



NOTICE OF ANNUAL GENERAL MEETING

CREDIT GUARANTEE CORPORATION

Notice is Hereby Given that the **Twenty-Fourth Annual General Meeting of Credit Guarantee Corporation Malaysia Berhad** will be held at **16th Floor, Block A, Bank Negara Malaysia, Jalan Dato' Onn 50480 Kuala Lumpur on March 24, 1997 at 11.30 a.m.** for the following purposes:-

AGENDA

1. To receive and adopt the Audited Accounts for the year ended December 31, 1996 together with the reports of the Directors and Auditors.
(Resolution 1)
2. To re-elect directors who are retiring pursuant to Articles 76A, 76B and 77 of the Corporation's Articles of Association and, being eligible, offer themselves for re-election.
(Resolution 2)
3. To approve payment of Directors' fees.
(Resolution 3)
4. To appoint Auditors and to authorise the Board of Directors to fix the Auditors' remuneration.
(Resolution 4)
5. As special business
To consider and, if thought fit, to pass the following resolutions:-
(Resolution 5)

Special Resolution No. 1 **INCREASE IN AUTHORISED SHARE CAPITAL**

That Clause 5 of the Memorandum of Association of the Company be substituted with the following new clause:

- "5. The authorised share capital of the Company is RM300,000,000 ordinary shares of RM1.00 each, of which 60,000,000 shares shall be Class A shares, 150,000,000 shares shall be Class B shares and 90,000,000 shares shall be Class C shares. The shares in the original or any increased capital may be divided into several classes and there may be attached thereto respectively any preferential, deferred, qualified or other special rights, conditions or restrictions as to dividend, capital, voting or otherwise."

That Article 7 of the articles of Association of the Company be substituted with the following new article:-

- "7. The authorised share capital of the Company is RM300,000,000 divided into 300,000,000 ordinary shares of RM1.00 each, of which 60,000,000 shares shall be Class A shares, 150,000,000 shares shall be Class B shares and 90,000,000 shares shall be Class C shares. Class A shares shall comprise all the ordinary shares of RM1.00 each registered to Bank Negara Malaysia. Class B shares shall comprise all the ordinary shares of RM1.00 each registered to shareholders who are carrying on banking business. All such other shares not classified as Class A or Class B Shares shall be Class C shares."



NOTICE OF ANNUAL GENERAL MEETING

CREDIT GUARANTEE CORPORATION

Ordinary Resolution

Increase in Paid-up Capital

(Resolution 6)

That subject to the approval of the Securities Commission (SC) and Foreign Investment Committee (FIC) to the issue and allotment of the new ordinary shares contemplated herein, the issued and paid-up capital of the Company be increased from Ringgit Sixty Seven Million and Eight Hundred Thousand (RM67,800,000.00) to Ringgit Two Hundred and Seventeen Million and Eight Hundred Thousand (RM217,800,000), by the issue of One Hundred and Fifty Million (150,000,000) ordinary shares of Ringgit One (RM1.00) each to existing shareholders on the basis determined by the Board, to rank pari passu with and in the same class as existing shares issued by the Company.

6. To transact any other business for which the notice shall have been given.

By Order of the Board.

HJ MOHD IDRIS HJ MOHD ISA

Company Secretary

Kuala Lumpur

March 5th, 1997



BOARD OF DIRECTORS

CREDIT GUARANTEE CORPORATION



Encik John Ting Sik Kang



*Dato' Ahmad bin
Mohd Don*



*Dato' Abdul Aziz
bin Haji Othman*



*Encik Amirsham
bin A. Aziz*



Encik Yoong Yan Pin



*Encik Mohamed Azmi
bin Mahmood*



*Encik Mohd Shah
bin Dato' Abu Bakar*



*Puan Rafiah
binti Salim*



*Haji Mohd Idris
bin Haji Mohd Isa*



CORPORATE INFORMATION

CREDIT GUARANTEE CORPORATION

CHAIRMAN OF THE BOARD

Dato' Ahmad bin Mohd Don

DIRECTORS

Encik John Ting Sik Kang
Dato' Abdul Aziz bin Haji Othman
Encik Amirsham bin A. Aziz
Encik Mohamed Azmi bin Mahmood
Encik Yoong Yan Pin
Encik Mohd Shah bin Dato' Abu Bakar
Puan Rafiah binti Salim

SECRETARY

Haji Mohd Idris bin Haji Mohd Isa

SOLICITOR

Shook Lin & Bok
Advocates & Solicitors

AUDITORS

Salleh, Leong, Azlan & Co.,
Certified Public Accountants
(Malaysia)

