

PART B

**INDEPENDENT ADVICE LETTER TO STOCKHOLDERS IN RELATION TO THE PROPOSED ACE
DISPOSAL**



MIMB

MALAYSIAN INTERNATIONAL MERCHANT BANKERS BERHAD

(Company No. 10209-W)

(A member of EON Bank Group)

REGISTERED OFFICE

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24 May 2002

To: The Minority Stockholders of ASB

Dear Sir/ Madam

ADVANCE SYNERGY BERHAD

PROPOSED DISPOSAL OF 49% EQUITY INTEREST IN ACE SYNERGY INSURANCE BERHAD COMPRISING 49,000,000 ORDINARY SHARES OF RM1.00 EACH TO UNITED MERCHANT GROUP BERHAD FOR A TOTAL CASH CONSIDERATION OF RM71,000,000

1.0 INTRODUCTION

This Independent Advice Letter is prepared for inclusion in the Circular dated 24 May 2002 in relation to the Proposed ACE Disposal ("EGM Circular") and should be read in conjunction with the same. All definitions used in this Independent Advice Letter shall have the same meaning as the words and expressions defined in the definitions section of the EGM Circular except where the context otherwise requires or where otherwise defined herein.

On 13 July 2001, SIBB announced on behalf of the Board of ASB that the Company has entered into the ACE SPA for the proposed disposal by ASB of its 49% equity interest in ACE comprising 36,750,000 ordinary shares of RM1.00 each together with 12,250,000 ordinary shares pursuant to a proposed rights issue, to UMG for a total cash consideration of RM71,000,000 ("Sale Consideration").

In view of the interest of a major stockholder and a director of ASB namely, Dato' Ahmad Sebi Bakar in the Proposed ACE Disposal as disclosed in Section 8 of the EGM Circular, the Proposed ACE Disposal is a related party transaction under Chapter 10 of the KLSE Listing Requirements. Accordingly, in compliance with Chapter 10 of the Listing Requirements, the directors of ASB, save for Dato' Ahmad Sebi Bakar, had on 12 July 2001 appointed MIMB as the Independent Adviser to advise the minority stockholders of ASB in respect of the Proposed ACE Disposal.

MIMB had on 25 July 2001, confirmed its view to the SC and KLSE on its eligibility to act as Independent Adviser to the minority stockholders of ASB for the Proposed ACE Disposal.

The purpose of this Independent Advice Letter is to provide the minority stockholders of ASB with an independent evaluation on the fairness and reasonableness of the Proposed ACE Disposal and our recommendation thereon.

MINORITY STOCKHOLDERS OF ASB ARE ADVISED TO READ CAREFULLY BOTH THIS INDEPENDENT ADVICE LETTER AND THE EGM CIRCULAR AND TO CONSIDER CAREFULLY THE RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTION IN RELATION TO THE PROPOSED ACE DISPOSAL TO BE TABLED AT THE FORTHCOMING EGM.

2.0 DETAILS OF THE PROPOSED ACE DISPOSAL

Full details of the Proposed ACE Disposal are set out in the EGM Circular, which the minority stockholders of ASB should read in its entirety. Set out below is a summary of certain salient information provided in the EGM Circular on the Proposed ACE Disposal, together with such additional information as we may deem relevant: -

2.1 Terms of the Proposed ACE Disposal

Pursuant to the ACE SPA, ASB proposes to dispose its entire 49% equity interest in ACE comprising 36,750,000 shares together with 12,250,000 ACE shares pursuant to a proposed rights issue, to UMG for a cash consideration of RM71,000,000.

The shares in ACE will be disposed free from all charges, liens, pledges, trust and other encumbrances and with all rights, benefits and entitlements now or thereafter attaching thereto, including without limitation all bonuses, dividends and other distributions declared, paid or made in respect of the said shares.

Subsequently on 24 April 2002, SIBB announced on behalf of the Board of ASB that the Company has entered into the ACE SA to inter-alia, extend the period for fulfilment of the conditions precedent by nine months up to 23 January 2003, or such later date as may be agreed in writing.

