

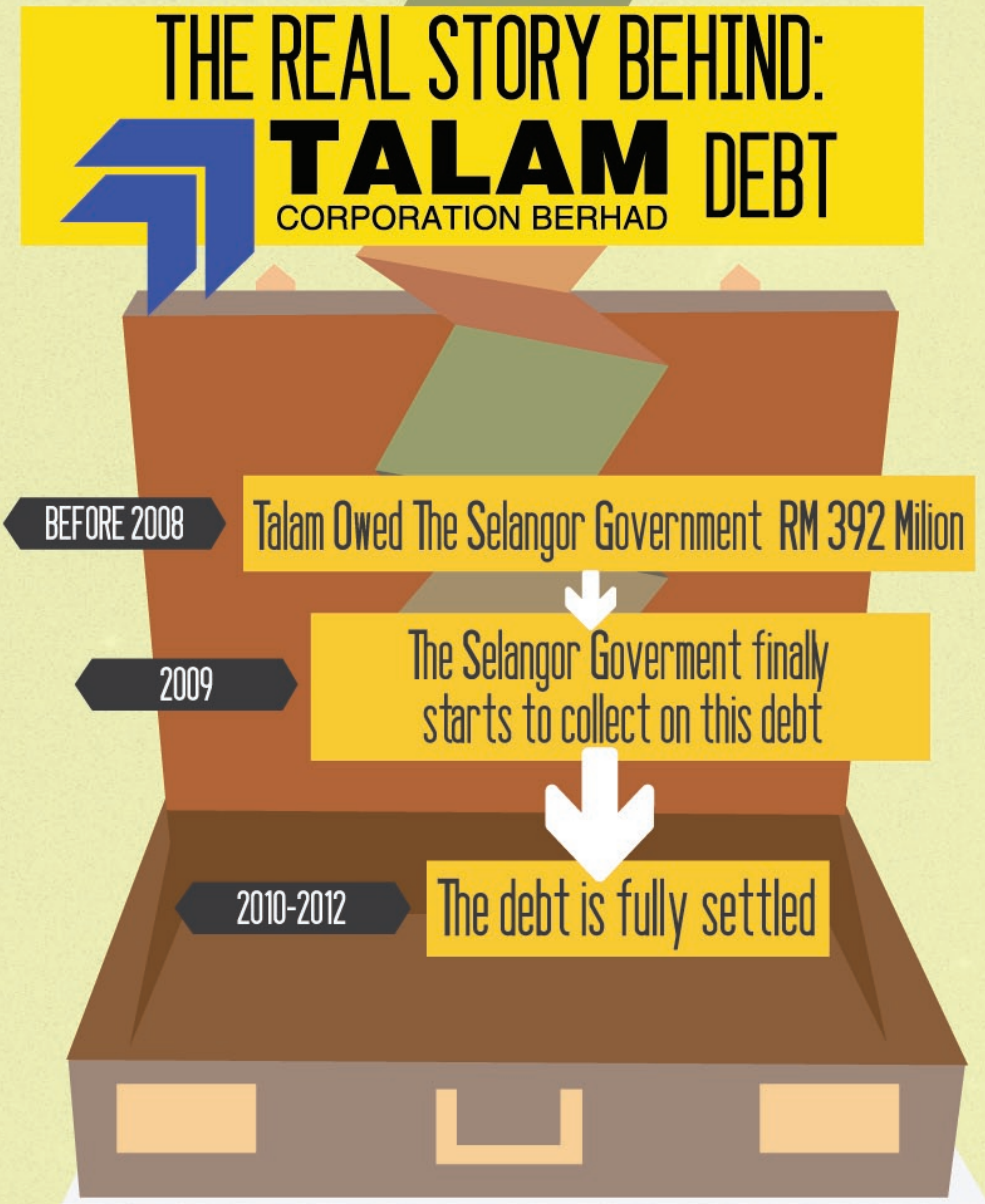


"WHEN PEOPLE DEPEND ON YOU, YOU MUST BE TRUSTWORTHY."  
TAN SRI KHALID IBRAHIM, MENTERI BESAR OF SELANGOR



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# INDEPENDENT REVIEW ON TALAM DEBT RECOVERY EXERCISE

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## Did the Selangor Government bail Talam Corporation out for RM1 billion?

This is not a bailout. The State Government had merely recovered debts owed to it by Talam Corporation (Talam). We are unable to comment on how the RM1 billion is derived as the amount is neither in the records of the state nor in the agreements with Talam.

