24% in the issued share capital of ASB by virtue of their interest in ASH Holdings Sdn Bhd which holds 11,500,000 shares in ASB.

2.4 Basis of and justification for the Consideration

The Consideration shall be satisfied by cash and it was arrived at on a “willing-buyer willing-seller” basis through direct negotiation after taking into consideration the total value of the Vendors ranging from RM6.3 million to RM7.1 million based on the Discounted Cash Flow (“DCF”) method of valuation by an independent accounting firm. The DCF method involves cash flow projections provided by the management and specific discount rate adopted.

2.5 Original Cost of Investment

The original cost of investment is not applicable for the Proposal as it involves the disposal of Contracts and Trademarks which are internally generated intangible assets of the Group.

2.6 Liability to be assumed

The Purchasers shall take over, discharge and assume all the Vendors’ obligations, duties and liabilities in relation to the Contracts and Trademarks upon the Completion Date as set out in item 2.7.2(a) of this announcement. There are no liabilities, including contingent liabilities, to be assumed by ASB Group and no guarantees have been given by ASB Group to the Purchasers in relation to the Proposal.

2.7 Salient terms of the Agreements

2.7.1. The breakdown of the Consideration of RM7.0 million is as follows:-

- a. The consideration for the Agreements amounting to RM7.0 million comprises:-
 - i. RM1.5 million for the Contracts relating to the provision of management services for the hotels in Malaysia and Bali, Indonesia and AHV’s Trademarks;
 - ii. RM0.5 million for the Contracts relating to the provision of management services or licensing arrangements for the hotels in China and HVIL’s Trademarks; and
 - iii. RM5.0 million for the Contracts relating to the provision of management services or licensing arrangements for the hotels in Qatar and Saudi Arabia; and

- b. A nominal consideration of RM1.00 for ASA.

2.7.2. In respect of the Agreements: -

- a. Deposit of 10% of the consideration for the Agreements of RM7.0 million or RM700,000 was paid upon execution of the Agreements. RM4.3 million of the consideration for the Agreements will be paid within seven (7) business days from the Unconditional Date (as hereinafter defined) of the Agreements or such other date as the parties may mutually agree in writing together with the completion of ASA as the Agreements and ASA are inter-conditional ("Completion Date"). The remaining balance of RM2.0 million of the consideration for the Agreements ("Remaining Balance") shall be paid by the Purchasers by way of ten (10) quarterly instalments with the first quarterly instalment to be paid on 1 January 2022 and the final quarterly instalment on 1 April 2024;
- b. The Agreements are conditional upon the fulfilment of the following conditions precedent within sixty (60) days from the date of the Agreements or such extended period as may be mutually agreed by the parties: -
 - i. to obtain the consent in writing of the respective hotel owners for each of the Contracts to the novation and/or assignment of all the rights and obligations of the Vendors under each of the Contracts in favour of the Purchasers;
 - ii. the execution of: -
 - 1. a deed of novation between the parties and the respective hotel owners for each of the Contracts; or, failing which
 - 2. a deed of assignment by the parties with notice of assignment to the respective hotel owners for each of the Contracts provided that the Purchasers shall ensure and procure that: -
 - 2.1 the consent by the respective hotel owners addressed to the Vendors is obtained for the assignment of all rights and obligations of the Vendors under the relevant Contract to the Purchasers; and
 - 2.2 the notice of the assignment in respect of the Assignment is served on the respective hotel owners for each of the Contracts (with receipt thereof acknowledged by the hotel owners) together with a copy of the Deed of Assignment;
 - iii. to obtain all necessary approvals of the board of directors and shareholders of the Vendors (which is subject to any consent or approval required by law or any security documents or instruments whatsoever) for the execution and performance of the Agreements and the assignments and/ or novations of the Contracts and the Trademarks (where applicable);
 - iv. The Agreements shall become unconditional on the date the last of the conditions precedent as set out in item 2.7.2 (b)(i)(ii) and (iii) above has been procured, obtained and/or fulfilled or waived ("Unconditional Date");

