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KPMG STATEMENT TO KERAJAAN NEGERI SELANGOR ON THE TALAM DEBTS RESTRUCTURING AND RECOVERY EXERCISE

KPMG appointment and scope of work

KPMG Transaction & Restructuring Sdn Bhd (“KPMG”) was appointed by the Selangor State Government on 30 July 2012 to perform an independent review on the RM392 million debt recovery exercise from Talam Corporation Berhad (“Talam” or now known as Trinity Group Berhad) (hereinafter referred to as “Talam Debts”).

Our scope of work under the terms of our engagement comprised the review of documents provided by the Selangor State Government (“the State”), Menteri Besar Incorporated (“MBI”), Kumpulan Hartanah Selangor Berhad (“KHSB”), Pendidikan Industri YS Sdn. Bhd. (“PYISB”) / Universiti Industri Selangor (“UNISEL”) and Permodalan Negeri Selangor Berhad (“PNSB”) in connection with the following areas:

1. Recognition of Talam Debts in the books of KHSB, PYISB / UNISEL and PNSB (collectively referred to as “the State subsidiaries”);
2. Recognition of Talam Debts novated by KHSB, UNISEL and PNSB in the books of Selangor State Government;
3. Sale of Talam Debts to MBI;
4. Grant from the State to MBI;
5. Talam Debts Settlement Scheme/Agreement; and
6. Settlement of Talam Debts by Talam to MBI

In preparing our report, the primary sources of information are as listed in Appendix 1.

Limitation

Our work covers only the financial aspects of the Talam Debts restructuring and recovery exercise and does not extend to the legal and valuation aspects of the exercise.

Summary of KPMG comments and findings from the review

1. Talam Debts

The Talam Debts originated from various property development joint venture agreements between KHSB and PNSB and Talam/Talam subsidiaries in 1994 to 2002, and a privatization agreement for the construction of UNISEL campus between the State and Maxisegar in 2001/2003. Through a series of steps / mechanisms, the Talam Debts were ultimately transferred to MBI. The amounts agreed between the Selangor State Government and Talam totalled RM392 million and details are as follows:

Talam Debts	RM million
PIYSB / UNISEL	248.7
KHSB	115.1
PNSB	28.2
Total	392.0

2. Global Settlement Agreement between MBI and Talam dated 12 March 2010 and 9 April 2010 (“GSA”)

Between 2005 and 2008, there were settlement attempts by the State subsidiaries to recover the Talam Debts but these settlement arrangements did not materialize.

Talam was in PN17 from 1 September 2006 to 10 June 2010.

In 2010, the State entered into a global settlement with Talam, through MBI. Under the GSA, the RM392 million Talam Debts were to be realised in the following manner:

	RM million
Gross consideration of Settlement Assets (comprising 9 plots of land, 2 properties and 60% equity in a subsidiary of Talam)	676.1
Bank loans in Talam’s books / encumbrances on Settlement Assets	(266.3)
Cost to ensure due transfer and registration of settlement assets and Excess Amount	(30.5)
Cash payment to be made by Talam to MBI	12.7
Net to MBI	392.0

Based on the GSA, the State would receive from Talam cash payment of RM12.7 million and properties with net values of RM409.8 million (RM676.1 million less RM266.3 million) as final settlement of the RM392 million Talam Debts.

3. Valuations

The State Government had considered third parties’ valuations and comparative values available internally and the appropriate basis of valuation, prior to entering the GSA.

4. Undertaking by Talam

In addition, there is an undertaking in the GSA by Talam whereby Talam shall procure and do all acts and deeds as shall be necessary to ensure the due settlement of the entire Talam receivables (i.e. RM392 million, including any applicable cost and interest if any).

5. Summary

Based on the information provided to us, we view the decision of the State Government to enter into the GSA as a sound commercial decision under the circumstances at that point in time.