REGISTERED OFFICE

44th Floor, Menara Maybank,
100, Jalan Tun Perak,
50050, Kuala Lumpur



MANAGEMENT TEAM

CREDIT GUARANTEE CORPORATION



*Haji Johar
bin Haji Nor*



*Haji Mohd Idris
bin Haji Mohd Isa*



*Encik Wan Azhar
bin Wan Ahmad*



Encik Khoo Kim Ho



*Cik Gayah
bte Hj Mohd Nordin*



*Encik Rusdi
bin Haji Ibrahim*



*Encik Ismail
bin Yanus*



*Encik Michael Chin
Kon Hon*



Haji Mohd Idris bin Haji Mohd Isa

*Chief Executive
General Manager*

Haji Johar bin Haji Nor

*Assistant General Manager
Corporate Services*

Encik Wan Azhar bin Wan Ahmad

*Assistant General Manager
Operations*

Encik Khoo Kim Ho

Manager, Corporate Affairs and Administration

Cik Gayah bte Hj Mohd Nordin

Manager, Accounts

Encik Rusdi bin Haji Ibrahim

Manager, Guarantee II

Encik Ismail bin Yunus

Manager, Guarantee I

Encik Michael Chin Kon Hon

Manager, EDP



CHAIRMAN

Haji Mohd Idris bin Haji Mohd Isa - Chief Executive/General Manager
Credit Guarantee Corporation Malaysia Berhad

MEMBERS

Haji Johar bin Haji Nor - Assistant General Manager
Corporate Services
Credit Guarantee Corporation Malaysia Berhad

Haji Abd Rahim bin Mohd Nor - Head, Bumiputra Development Department
Malayan Banking Berhad

Haji Ishak bin Haji Mohd Yusof - Senior General Manager
Bank Bumiputra Malaysia Berhad

Tuan Syed Mohd Haris bin Syed Idrus - Assistant Manager, Corporate Marketing
Hongkong Bank Malaysia Berhad

Encik Ng Koon Yoo - Senior Manager
Standard Chartered Bank Malaysia Berhad

Puan Wong Lee Eng - Vice President
OCBC Bank (Malaysia) Berhad

Encik Zakaria bin Ismail - Head, Examination Department 1
Bank Negara Malaysia



CHAIRMAN'S STATEMENT

CREDIT GUARANTEE CORPORATION

On behalf of the Board of Directors, I am pleased to present the **24th Annual Report** of the **Credit Guarantee Corporation** for the year ended **December 31, 1996**.

The Corporation had another year of impressive performance in 1996. Loans guaranteed by the Corporation rose by 22% in number and 89% in value with 21,435 loans valued at RM3.6 billion guaranteed during the year. All the 37 commercial banks and 40 finance companies participated in the guarantee schemes. In addition, the Corporation managed a number of schemes, outside the banking system to provide financing for micro-business. At the end of 1996, an amount of RM18.8 million was disbursed to 8,856 borrowers under these schemes. Therefore in total, the activities of the Corporation at the end of 1996 covered 30,291 borrowers with loans amounting to over RM3.6 billion. The 1996 performance well surpassed the target of RM2.5 billion loans set for the year.

The impressive performance of the Corporation since its revamp in 1994, was mainly due to the greater acceptance by the banks and finance companies of the terms of the guarantee provided by the Corporation as collateral for loans - commonly known as the CGC guarantee - as well as the modification of its eligibility criteria to reach out to a larger section of the small and medium scale enterprises (SMEs) in the country. With the wider acceptance of the CGC guarantee, a greater number of small and medium scale enterprises were able to obtain credit, thereby meeting the Corporation's objective of increasing the access to credit for small and medium scale enterprises at reasonable cost.

As a continuing effort to improve the effectiveness of the Corporation in supporting the country's drive towards industrialisation and in promoting the Bumiputera community in commerce and industry, the guarantee facilities of the Corporation, and particularly the New Principal Guarantee Scheme (NPGS) were reviewed during the year. In reviewing the NPGS, the main guarantee scheme of the Corporation, the following considerations were taken into account:-

- (a) The need to ensure that financial institutions will not only continue to extend loans to small businessmen but also to do so at a reasonable cost.
- (b) The problem of access to credit is more prevalent among small businessmen, partly because of higher perceived risks and higher administrative costs per dollar of loan compared with lending to bigger businesses. Hence, regulating the cost of borrowing is more applicable to smaller loans, while the market approach would be more appropriate to bigger loans.