## If it was not a bailout, what was the exercise conducted by the Selangor Government with regards to the Talam debts?

The state government had carried out a debt settlement exercise. A debt settlement can be in the form of cash and/or assets. In this instance, assets were used as the mode for settlement. The exercise that was carried out was to recover assets from Talam through a settlement agreement for the debt owed.

## What is the difference between a bailout and debt settlement/ recovery?

Bailout constitutes acts of giving financial assistance to a failing business to save it from collapse. The provision of "financial assistance" is defined in Bursa Malaysia's requirement as:

- Lend or advance any money; or
- Guarantee, indemnify or provide collateral for a debt

The State did not provide any of the above to Talam and hence this is not a bailout

Debt recovery is literally, claiming debts from your debtor of what is rightfully yours.

In this case, the arrangement between Talam and the State Government is a debt recovery situation where a group settlement agreement (GSA) was signed. The agreement allowed the state to "take" Talam's assets so that these assets can be sold for the State to recover its money.

## When and how did Talam incur the debt?

The Talam debts - which amount to RM392 million - initially arose from dealings with state subsidiaries as below:

- Joint Venture Agreements in 1989 to 2002 between Permodalan Negeri Selangor Berhad (PNSB) of RM28.3million and Kumpulan Hartanah Sdn Bhd (KHSB) of RM115.1million
- A privatization agreement for the construction of Universiti Industri Selangor (Unisel) campus between the state government and Talam in 2001 of RM248.7 million.

## Did Selangor Government recover all the debts owed by Talam?

Yes. All RM392 million has been recovered in the form of settlement assets.

## How did the State Government recover the debts?

The debts was recognized by both parties and the parties then entered into two group settlement agreements (GSA) between Talam and Menteri Besar Incorporated (MBI) dated 12th March 2010 and 9th April 2010. These debts were to be settled through transfer of lands/ properties from Talam to MBI.

A total of 14 assets were transferred

- consisting of:
  - 9 plots of land and two properties amounting
- to RM671 million (with RM275 million encumbrances)
- cash repayment by Talam of RM5 million
- debt transfer of RM7.7 million
- equity transfer of RM4.2 million

## Did the debt recovery exercise compromise the State Government's interest at any time?

No, the exercise did not compromise the State Government's interest as the exercise did not involve any cash. It was merely a debt settlement arrangement where Talam also undertakes that the State Government will recover its RM392 million in full.

## Was there any attempt by the State Government to recover the debts from Talam before 2009?

Yes. The State Government had entered into various settlement agreements in 2005, 2007 and 2008 to recover the debts from Talam. However, those settlements did not work out. The debt recovery was successful after Menteri Besar Tan Sri Abdul Khalid Ibrahim crafted the present exercise which involves a global settlement agreement.

## Did the exercise benefit the State Government?

Yes the state benefitted from the exercise. Firstly the GSA had put the State Government in an advantageous position where MBI received payment second to secured lenders when previously it was pooled together with other unsecured creditors of Talam. It then proceeded to recover all debts from Talam, in full, with no debt waiver by MBI.

## Were there any irregularities during the transfer of the 14 assets stated above?

No irregularities were found during an independent review of the transfer of the said assets. The assets were transferred by virtue of the Settlement and Supplementary agreements and the subsequent Sale & Purchase Agreements to the final buyers.

Monies will flow to the relevant banks (to settle the encumbrances) and the balance to MBI. This process is being monitored closely by MBI to ensure all due amount is recovered in full.

## There were accusations that some assets were overpriced thus causing losses to the state. What has the audit revealed?

The independent review revealed that various valuation reports had already been performed by the State - both by external valuers and the government valuation department - for internal purposes. Subsequently, these valuations were referred to for this settlement exercise.

Overall, these valuations supported the gross consideration which was agreed upon by MBI. Hence, the records showed no situation of assets being overpriced.

## Were the assets eventually purchased by State Government subsidiaries? If yes, which companies were involved? Did any of them suffer losses from any of the purchase?

Not all the settlement assets were purchased by the State subsidiaries. Two plots of land were actually purchased by third parties.

The subsidiaries which had purchased the assets are:

- Perbadanan Kemajuan Negeri Selangor (PKNS) - RM16.9 million gross consideration
  - PNSB - RM438.5 million gross consideration
  - KHSB - RM44.7 million gross consideration
- No losses are anticipated from these purchases. Development plans have already been made for the lands purchased. With these plans, the subsidiaries are expected to make developers' profit in the future.

\*\* Gross consideration = Consideration before deduction of bank encumbrances.

## Was the entire process a good commercial decision made by the State Government? If yes, why?

Yes, it was a sound commercial decision by the State Government as the exercise had led MBI to recover the Talam Debts in full with no debt waiver.