

**COMPANY** : **ADVANCE SYNERGY BERHAD**

**SUBJECT** : **LEASE CONTRACT FOR A COMMERCIAL BUILDING IN SHANGHAI, CHINA TO BE OPERATED AS A HOTEL UNDER HOLIDAY VILLA BRAND**

Announcement Details:

## **1. INTRODUCTION**

Advance Synergy Berhad (“ASB” or “the Company”) wishes to announce that its indirect 95%-owned subsidiary, Changshu Holiday Villa Hotel Management Co. Ltd (“Changshu Holiday Villa”) had on 11 November 2015 entered into a Lease Contract with Shanghai Yutai Industrial Co.,Ltd. (“Lessor”) for Changshu Holiday Villa or its nominee (hereinafter referred to as “Lessee”) to lease Block B of the Yu Tai commercial complex excluding the mezzanine, second and third floors bearing postal address of No. 108, 4-13 Floors, Liu Shing Road, Jiading District, Shanghai, People’s Republic of China (“the Hotel”) to be operated as a hotel under the Holiday Villa brand (“hereinafter referred to as “Lease”).

## **2. PARTICULARS OF THE HOTEL**

The description of the Hotel is as follows:

The Hotel is located within a commercial building known as Yu Tai commercial complex comprising 2 tower blocks with approximate area of 42,341 m<sup>2</sup> and bearing postal address of No. 108, 4-13 Floor, Liu Shing Road, Jiading District, Shanghai , People’s Republic of China (“Building”) which is located in Jiading Town, now the administrative center of Shanghai’s sprawling Jiading District and is in the vicinity of several 4As tourist attractions.

The Building has been completed in the third quarter of 2015 but requires at least 12 months for hotel renovation and refurbishment from both Lessor and Lessee. The Hotel will have 143 rooms upon completion subject to any changes required and is expected to be operational by 1 January 2017.

The approximate area of the Hotel to be leased is 11,417.75 m<sup>2</sup> comprising basement for hotel office and machineries, hotel lobby and restaurant on first floor and 143 hotel guest rooms.

No independent registered valuer was appointed to conduct any valuation on the Hotel for the purpose of finalising the terms of the Lease.

The net book value and original cost of investment of the Hotel/Building is not made known to the Lessee at the date of this announcement.

The Building is mortgaged by the Lessor.

### **3. INFORMATION ON THE PARTIES TO THE LEASE**

(a) Changshu Holiday Villa

Changshu Holiday Villa, an indirect 95%-owned subsidiary of ASB, is principally engaged in hotel management services, and was incorporated in People's Republic of China on 4 June 2004 with a registered capital of USD100,000.

(b) Lessor

Shanghai Yutai Industries Co., Ltd. was incorporated in the People's Republic of China on 20 February 2008 with a registered capital of RMB60,000,000.

### **4. RATIONALE**

The Lease represents a unique opportunity for our hotels and resorts division to operate a hotel in Shanghai. This is in line with our intention to have a greater presence in China and will further enhance our hospitality operations in major cities around the world. In addition, our hotels and resorts division believes that the inclusion of this Hotel which is situated in a very strategic location will be a big boost to the overall strategic planning for the expansion of a home grown Malaysian brand into the China market.

### **5. KEY SALIENT TERMS OF THE LEASE**

The salient features of the Lease include the following:

- (a) Rent per year excluding miscellaneous charges incurred by the Lessee on water, electricity, telecommunications, gas etc ranges from approximately RMB3.5 million to RMB7.4 million per annum.

The parties have mutually agreed that commencing from the third year of the Lessee's business operation, the Lessee shall in addition to the rent payable, pay 5% of the after-tax profit in relation to the Lessee's hotel operation under this Lease Contract.

- (b) Lease Period : 16 years from Date of the Lease Agreement (inclusive Rent Free Period of 365 days with effect from the commencement of renovation works).
- (c) Rent Free Period : 365 days from Delivery Date which shall commence from the actual commencement of renovation works by the Lessee after obtaining all necessary approvals from the relevant authorities.
- (d) Rental Deposit : RMB1,771,178.47 (equivalent to 6 months' rent of the initial period) to be paid by the Lessee within 7 working days from the signing of the Lease Contract.