Arising from the review, the loan and guarantee limits, the interest rate and the guarantee fee structure under the NPGS were revised and applied to all loans approved by banks and finance companies for CGC guarantee after January 1, 1997. The maximum loan that can be guaranteed by CGC has been raised to RM10 million, while the maximum guarantee limit of RM2.5 million is only applicable to the unsecured portion of the loan. The interest margin of not more than 2% above the individual bank's base lending rate (BLR) which may be charged on loans guaranteed by the Corporation, is only applicable to loans below RM1 million



CHAIRMAN'S STATEMENT

CREDIT GUARANTEE CORPORATION

while banks are free to quote their own margin on loans in excess of RM1 million. The guarantee fee on loans of RM1 million and below is capped at a maximum of 0.75%, compared with 1% for loans in excess of RM1 million.

To provide the necessary capital base for its rapidly expanding operations, the Corporation successfully completed another exercise in 1996 to raise its paid-up capital from RM22.6 million to RM67.8 million through the issue of bonus shares amounting to RM31.64 million to the commercial banks and Bank Negara Malaysia, the original shareholders of the Corporation, and a special issue of RM13.56 million to the finance companies, which were admitted as shareholders in 1994. This was the second capital restructuring exercise undertaken by the Corporation, the first was in 1994 when the paid-up capital was increased by RM20 million to RM22.6 million.

During the year, the Corporation's guarantee schemes continued to be targeted at two broad categories of businesses : the small and medium scale enterprises (SMEs) and the micro-businesses. Loans granted to SMEs under the Corporation's main guarantee schemes registered an impressive growth both in terms of number and value. During the year, the Corporation guaranteed 15,065 new loans valued at RM3.6 billion, compared with 8,058 loans valued at RM1.8 billion in 1995 representing an increase of 87% in number and 100% in value.

Loans to micro-businesses (RM10,000 and below) administered by the Corporation under various schemes, such as the Hawkers and Petty Traders Schemes, Amanah Ikhtiar Loan Scheme and Projek Tekun registered a modest growth, in terms of number, to 15,226 loans with a total value of RM59.5 million at the end of 1996 (13,241 loans with a value of RM65.4 million at the end of 1995). Since the inception of the micro-business financing schemes in 1986, a total of 63,336 loans had been approved involving a total amount of RM224.2 million.

To improve the access of small borrowers to loans ranging from RM10,000 to RM50,000, the Corporation assisted the Ministry of Entrepreneur Development in managing a loan scheme, named the Small Entrepreneurs Financing Fund (SEFF), the objective of which is to provide small entrepreneurs with an additional avenue to obtain loans from 10 participating financial institutions. The scheme focuses on a proper selection of entrepreneurs, training and preparing them before they approach the financial institutions for loans. This would help to reduce the processing time taken by the financial institutions and ensure that such entrepreneurs gain access to credit at reasonable cost. A total of 67 loans valued at RM2.3 million were approved under this arrangement following its launching in October 1996.

Together with the new loans guaranteed in 1996, the cumulative value of loans guaranteed by the Corporation since inception in 1973 amounted to RM10 billion, which was disbursed to a total of 235,995 borrowers. Repayments and cancellations in 1996 amounted to RM606.7 million, involving 6,899 loans (1995 : RM292.6 million; 5,240 loans), thereby bringing the number of loans still subject to the Corporation's guarantee under all schemes to 76,246 loans valued at RM6.4 billion as at December 31, 1996



CHAIRMAN'S STATEMENT

CREDIT GUARANTEE CORPORATION

For the year 1996, Bumiputera entrepreneurs continued to enjoy ready access to loans supported by CGC guarantee. Under the NPGS, Bumiputera borrowers accounted for 28.3% and 26.9% of the loans guaranteed in terms of number and value respectively. As for the hawkers' schemes (both LFHPT'92 and ASLS'92), Bumiputera borrowers accounted for 60.6% and 61.2% in terms of number and value respectively.

The direction of lending under the Corporation's guarantee schemes in 1996 continued to favour the general business sector, which accounted for 77.4% (RM2,818.7 million) of the total loans guaranteed, whilst the manufacturing sector took up 21.3% (RM776.8 million) of the total loans guaranteed.

The Corporation's total operating revenue for the year amounted to RM24.1 million as against RM10.5 million in 1995, representing an increase of 129.5%. With operating expenses amounting to RM3.8 million, the Corporation's operating profit for the year increased significantly to RM20.3 million from RM7.4 million in 1995. With interest arbitrage amounting to RM33.3 million (1995 : RM33.4 million) the net profit for the year amounted to RM53.6 million compared with RM40.8 million in 1995, representing an increase of 31.4%. With the net profit of RM53.6 million, the Corporation's capital and reserves (including provisions), representing the backing for the Corporation's guarantee, were further strengthened in 1996, to RM429.5 million from RM367.5 million at the end of 1995. It is worthy to note that the efforts made in 1996 to improve the attractiveness and accessibility of its guarantee facilities enabled the Corporation to increase its guarantee fee income from RM6.4 million in 1995 to RM15.9 million, representing an increase of 148%.