Under the terms of the ACE SPA and as amended by the ACE SA, the Sale Consideration for the Proposed ACE Disposal shall be satisfied by UMG to ASB by way of cash in the following manner:-

- (i) the sum of RM14,200,000 being 20% of the Sale Consideration is to be paid to ASB upon the execution of the ACE SPA (the aforesaid sum was received on 13 July 2001);

- (ii) the sum of RM12,250,000 being 17.25% of the Sale Consideration, is to be paid to ASB for the subscription of the rights issue undertaken by ACE (the aforesaid sum was received on 19 July 2001);
- (iii) the sum of RM14,200,000 being 20% of the Sale Consideration, is to be paid to ASB within 7 days from the execution of the ACE SA (the aforesaid sum was received on 26 April 2002);
- (iv) the sum of RM7,100,000 being a further 10% of the Sale Consideration, is to be paid to ASB within 7 days from the date of the fulfilment of the last of the conditions precedent to the ACE SPA; and
- (v) the sum of RM23,250,000 being the balance of the Sale Consideration, is to be paid to ASB on the completion date (being 7 days from the date of the fulfilment of the last of the conditions precedent to the ACE SPA or such other date as may be agreed in writing).

The Proposed ACE Disposal is conditional upon the conduct of a due diligence investigation by UMG into ACE and its affairs, results of which are satisfactory to UMG. ASB shall refund to UMG all monies paid together with interest at the prevailing 3-month fixed deposit rate of Malayan Banking Berhad if the results of the due diligence exercise are not to UMG's satisfaction or if the conditions precedent are not met within 9 months, or some other date as may be agreed in writing, from the date of the signing of the ACE SA.

The due diligence investigation was completed on 29 April 2002 and UMG has informed ASB in a letter dated 14 May 2002 that it is satisfied with the results of the due diligence investigation

3.0 CONDITIONS FOR THE PROPOSED ACE DISPOSAL

The Proposed ACE Disposal is conditional upon approvals being obtained from the following:-

- (i) BNM, which was obtained on 14 May 2001;
- (ii) the SC, for UMG's utilisation of the funds from the disposals of its banking business;
- (iii) the FIC, to be obtained by UMG;
- (iv) the stockholders of ASB at the Company's forthcoming EGM to be convened;
- (v) the shareholders of UMG at an EGM to be convened; and
- (vi) any other relevant authorities, if required.

4.0 DIRECTORS' AND MAJOR STOCKHOLDERS' INTERESTS

Details of the directors' and major stockholders' interests in the Proposed ACE Disposal are contained in Section 8 of the EGM Circular.

5.0 EVALUATION OF THE PROPOSED ACE DISPOSAL

MIMB was not involved in any deliberations and negotiations on the terms and conditions of the Proposed ACE Disposal. MIMB's scope as the Independent Adviser is limited to expressing an independent opinion on the fairness and reasonableness of the Proposed ACE Disposal.

In performing our evaluation of the Proposed ACE Disposal, we have relied on the information obtained from the following sources: -

- (i) the valuation report dated 16 April 2002 on ACE furnished by MZC;
- (ii) the ACE SPA and ACE SA;
- (iii) the EGM Circular dated 24 May 2002; and
- (iv) various discussions with the officials and management of ASB.

MIMB has not independently verified such information or documents concerned for its reasonableness, reliability, accuracy and/or completeness. In our review and in formulating our advice, we have relied on the reasonableness, accuracy and completeness of the information provided to us by ASB. We shall not be under any responsibility or liability for any mis-statement of fact or from any omissions therein.

Nonetheless, we have obtained written confirmation from the Board of Directors of ASB that, the directors individually and collectively accept full responsibility for the accuracy of the information in the Independent Advice Letter and confirm that after having made all reasonable enquiries and to the best of their knowledge and belief, all material facts and information required for the purpose of our evaluation of the Proposed ACE Disposal have been disclosed to us accurately and that there are no facts and/or statements and/or information therein is false or misleading or the omission of which would make any information supplied to us false or misleading.

