

## MALAYSIA BUILDING SOCIETY BERHAD (“MBSB” OR THE “COMPANY”)

### PROPOSED SCHEME OF ARRANGEMENT (“PROPOSED SCHEME”)

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This announcement is dated 18 September 2023 (“**Announcement**”).

#### 1. INTRODUCTION

On behalf of the Board of Directors of MBSB (“**Board**”), AmInvestment Bank Berhad (“**AmInvestment Bank**”) wishes to announce that the Company proposes to undertake a members’ scheme of arrangement pursuant to Sections 366 and 370 of the Companies Act 2016 (“**Act**”) (“**Proposed Scheme**”) as detailed in the ensuing sections of this Announcement.

#### 2. THE PROPOSED SCHEME

##### 2.1 Background

On 6 November 2017, MBSB had entered into a conditional share purchase agreement to acquire the entire equity interest in MBSB Bank Berhad (*then known as Asian Finance Bank*) (“**MBSB Bank**”) for an aggregate purchase consideration of approximately RM645.0 million. The said acquisition was completed on 7 February 2018.

Pursuant to the said acquisition, MBSB had entered into a scheme of arrangement with its members in respect of the merger of the Company with MBSB Bank, which was approved by the members of the Company at a court-convened meeting held on 23 January 2018.

Under the said scheme of arrangement, MBSB obtained a vesting order dated 28 February 2018 to transfer its Shariah-compliant business, assets, and liabilities to MBSB Bank and dispose of to third parties, identified residual conventional financial assets and liabilities, which cannot be converted to Shariah-compliant assets and liabilities, and identified non-financial subsidiaries, within a period of three (3) years ending 1 April 2021. The Company had further obtained an order by the High Court of Malaya (“**Court**”) on 21 July 2021 for an extension of time to do so by 1 April 2024.

As at 31 August 2023, being the latest practicable date of this Announcement (“**LPD**”), the remaining identified residual assets and liabilities of MBSB which will be under the Proposed Scheme (“**Residual A&L**”) comprise the following:-

- (a) Identified non-financial subsidiaries of MBSB namely MBSB Development Sdn Bhd (“**MBSB Development**”), Prudent Legacy Sdn Bhd (*in liquidation*) (“**Prudent Legacy**”), MBSB Properties Sdn Bhd (“**MBSB Properties**”), 88 Legacy Sdn Bhd (“**88 Legacy**”) and Definite Pure Sdn Bhd (“**Definite Pure**”) (“collectively known as “**Non-Financial Subsidiaries**”); and
- (b) Non-performing residual conventional loans (“**Subject Loans**”). The Subject Loans to be disposed under the Proposed Scheme can only be finalised prior to the date of transfer to be determined later. As at 30 June 2023, the net book value of the Subject Loans amounted to RM279 million.

## 2.2 Details of the Proposed Scheme

The Proposed Scheme entails the following:-

(i) **Proposed transfer by MBSB of the sole ordinary share of Emerald Unity Sdn Bhd (“Emerald Unity”) (“Emerald Unity Share”) (“Proposed Emerald Unity Share Transfer”)**

MBSB proposes to transfer its entire shareholding in Emerald Unity to a corporate share trustee (“**Share Trustee**”), which shall hold the same for the benefit of a nominated charity to be identified, for a consideration of RM1.00.

The Share Trustee shall be the registered owner of the Emerald Unity Share, holding the Emerald Unity Share on trust with power to distribute any and all distributions and entitlements to Emerald Unity Share to the nominated charity to be identified.

(ii) **Proposed disposal by MBSB of the Residual A&L to Emerald Unity (“Proposed Disposal”)**

After the Proposed Emerald Unity Share Transfer to the Share Trustee, MBSB proposes to dispose of and transfer its Residual A&L to Emerald Unity for the following consideration:-

- (a) For the shares of the Non-Financial Subsidiaries, based on a nominal sum of RM2.00 or less for each of the Non-Financial Subsidiaries; and
- (b) For all the Subject Loans which remain in MBSB at the date of transfer, at a consideration to be determined based on net book value at the end of the month prior to the transfer of the Subject Loans subject to a maximum of the amount owed under the respective Subject Loans as at a date to be determined by the Company.

(collectively referred to as the “**Consideration**”)

The Consideration for the Subject Loans payable by Emerald Unity shall be settled in cash and on a deferred basis, as and when Emerald Unity has received funds arising from the settlement or recovery of the amounts and interests which remain outstanding under the respective Subject Loans. The Consideration for the Non-Financial Subsidiaries payable by Emerald Unity shall be settled in cash on the transfer date to Emerald Unity. The deferred payment of the Consideration for the Residual A&L will be paid with a compensation at the rate of 6.75% - 8.75% per annum, from the date of transfer of the Residual A&L to the date of settlement.