- c. There is a personal guarantee from Tan Sri Dato' Azman to guarantee payment of Remaining Balance in full;
- d. The Purchasers shall apply for the Trademarks to be registered under its own name upon the Completion Date; and
- e. Under the Agreement entered into between AHV and HVHR, AHV shall provide HVHR with the right of use for the office owned by AHV which is situated at B-16-8 Megan Avenue II, 12 Jalan Yap Kwan Seng, P.O. Box 11369, 50744 Kuala Lumpur ("Demised Premises") on an "as is where is" basis free of rental for a period of fifteen (15) months from the date of the Agreement. Thereafter, AHV agrees to rent the Demised Premises to HVHR at the monthly rental based on the prevailing market rate to be agreed between the parties and for a tenancy period of three (3) years with an option to renew for a further three (3) years at the then prevailing market rate to be agreed between the parties and upon such other terms and conditions contained in the tenancy agreement to be entered into between the parties.

2.7.3. In respect of the ASA:-

- a. 100% of the consideration i.e. Ringgit Malaysia One (RM1.00) for ASA was paid upon signing of the ASA;
- b. The completion of ASA shall take place simultaneously in conjunction with the Completion Date of the Agreements; and
- c. HVHR shall apply for the Trademarks to be registered under its own name on or after the Completion Date.

2.7.4. The Agreements and ASA are inter-conditional upon each other.

3. RATIONALE

The Proposal is in line with the moving forward plans of ASB Group to shift its resources to explore new market opportunities while streamlining its current core businesses. With the Proposal, it provides ASB's hospitality division with an opportunity to rationalise its operations to focus on assets investment and to have the flexibility to work with various hospitality providers to suit the needs and requirements of the target market for these assets.

The proceeds from the Proposal will strengthen the cash flow position of ASB Group.

4. PROPOSED UTILISATION OF PROCEEDS

The proceeds from the Proposal amounting to RM5.0 million will be paid by the Purchasers as at Completion Date and are proposed to be utilised to finance the working capital of ASB Group (i.e. ASB and its subsidiaries collectively), and for payment of expenses in relation to the Proposal as set out in the table below.

The Remaining Balance of RM2.0 million will be paid in ten (10) quarterly instalments of RM200,000 per quarter with the final quarterly payment to be made on 1 April 2024.

Purpose	Note	Amount (RM'000)	Expected timeframe for the utilisation of proceeds
Working capital	(1)	6,844	<u>Proceeds of RM4.844 million</u> - within 24 months from the Completion Date. <u>Proceeds of RM200,000 per quarter totalling RM2.0 million for Remaining Balance</u> - within 3 months from the receipt of the quarterly payment.
Estimated expenses for the Proposal	(2)	156	within 12 months from date of the Completion Date
Total		7,000	

Note:-

- (1) The proceeds shall be utilised to fund the day-to-day operations of ASB Group which include but not limited to payment of trade creditors and staff related expenses.
- (2) Estimated expenses include professional fees such as valuation, legal fees and tax expenses. Any shortfall or excess in the funds allocated for estimated expenses will be funded from or used for working capital of ASB Group.

In the event that the Proposal could not be completed, our Group would utilise its internally generated resources and/or alternative method of funding to implement any of the proposed activities as stated above.

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 ASB's issued share capital and substantial shareholders' shareholding in ASB as the Proposal does not involve any issuance of new ordinary shares or other securities by the Company.

5.2 Earnings and earnings per share ("EPS")

For illustration purpose only, based on the audited consolidated financial statements of ASB for the financial year ended 31 December 2020, the proforma effects of the Proposal on the earnings of ASB Group and EPS of ASB assuming that the Proposal had been effected at the beginning of the said financial year are as follows: -

	Audited for the financial year ended 31 December 2020	After the Proposal
	RM'000	RM'000
Net loss attributable to the owners of the Company	(34,299)	*(27,455)
No. of ASB shares ('000)	929,195	929,195
Loss Per Share (sen)	(3.69)	(2.95)

* Upon completion of the Proposal, the Group is expected to record an estimated net gain of RM6.8 million after taking into account the Consideration of RM7.0 million and estimated expenses of RM156,000. There is no book value recorded for the Contracts and Trademarks as these are internally generated intangible assets of the Group.