We have evaluated the Proposed ACE Disposal and in rendering our views, we have only taken into consideration pertinent matters which we believe are of general importance to an assessment of the financial implications of the Proposed ACE Disposal and would be of significant relevance and of general concern to ASB's minority stockholders as a whole, and as such: -

- (a) The scope of MIMB's responsibility as regards its evaluation and opinion contained herein is confined to the financial terms of the Proposed ACE Disposal only, and where comments or points of consideration are included on certain pertinent matters which may be commercially oriented, these are incidental to our overall financial evaluation and concern matters which may deem material for disclosure.
- (b) MIMB's view contained in this Independent Advice Letter is to the minority stockholders of ASB at large and not to any stockholder individually. Hence, we have not considered the specific investment objectives, financial situation and particular needs of any individual or group of minority stockholders. We would recommend that any individual minority stockholder or any specific group of minority stockholders who require specific advice in relation to the Proposed ACE Disposal within the context of their individual objectives, financial situations and particular needs to consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

In evaluating the Proposed ACE Disposal, we have taken into consideration the following factors in forming our opinion: -

- (i) the rationale for the Proposed ACE Disposal;
- (ii) the basis for determining the Sale Consideration;
- (iii) the proposed utilisation of the proceeds; and
- (iv) the financial effects on ASB.

5.1 Rationale for the Proposed ACE Disposal

According to Section 3 of the EGM Circular, the Proposed ACE Disposal is part of the corporate exercise to be undertaken by the ASB Group for the purpose of streamlining the Group's operations, in which the companies involved in the provision of financial services are proposed to be structured under the umbrella of UMG.

We note that UMG, which is a 50.75% subsidiary company of ASB, has various investments in companies involved in the provision of financial services. The Proposed ACE Disposal seeks to streamline the Group's operations by transferring ASB's investment in ACE to UMG to further enhance the value of UMG, which is a major investment asset of ASB.

In addition, the Proposed ACE Disposal would allow ASB to realise its investment in ACE whilst at the same time, enable ASB to continue to have an interest in ACE held through UMG.

Moreover, the proceeds from the Proposed ACE Disposal are expected to be utilised for the ASB Group's funding and working capital requirements as well as to part finance the purchase consideration for the Proposed UCPL Acquisition and Proposed UCSB Acquisition.

Based on the above, we are of the view that your Board's rationale for the Proposed ACE Disposal is reasonable and in the long term interest of the Company and its stockholders.

5.2 Basis for determining the Sale Consideration

According to Section 2.1.4 of the EGM Circular, the Sale Consideration of RM71,000,000 was arrived at on a willing buyer-willing seller basis after taking into account the earnings potential of ACE.

In our assessment of the reasonableness of the Sale Consideration, we have compared and evaluated the Sale Consideration based on the following factors:-

- (a) the price to-book ratio;
- (b) the historical net price-earnings multiple; and
- (c) the appraisal valuation report by MZC.

5.2.1 *Price to-book Ratio*

The Sale Consideration of RM71,000,000 represents a price to-book ratio of 1.33 times the audited NTA of ACE as at 31 December 2001 as set out below:-

		RM'000
Audited NTA of ACE as at 31.12.2001		108,683
ASB's 49% share of the NTA of ACE	(A)	53,255
Sale Consideration	(B)	71,000
Price to-book ratio (times)	(B)/(A)	1.33

We have also considered the price to-book ratios of recent acquisitions or proposed acquisitions of insurance companies as announced to the KLSE, as follows :-