For each of the Subject Loan, in the event that the funds realised by Emerald Unity from the settlement or recovery of the Subject Loan is higher than the deferred cash consideration (including accrued compensation), the remaining amount after settling the costs and expenses of disposal and the deferred cash consideration (including accrued compensation) shall be paid to MBSB as additional consideration, which is not subject to compensation.

For the avoidance of doubt, the said funds realised shall be net of any amount in excess of the amount outstanding under the respective Subject Loans, any excess amount shall be returned to the borrower.

The Non-Financial Subsidiaries are wholly-owned subsidiaries of MBSB and comprise the following:-

<u>Non-Financial Subsidiary</u>	<u>Principal activities</u>	<u>Net assets ("NA") as at FYE 31 December 2022 (RM'000)</u>	<u>Loss after tax and minority interest (RM'000)</u>
MBSB Development	Property development	(81,465)	(4,305)
MBSB Properties	Letting of real property	(238,921)	(17,317)
88 Legacy	Property development	(79,271)	(5,448)
Definite Pure	Property development	(706,157)	(70,011)
<b><u>Subsidiary of MBSB Development</u></b>			
Prudent Legacy	In liquidation	-	-

The NA of each Non-Financial Subsidiary prior to the Proposed Disposal shall be nominal at RM2.00 or less after taking into consideration, inter-alia, disposal of properties to third parties, transfer of properties to MBSB Bank, write-off of intercompany balances and declaration of dividends by the respective Non-Financial Subsidiaries.

The Proposed Disposal shall be implemented through the Proposed Scheme by way of a vesting order obtained from the Court. The Company and Emerald Unity shall enter into a sale and purchase agreement ("**SPA**") to set out the terms and conditions relating to the Proposed Disposal which will be executed after the approval of the Court is obtained.

A trustee will be appointed to manage the operations of Emerald Unity, primarily managing the proceeds that Emerald Unity receives from the settlement or recovery of the amounts and interest which remain outstanding under the Subject Loans. The trustee will, amongst other matters, manage the bank account(s) of Emerald Unity, payments from the said bank account(s) to settle outstanding costs and expenses, and the deferred cash consideration and additional consideration.

In respect of the litigation on the Subject Loans, Emerald Unity may appoint a servicing agent, which may be a subsidiary of MBSB, to manage and supervise the litigation process together with the appointed legal counsel handling such litigation matters.

The Company will agree with Emerald Unity to bear the following:-

- (a) operational expenses of Emerald Unity including administrative expenses, directors' fees, trustees' fees and agent's fees;
- (b) expenses relating to non-performing loans and the non-convertible loan including maintenance costs, insurance costs, quit rent and assessment expenses and receiver and manager fees; and
- (c) legal costs for the conduct of the litigation on the non-performing loans forming part of the Residual A&L and for the foreclosure and/or sale of the charged properties, and any liabilities arising under judgements or orders made against Emerald Unity, whereby MBSB shall provide a contractual undertaking to Emerald Unity to pay the same on behalf of Emerald Unity .

(collectively, the "**Post-Completion Expenses**")

Emerald Unity will be liquidated and/or dissolved once all the Residual A&L have been disposed of or resolved.

### **2.3 Information on Emerald Unity**

Emerald Unity was incorporated on 30 March 2023. The company is principally involved in other financial services activities, except insurance / takaful and pension funding not elsewhere classified.

As at the LPD, the issued and paid-up share capital of Emerald Unity is RM1.00 comprising 1 ordinary share in Emerald Unity held by MBSB as the sole shareholder of Emerald Unity.

As at the LPD, the directors of Emerald Unity are Dato' Azlan Bin Shahrim and Jesleigh Bin Johari. The directors of Emerald Unity will change upon the implementation of the Proposed Scheme.

Emerald Unity serves as a special purpose vehicle which was incorporated to hold the Residual A&L upon implementation of the Proposed Scheme. Upon completion of the Proposed Emerald Unity Share Transfer, MBSB will no longer have legal or beneficial ownership in the shares of Emerald Unity.

### **2.4 Basis and justification for the Consideration**

The Consideration is based on the following:-

#### **Subject Loans**

The Subject Loans' consideration to be determined based on net book value at the end of the month prior to the transfer of the Subject Loans subject to a maximum of the amount owed under the respective Subject Loans.