The Corporation continued to promptly discharge its liability on bad loans claimed by member institutions. During the year, the Corporation settled 243 claims amounting to RM7 million under the main guarantee schemes, compared to 313 claims amounting to RM4.6 million in 1995. In addition, the Corporation settled 202 claims amounting to RM0.2 million under the Hawkers and Petty Traders Loan Schemes (1995:RM0.7 million).

OUTLOOK

With the continuing strong demand for CGC guarantee, coupled with the anticipated favourable economic conditions, 1997 promises to be another good year for CGC. The last three years have seen substantial growth in guaranteed loans from RM646.2 million in 1994 to RM1.9 billion in 1995 and RM3.6 billion in 1996. For 1997, the Corporation expects the same growth momentum and has set a target to guarantee at least RM4.2 billion loans by the end of the year.

The thrust of the Corporation's operations in 1997 is on the qualitative aspect of its contributions towards the development of SMEs. The value of the Corporation's guarantee, hence its contributions to SME development, should be made more transparent to the borrowers so that its services will not only be seen but felt by the business community.



Towards this end, a review of the guarantee procedures will be undertaken to achieve this transparency.

In its effort to play a more pro-active role in helping SMEs, especially Bumiputeras and those in manufacturing, the Corporation will set-up a Business Advisory Panel to implement its Adoption Programme. Under this programme, a small number of entrepreneurs with potential will be adopted by the Corporation and will be given the necessary financial support. They will be supervised directly by the Business Advisory Panel. This approach will initially focus on Bumiputera borrowers and borrowers from the manufacturing sector.

Having recorded substantial growth over the past three consecutive years, the Corporation also needs to consolidate its position, while strengthening its capability and capacity to continue issuing guarantees. With the continued rapid growth in guaranteed loans, the Corporation's gross guarantee to reserve ratio had increased from 2:1 in 1994 to 5.9:1 in 1995 and to 10.8:1 at the end of 1996. Based on current momentum, there is an urgent need for CGC to ensure that its capital and reserves are adequate to cope with the rapidly rising demand for CGC guarantee. As an immediate short term measure, it has become necessary to consider an additional capital injection by all the Corporation's shareholders.

In recognition of the role of Islamic Banking in Malaysia, the Corporation would launch its guarantee window for the Interest-Free Banking Facilities (IFBF) in the very near future. It is expected that with such an arrangement, access to lending especially under the IFBF will be made easier and will indirectly help to further promote the concept of interest free lending. The guarantee under this arrangement will be made available to all member financial institutions that provide the IFBF, and in principle will be governed by the guidelines set under the New Principal Guarantee Scheme.

As always, the Corporation acknowledges that its success is very much dependent on the support of the participating financial institutions. As a way of showing appreciation, the 2nd CGC Top Supporter Award will be presented to financial institutions which have contributed significantly towards helping the Corporation achieve its annual targets in conjunction with the Corporation's Annual General Meeting. I should record the Corporation's appreciation to the recipients of the 2nd CGC Top Supporter Award and hope that others will emulate these institutions.

The Corporation will also continue its efforts to ensure that bankers have current knowledge of the guarantee schemes through its various seminars and meetings. In 1996, 12 workshops, attended by 1,169 bankers, were conducted in various parts of the country. As the Corporation is also conscious that the general public should be made aware of the various CGC guarantee schemes, several seminars and briefings were conducted in 1996, attended by 1,332 participants, and more of these will be arranged in 1997.



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The Corporation also successfully served as host to the 7th Asian Credit Supplementation Institution Confederation (ACSIC) Training Programme on 14-20 July, 1996. This annual training programme provides a forum in which staff from all international member institutions are able to discuss and learn from one another the various issues relating to the guarantee mechanism in each of the 9 member countries.

1997 will be an important year for the Corporation as it is the 25th Anniversary of its operations. Although CGC has helped 235,995 borrowers in their businesses over the last quarter of a century, it still aims to provide greater value added and impact through its operations to reach out to a larger proportion of the market to assist the SMEs and micro businesses to grow and join in the mainstream of industrial development in the country. Throughout its existence as a guarantee institution, CGC has undergone numerous restructuring exercises, continuously striving to meet the needs of the SMEs as well as the expectations of its shareholders, and these will certainly continue to guide the strategic direction of the Corporation in the future.