Announcement Date	Acquirer	% equity interest acquired / to be acquired	Acquiree	Price to-book Ratio (times)
28.08.2000	United Oriental Assurance Berhad	72.93%	Capital Insurance Berhad	1.46
28.05.2001	Idris Hydraulic (M) Berhad	77.7%	Tenaga Insurance Berhad	1.68
15.08.2001	Pacificmas Berhad	100%	Konsortium Insurance Berhad	1.36
13.09.2001	Idris Hydraulic (M) Berhad	100%	Malaysia & Nippon Insurans Berhad	1.55
16.10.2001	Idris Hydraulic (M) Berhad	100%	People's Insurance Co. (M) Bhd	0.81
			Average	1.37

Based on the above comparison, we note that the price to-book ratio of the Proposed ACE Disposal of 1.33 times is comparable with the average price to-book ratio of the recent acquisitions/proposed acquisitions of insurance companies as announced to the KLSE. In addition, we note that all of the above transactions involve the acquisition of controlling interest, i.e. more than 50% equity interest whilst the Proposed ACE Disposal involves the disposal of 49% equity interest in ACE.

5.2.2 Price Earnings ("PE") multiple

The Sale Consideration of RM71,000,000 represents a net PE multiple of 17.58 times based on the audited PAT of ACE for the financial year ended ("FYE") 31 December 2001, as set out below:-

		RM'000
Audited PAT of ACE for the FYE 31 December 2001		8,241
ASB's 49% share of the PAT of ACE	(A)	4,038
Sale Consideration	(B)	71,000
Net PE multiple (times)	(B)/(A)	17.58

For the purpose of providing an illustrative guide to the current market expectation with regard to the valuation of companies which are predominantly in the general insurance business as well as the overall market valuation, we have analysed the net PE multiples of the recent acquisitions or proposed acquisitions of insurance companies as follows:-

% acquired	Acquiree Company	FYE	PAT/(Loss after Tax) RM'000	Consideration RM'000	Net PE Multiple (times)
72.93	Capital Insurance Berhad	31/12/1999	16,824	79,000	*6.44
77.70	Tenaga Insurance Berhad	31/03/2001	(4,953)	69,969	n.a.
100.00	Konsortium Insurance Berhad	31/12/2001	4,328	83,500	19.29
100.00	Malaysia & Nippon Insurans Berhad	31/12/2000	9,544	100,000	10.48
100.00	People's Insurance Co. (M) Bhd	31/03/2001	(41,792)	80,000	n.a.

* - Computed based on 72.93% share of PAT.

(Source : Circulars and announcements from <http://announcements.klse.com.my/>)

We have also considered the historical net PE multiples of other listed companies on the KLSE engaged in similar activities prevailing as at 22 May 2002 which are as follows:-

Company	Historical Net PE multiple (times)
Jerneh Asia Berhad	11.1
LPI Capital Bhd	16.1
Allianz General Insurance Malaysia Berhad	not applicable*
Pacific & Orient Berhad	not applicable*

* - loss making in the last financial year

(Source : The Star dated 22 May 2002)

The Sale Consideration of RM71,000,000, which represents a net PE multiple of 17.58 times based on the historical PAT of ACE for the FYE 31 December 2001 is within the range of the net PE multiples of the above companies which range from 6.44 times to 19.29 times.

5.2.3 *Appraisal valuation by MZC*

We note that MZC vide its appraisal valuation report dated 16 April 2002, had appraised the value of the general insurance operations ("Funds") of ACE as at 31 December 2001 to be as follows:-

Break-up basis

MZC has estimated the total appraisal value of the Funds based on the Funds' revised net asset value ("NAV") (after taking into consideration the value of the assets and liabilities of ACE as at 31 December 2001) to be as follows:-

Total appraisal value	RM111.1 million
ASB's 49% share of the valuation of ACE	RM54.4 million

Based on the above, we note that the Sale Consideration of RM71,000,000 represents a premium of approximately RM16,600,000 or 30.5% over the appraisal value of RM54,400,000 (after taking into consideration ASB's 49% equity share in ACE) based on the break up basis.

On-Going Basis

In arriving at the valuation of ACE, MZC has estimated the present value of future profits from renewals of existing business as well as from new business by ACE and the total value of the Funds on an on-going basis (after incorporating the cost of solvency margin on a minimum basis and revised NAV).