MBSB proposes to transfer all remaining Subject Loans. As the date of transfer will be in the future, the Subject Loans can only be finalised then. For information the net book value of the Subject Loans as at 30 June 2023 is RM279 million.

#### **Non-Financial Subsidiaries**

For the Non-Financial Subsidiaries, the sale consideration is expected to be up to RM8.00, based on the the adjusted NA of each Non-Financial Subsidiary prior to the Proposed Disposal of RM2.00 or less after taking into consideration, *inter-alia*, disposing of properties to 3<sup>rd</sup> parties, transfer of properties to MBSB Bank, write-off of intercompany balances and declaration of dividends.

### **2.5 Assumption of liabilities**

Save as disclosed below, there are no liabilities, including contingent liabilities and/or guarantees, to be assumed by MBSB arising from the Proposed Scheme.

All the Subject Loans included in the Proposed Scheme are under litigation with MBSB as a party. For some cases, there are countersuits. It is a term of the Proposed Disposal that MBSB will have a continuing obligation to pay for certain operational expenses of Emerald Unity and to satisfy any ongoing liabilities as may arise in respect of litigation costs and expenses as well as judgments or orders made against Emerald Unity, in any on-going litigation, which is transferred to Emerald Unity, as part of the Residual A&L.

## 2.6 Utilisation of proceeds

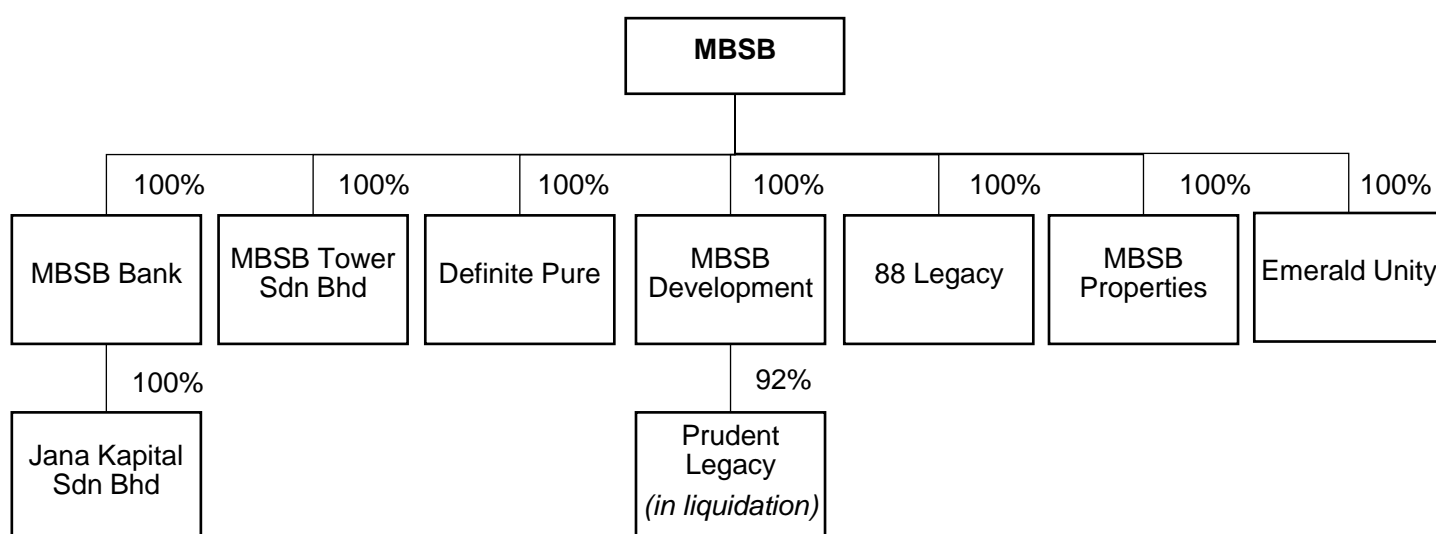
MBSB intends to utilise cash proceeds as and when received from the Proposed Disposal for the internal working capital of the MBSB and its subsidiaries (“**MBSB Group**”) within twelve (12) months from the date of receipt.

Pending utilisation, the cash proceeds from the Proposed Disposal will be deposited with licensed financial institutions and/or invested in money market instruments as the Board may deem fit.