5.3 Net Assets (“NA”) and Gearing

For illustration purpose only, based on the audited consolidated financial statements of ASB for the financial year ended 31 December 2020, the proforma effects of the Proposal on the NA and gearing of ASB Group are shown as follows:-

	Audited as at 31 December 2020	After the Proposal
	RM'000	RM'000
Share capital	381,377	381,377
Other reserves	24,870	24,870
Retained earnings *	42,827	49,671
Equity attributable to shareholders of ASB	449,074	455,918
Non-controlling interests	67,659	67,659
Total equity	516,733	523,577
No. of ASB shares in issue ('000)	929,195	929,195
NA per share (RM)	0.483	0.491
Borrowings	57,458	57,458
Gearing (times)**	0.13	0.13

* After taking into consideration of the estimated net gain arising from the Proposal of approximately RM6.8 million.

** Based on borrowings of ASB Group divided by NA of ASB.

6. PRINCIPAL RISK FACTORS

6.1 Delay in or non-payment or part payment of the Remaining Balance

On completion of the Proposal with the payment of RM5 million to the Vendors, there is a Remaining Balance of RM2 million to be paid over a period of time up to 1 April 2024. There is a risk of delay in payment or non-payment or part payment of the Remaining Balance. The ability of the Purchasers in meeting its future quarterly payment obligations to the Vendors may be dependent on the performance of the Hotels which may be affected by factors beyond its control, amongst others, increased competition, economic slowdown, political or civil unrest, natural disasters and outbreaks of infectious disease such as the coronavirus (“Covid-19”) or other contagious viruses.

The Covid-19 outbreak resulted in governments across the world responding with the imposition of a series of containment measures which included quarantine, travel restrictions or bans, social distancing, lockdowns and/or border closures. In view of this outbreak, the hospitality industry has been affected worldwide with the decline in the visitation of international visitors as well as the demand for accommodation, meeting and banquet.

There can be no assurance that any prolonged impact from the occurrence of these unpredictable events and/or external factors will not seriously interrupt the operations of the Hotels which may have a material adverse effect on the financial performance and in turn will affect the profitability of the Purchasers and thus its ability to fulfil its future payment obligations pursuant to the terms and conditions of the Agreements.

However, after taking into consideration the Hotels' past performances under the management of Holiday Villa, our Board and management reasonably believe that the risk arising from external factors will be managed by the Purchasers in the normal course of the business. The risk is also mitigated by the personal guarantee of Tan Sri Azman, the major shareholder of the Purchasers.

6.2 Failure to fulfil the terms and conditions

If any of the terms and conditions of the Agreements are not fulfilled or waived within the stipulated period as stated therein, 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 Agreements are met by the parties therein within the stipulated timeframe and that every effort is taken to complete the Proposal in a timely manner.

7. APPROVALS/CONSENT REQUIRED

The Proposal is not subject to any approval of the shareholders of ASB or any other relevant authorities.

8. ESTIMATED TIMEFRAME FOR COMPLETION OF THE PROPOSAL

Barring any unforeseen circumstances, the Proposal is expected to be completed by the third quarter of 2021.

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 1.56% based on the Group's latest audited consolidated financial statements for the year ended 31 December 2020.

10. DIRECTORS AND MAJOR SHAREHOLDERS' INTERESTS

The Proposal is a related party transaction by virtue of the directorships and shareholdings of Tan Sri Azman and Puan Sri Masri as set out in item 2.3.2 of this announcement. Puan Sri Masri, a Non-Independent Non-Executive Director of ASB, is therefore regarded as having interest in the Proposal ("Interested Director").

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

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

ASHR had on 14 September 2020 transferred its entire 40% equity interest in HVHR representing 4 ordinary shares for a total cash consideration of RM4.00 to Tan Sri Azman. HVHR was a dormant associate company of ASHR.

Save for the 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.

12. AUDIT COMMITTEE'S STATEMENT

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

13. STATEMENT BY DIRECTORS

The Board of Directors (save for the Interested Director who has abstained from all deliberations on the Proposal) having considered all aspects of the Proposal, is of the opinion that the Proposal is in the best interest of ASB, fair, reasonable and on normal commercial terms and is not detrimental to the interest of the minority shareholders of ASB.

14. DOCUMENTS FOR INSPECTION

The Agreements 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, Malaysia from Mondays to Fridays (except public holidays) during normal office hours for a period of 3 months from the date of this announcement.

This announcement is dated 7 May 2021.