- (e) The Lessor shall apply for all requisite permits, approvals or licences on the Lessee's behalf.
- (f) The Lease Contract may be terminated in the event of the following with liquidated damages which may include refund of Rental Deposit and/or Initial Rent (i.e. the first 6-month's rent as described in the Lease Contract) together with such other sum (if any) payable as the case may be pursuant to the Lease Contract:
  - i. requisite permits, approvals or licences are not obtained.
  - ii. late delivery of the Hotel by the Lessor to the Lessee.
  - iii. Lessee delayed/failed to take possession of the Hotel from the Lessor.
  - iv. Rental Deposit and Initial Rent are not paid by the Lessee to the Lessor within the stipulated timeline.
  - v. Lessee's payment of the Rental Deposit is overdue for 10 days.
  - vi. Lessee's delay/failure to pay the Rent to third party after written notice from the Lessor on the transfer of the Hotel to the said third party.
- (g) After expiry of the Lease Period, the Lessee is entitled for the preemptive right for renewal of the Lease for the Hotel on the same terms and conditions of the Lease Contract. The Lessee shall within 6 months before the expiry of the Lease Period exercise this right by giving a written notice to that effect to the Lessor.
- (h) If the Lessor arbitrarily terminates the Lease Contract and repossesses the Hotel during the Lease Period not due to any circumstance identified in the Lease Contract, the Lessor shall pay the Lessee liquidated damages equivalent to 2 times of the monthly rent payable for the applicable year. If such liquidated damages are insufficient to cover actual losses of the Lessee, the Lessor shall compensate for such shortfall. Since Lessor's early repossession of the Hotel materially damages the Lessee's core interest, the Lessor shall, in addition to the liquidated damages, refund the Lessee twice the Rental Deposit paid.
- (i) If the Lessee arbitrarily terminates the Lease Contract during the Lease Period not due to any circumstance identified in the Lease Contract, the Rental Deposit will be forfeited and the Lessee shall pay the Lessor liquidated damages equivalent to two times of the monthly rent payable for the applicable year. If such liquidated damages are insufficient to cover actual losses of the Lessor, the Lessee shall compensate for such shortfall.
- (j) This Lease Contract shall be governed by the laws and regulations of People's Republic of China.

## **6. BASIS AND JUSTIFICATION OF ARRIVING AT THE RENTAL RATE**

The rent totalling RMB82,557,754.04 (excluding any share of profit) over a period of 16 years was arrived at after thorough negotiations on a “willing buyer willing seller” basis and taking into consideration among others the lease tenure and current rental rate of offices in the surrounding area.

## **7. FINANCIAL EFFECT**

### **(a) Share Capital and Substantial Shareholders' Shareholdings**

The Lease has no effect on the share capital and substantial shareholders' shareholdings of ASB as it does not involve issuance of securities.

### **(b) Earnings per share**

The Lease will not have any material effect on the earnings per share of ASB Group for the financial year ending 31 December 2015 but it is envisaged that the Lease will contribute positively to the future earnings of ASB Group.

### **(c) Net Assets per share and gearing**

The Lease will not have any material effect on the net assets and gearing of ASB Group for the financial year ending 31 December 2015.

## **8. RISK FACTORS**

The risks involved in the Lease would be industry specific and general risks associated with the tourism and hospitality industry, for example, risks relating to general economic and political climate, customer preferences as well as seasonal vagaries, natural disasters, epidemic and terrorism. With our experienced personnel in the hospitality industry, our hotels and resorts division believes that it is able to mitigate these risks which are inherent in the industry in which it operates. In addition, the operational risks would be managed by our hotels and resorts division in the course of running the business. Our hotels and resorts division is confident that it is able to compete with the other competitors given that the Hotel is equipped with quality amenities besides its strategic location in the vicinity of several 4As tourist attractions and the regular clientele of the Holiday Villa hotels will be most supportive of a Malaysian based hotel in China.

Fluctuations in the exchange rate between the China Renminbi and Malaysian Ringgit may affect returns of the Group. Our hotel and resorts division will endeavour to match its income with expenditure in Renminbi to minimise movement in currency exchange.

Since the Hotel is operated under Lease, there is no guarantee that the property owner will renew the Lease or renew on terms acceptable to us. To mitigate the risk, the Lease Contract provides for a long term lease of 16 years and the pre-emptive right for renewal on the same terms and conditions.

Being in a foreign country, there is a country risk as adverse changes in economics, political and regulatory policies of the country could adversely affect the business of the Hotel. Our hotel and resorts division has diversified its hotel operations in various countries with an existing room inventory of approximately 6,800 rooms and the investment exposure in the Hotel is limited through the Lease.

The Board of Directors of ASB is not aware of any other risks arising from the Lease which could have any material adverse effect on the financial and operating conditions of ASB Group.

#### **9. ESTIMATED TIME FRAME**

It is estimated that the Hotel will be operational by 1 January 2017.

#### **10. LIABILITIES TO BE ASSUMED**

There are no liabilities, including contingent liabilities and guarantees, to be assumed by Changshu Holiday Villa arising from the Lease.

#### **11. APPROVAL REQUIRED**

The Lease is not subject to the approval of the shareholders of ASB and any other government authorities.

#### **12. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS**

None of the Directors or substantial shareholders of ASB or persons connected to them has any interest, direct or indirect, in the Lease.

#### **13. DIRECTORS' RECOMMENDATION**

Having considered the rationale and all other aspects of the Lease, the Board of Directors is of the opinion that it is in the best interest of ASB Group to proceed with the Lease.

This announcement is dated 11 November 2015.