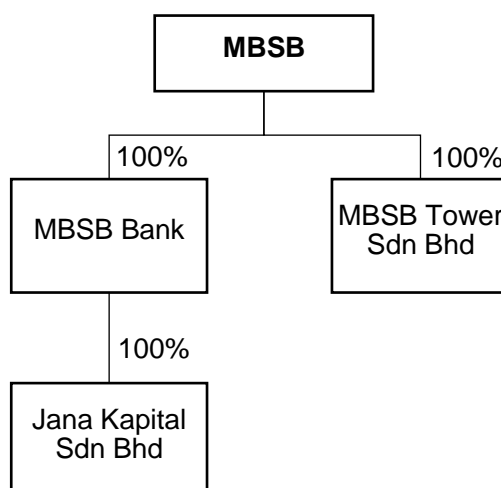
## 3. CORPORATE STRUCTURE BEFORE AND AFTER THE PROPOSED SCHEME

The corporate structure of the MBSB Group before and after the Proposed Scheme, based on the direct shareholdings of MBSB’s substantial shareholders as at the LPD, are as follows:-

### Structure of MBSB Group as at the LPD<sup>(a)</sup>



### Structure of MBSB Group after the implementation of the Proposed Scheme<sup>(a)</sup>



**Note:-**

(a) The structure above has not taken into account the proposed acquisition of Malaysian Industrial Development Finance Berhad ("**MIDF**").

MBSB has on 30 August 2023 announced that the agreement for its proposed acquisition of MIDF has become unconditional following the fulfilment of all the conditions precedent

*set out therein. Barring any unforeseen circumstances, the proposed acquisition is expected to be completed in early October 2023.*

For the avoidance of doubt, the Proposed Scheme will not have any effect on the shareholding structure.

#### **4. RATIONALE FOR THE PROPOSED SCHEME**

The rationale of the Proposed Scheme is to enable MBSB to be a pure investment holding company with no loans and no direct interest in companies which are not involved in financial services.

#### **5. RISKS RELATING TO THE PROPOSED SCHEME**

##### **5.1 Non-completion of the Proposed Scheme**

The completion of the Proposed Scheme is conditional upon the approvals for the Proposed Scheme. Such approvals include obtaining the requisite shareholders' approval and Court sanction for the Proposed Scheme.

There can be no assurance that all of the approvals for the Proposed Scheme will be fulfilled. Nevertheless, MBSB will manage such risk by engaging proactively with the relevant authorities and parties with the objective of obtaining the necessary approvals and documents required for the implementation of the Proposed Scheme.

In the event that any of the relevant regulatory approvals are not obtained, the Proposed Scheme may be delayed or terminated.

#### **6. EFFECTS OF THE PROPOSED SCHEME**

We have set out below the effects of the Proposed Scheme on MBSB's financial position as at 31 December 2022. The MBSB financials herein has not taken into account its proposed acquisition of MIDF.

MBSB has on 30 August 2023 announced that the agreement for its proposed acquisition of MIDF has become unconditional following the fulfilment of all the conditions precedent set out therein. Barring any unforeseen circumstances, the proposed acquisition is expected to be completed in early October 2023.

In addition, the effects below is assuming that a subsidiary of MBSB is appointed by Emerald Unity as a servicing agent to manage and supervise the litigation process.

##### **6.1 Issued share capital and substantial shareholders' shareholdings**

The Proposed Scheme is not expected to have any effect on the issued share capital and substantial shareholders' shareholdings in MBSB as it does not involve issuance of new MBSB shares.

## 6.2 NA per share and gearing

The proforma effects of the Proposed Scheme on the NA and gearing of MBSB Group based on MBSB's latest audited consolidated financial statements as at 31 December 2022 are as follows:-

	<b>Audited as at 31 December 2022</b>	<b>After the Proposed Scheme</b>
	<b>RM'million</b>	<b>RM'million</b>
Ordinary share capital	7,198.1	7,198.1
Reserve	(341.4)	(341.4)
Retained earnings	2,102.5	<sup>(a)</sup> 2,087.0
<b>Total Equity</b>	<b>8,959.2</b>	<b>8,943.7</b>
No. of MBSB shares	7,171.5	7,171.5
NA per share	1.25	1.25
Borrowings <sup>(b)</sup>	6,813.5	6,813.5
Gearing	0.76	0.76

### **Notes:-**

(a) After taking into account estimated expenses of RM15.5 million.

(b) Inclusive of lease liabilities and recourse obligations on financing sold for MBSB.