For the purpose of the valuation, MZC has adopted a discount rate of 13% per annum. However, as a comparison, MZC has also computed the results based on a discount rate of 8% and 18% per annum.

Discounted rate	%	8	13	18
Total appraisal value	<i>RM (million)</i>	195.9	160.4	137.0
ASB's 49% share of the valuation of ACE	<i>RM (million)</i>	95.9	78.6	67.1

Based on the above, we note that the Sale Consideration of RM71,000,000 represents a discount of approximately RM7,600,000 or 9.7% over the appraisal value of RM78,600,000 (after taking into consideration ASB's 49% equity share in ACE) based on the discounted rate of 13% per annum based on the on-going basis.

5.3 Proposed Utilisation of Proceeds

The Proposed ACE Disposal will generate a net cash proceeds of RM58,750,000 (net of Rights Issue subscription of RM12,250,000) to ASB, which will be utilised for ASB Group's funding and working capital requirements of not less than RM26,200,000 as well as to part finance the Proposed UCPL Acquisition and Proposed UCSB Acquisition of up to RM32,550,000.

5.4 Financial Effects on ASB

The effects of the Proposed ACE Disposal on the ASB Group are as follows: -

(i) On Share Capital and Major Stockholders' Stockholdings

The Proposed ACE Disposal is to be satisfied entirely by cash and therefore, will not have any effect on the share capital of ASB or the major stockholders' stockholdings of ASB.

(ii) On Earnings

Based on the audited accounts of ASB and ACE as at 31 December 2001, the Proposed ACE Disposal would result in an exceptional gain of approximately RM41,982,000 or RM0.12 per stock unit at the Company level and approximately RM5,356,000 or RM0.02 per stock unit at the ASB Group level, based on 337,793,619 existing stock units of RM1.00 each in issue.

In addition, the net cash proceeds of RM58,750,000 arising from the Proposed ACE Disposal (net of Rights Issue subscription of RM12,250,000) may enable ASB to achieve interest savings of approximately RM5,537,000 based on the average interest rate of the Group's bank borrowings of 9.4% per annum.

(iii) Net Tangible Assets

The proforma effect of the Proposed ACE Disposal on the NTA of the ASB Group based on the audited accounts of the ASB Group for the financial year ended 31 December 2001 is as follows:

	Audited as at 31 December 2001 RM'000	After Proposed ACE Disposal RM'000
Share capital	337,794	337,794
Share premium	430,437	430,437
Reserves	(342,582)	(337,226)
Stockholders' equity	425,649	431,005
Less: Intangibles	(93,282)	(93,282)
NTA	<u>332,367</u>	<u>337,723</u>
NTA per stock unit (RM)	0.98	1.00

6.0 FURTHER INFORMATION

Minority stockholders of ASB are advised to refer to the appendices set out in the EGM Circular for further information.

7.0 CONCLUSION AND RECOMMENDATION

It is imperative that the minority stockholders of ASB consider carefully the relevant issues and pertinent areas of concerns raised in this Independent Advice Letter before arriving at a decision.

Based on our evaluation of the relevant issues and pertinent areas as considered above, we are of the opinion that, taken as a whole and from a financial viewpoint, the Proposed ACE Disposal is fair and reasonable, and barring unforeseen circumstances, they are in the best interest of the ASB Group and are not detrimental to the interest of the minority stockholders of ASB.

Accordingly, we recommend that you vote in favour of the ordinary resolution pertaining to the Proposed ACE Disposal to be tabled at the forthcoming EGM of the Company.

Yours faithfully,

For and on behalf of
MALAYSIAN INTERNATIONAL MERCHANT BANKERS BERHAD

DR. SHEIKH AWAB SHEIKH ABOD
Deputy Chief Executive Officer

LIM SIEW ENG
Senior General Manager
Head of Corporate Advisory &
Consultancy Services