Notwithstanding that MBSB has sold the financial assets to Emerald Unity and Emerald Unity is the legal and beneficial owner of the disposed financial assets, the financial assets sold (i.e. the Subject Loans) to Emerald Unity will continue to be recognised in MBSB's books pursuant to Malaysian Financial Reporting Standard 9 Financial Instruments (MFRS 9). MBSB's financial statements shall disclose the sale, and that Emerald Unity is the legal and beneficial owner of the disposed financial assets.

The above is due to MBSB's exposure to the variability of the disposed assets' cash flows would not change significantly as a result of the Proposed Disposal. MBSB is regarded as still retaining substantially all the risks and rewards of the assets' ownership.

Emerald Unity will be consolidated into MBSB's consolidated financial statements pursuant to Malaysian Financial Reporting Standard 10 Consolidated Financial Statements (MFRS 10), if a subsidiary of MBSB is appointed by Emerald Unity as a servicing agent to manage and supervise the litigation process. For clarification, MBSB will not have legal or beneficial ownership of Emerald Unity.

## 6.3 Earnings and earnings per share

For illustration purposes, based on MBSB's latest available audited consolidated income statement for financial year ended ("FYE") 31 December 2022 and assuming that the Proposed Scheme had been effected at the beginning of FYE 31 December 2022, the proforma effects on the MBSB's profitability are as follows:-

	<b>RM'million</b>
MBSB's consolidated profit after tax after non-controlling interest for FYE 31 December 2022	460.2
Estimated expenses <sup>(a)</sup>	(15.5)
<b>After the Proposed Scheme</b>	<b>444.7</b>
Existing weighted average number of MBSB shares	7,171.5

Basic earnings per share (sen)	
- Existing	6.42
- After the Proposed Scheme	6.20

**Note:-**

(a) *The estimated expenses amounting to RM15.5 million comprise of, amongst others, the following:-*

- (i) *professional fees, authority fees, stamp duty provision, miscellaneous expenses; and*
- (ii) *expenses of Emerald Unity comprising, trustee fee, directors and other administrative expenses in view that Emerald Unity will be consolidated into MBSB's consolidated financial statements as explained in Section 6.3 above.*

*For information, after the completion of the Proposed Disposal, MBSB will continue to bear the Post-Completion Expenses.*

## 7. HIGHEST PERCENTAGE RATIO

The Proposed Disposal which entails, amongst others, the sale of its loan assets is deemed to be a part of MBSB's ordinary course of business and hence does not fall within the definition of "transaction" pursuant to paragraph 10.02(l) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**").

Nonetheless, the highest percentage ratio applicable to the Proposed Disposal pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is 3.11% based on audited consolidated financial statements of MBSB for the FYE 31 December 2022.

## 8. APPROVALS REQUIRED

The Proposed Scheme is subject to the following approvals being obtained:-

- (i) MBSB shareholders' approval for the Proposed Scheme. The Proposed Scheme requires approval of at least 75% in total value of shareholders of the Company, present and voting at the court-convened-meeting for the Proposed Scheme;
- (ii) the approval of the Court for a court-convened meeting of MBSB shareholders pursuant to Section 366(1) of the Act to obtain the requisite approval for the Proposed Scheme;
- (iii) final sanction of the Court in respect of the Scheme, including the grant of a vesting order by the Court, pursuant to Section 366(2) and Section 370 of the Act; and
- (iv) such other relevant approvals and/or consents, if required.

## 9. CONDITIONALITY OF THE PROPOSED SCHEME

The Proposed Scheme is not conditional upon any other proposals undertaken or to be undertaken by MBSB.



**10. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED TO THEM**

As at the LPD, none of the Directors, major shareholders, chief executive and/or persons connected to them have any interest, direct or indirect, in the Proposed Scheme.

**11. DIRECTORS' STATEMENT AND RECOMMENDATION**

The Board, after having considered all aspects of the Proposed Scheme, including the basis and justification, rationale, and effects of the Proposed Scheme, is of the opinion that the Proposed Scheme is in the best interest of MBSB.

**12. ADVISER**

MBSB has appointed AmInvestment Bank as its Principal Adviser for the Proposed Scheme.

**13. ESTIMATED TIMEFRAME FOR COMPLETION**

Barring any unforeseen circumstances and subject to required approvals (as set out in Section 8 of this Announcement) being obtained in a timely manner, the Proposed Scheme is expected to be completed in the 1st quarter of the calendar year 2024.

**14. SUBMISSION TO THE AUTHORITIES**

The circular and explanatory statement to the shareholders of MBSB for the Proposed Scheme is expected to be submitted to Bursa Securities within this week.