After 25 years of existence, the Corporation will be operating from its own building in Kelana Jaya to be known as "**Bangunan CGC**" from April, 1997. This marks the beginning of another new chapter in the history of CGC and at the same time denotes its solid contributions in helping to promote the growth of small and medium scale enterprises.

I wish to express deepest appreciation to my colleagues on the Board for their invaluable contribution and support throughout the year. I would like to thank Dr. Awang Adek Hussin, who left the Board on July 1, 1996 to take up new responsibilities in Labuan. I would also like to warmly welcome Encik Mohd Shah Dato' Abu Bakar and Puan Rafiah Salim, who were appointed to the Board on April 12, 1996 and January 2, 1997 respectively.

On behalf of the Board, I would like to thank the Ministry of Entrepreneur Development, other government agencies, commercial banks and finance companies as well as various trade associations for their unfailing cooperation in making 1996 another successful year for the Corporation. I thank all the staff for their efforts and I am confident that the Board can continue to rely on their loyalty and dedication.

Ahmad Mohd Don
Chairman
Board of Directors



REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

The continuing improvement process, inherent in CGC's operations, resulted in further refinements and expansion of the New Principal Guarantee Scheme (NPGS). The salient features of the NPGS are as follows:-

Table 1 : NEW FEATURES OF NPGS

(Applicable to all loans approved by the lending institutions after January 1, 1997)

ELIGIBILITY & TERMS	MANUFACTURING SECTORS	PRIORITY SECTOR@	OTHER SECTOR
Maximum Borrowings	RM10.0 million	RM7.5 million	RM5.0 million
Maximum Shareholders' Funds	RM2.5 million	RM1.5 million	RM1.0 million
Guarantee Cover			
- Unsecured Portion	80%	80%	70%
- Secured Portion	90%	90%	80%
Maximum Cover			
- Unsecured Portion	RM2.5 million	RM1.5 million	RM1.0 million
- Secured Portion	No limit	No limit	No limit
Maximum Interest Rate	(i) Maximum of 2% above BLR to companies with total borrowings of RM1 million and below (ii) Lenders are free to quote their margin to borrowers with total borrowings exceeding RM1 million		
Guarantee Fee	(i) Loans of RM1 million and below 0.5% for secured portion & 0.75% for unsecured portion (ii) Loans above RM1 million 0.5% for secured portion & 1.0% for unsecured portion		
Participating Institutions	All Commercial Banks and Finance Companies		

@ Priority sector means all activities promoted by the Government especially those listed by the Ministry of International Trade & Industry

1. NEW LOANS GUARANTEED

The NPGS represents the Corporation's main guarantee scheme in assisting the small and medium scale enterprises (SMEs). During the year, the Corporation guaranteed 14,965 new loans (1995 : 7,935 loans) with a value of RM3.6 billion (1995 : RM1.8 billion) representing an increase of 88.6% in number and 100% in value. Under the micro-credit schemes, total new loans guaranteed amounted to RM40.7 million involving 6,370 loans compared with 9,452 loans amounting to RM56.5 million in 1995. Details of loans guaranteed under the various schemes are shown in Table 2.



Table 2 : LOANS GUARANTEED IN 1995 AND 1996

		1995		1996
Schemes	No.	RM (million)	No.	RM (million)
Main Schemes				
NPGS	7,935	1,758.68	14,965	3,578.84
NEF	120	83.10	29	19.93
ILS	3	2.51	4	2.06
SEFF	-	-	67	2.31
Sub-total	8,058	1,844.29	15,065	3,603.14
Micro-credit Schemes				
LFHPT '92	9,159	54.31	6,079	38.23
ASLS '92	293	2.19	291	2.51
Sub-total	9,452	56.50	6,370	40.74
TOTAL	17,510	1,900.79	21,435	3,643.88

NPGS - New Principal Guarantee Scheme *SEFF* - Small Entrepreneurs Financing Fund
NEF - New Entrepreneurs Fund *LFHPT '92* - Loan Fund for Hawkers & Petty Traders 1992
ILS - Integrated Lending Scheme *ASLS '92* - Association Special Loan Scheme 1992

Loan repayments and cancellations during the year involved 6,899 loans valued at RM606.7 million (1995 : 5,240 loans; RM292.6 million). Taking into account new loans approved and loans repaid and cancelled during the year, total loans that were still subject to CGC guarantee as at December 31, 1996 amounted to 76,246 loans with an approved credit limit of RM6.4 billion (1995 : 61,710 loans; RM3.4 billion).

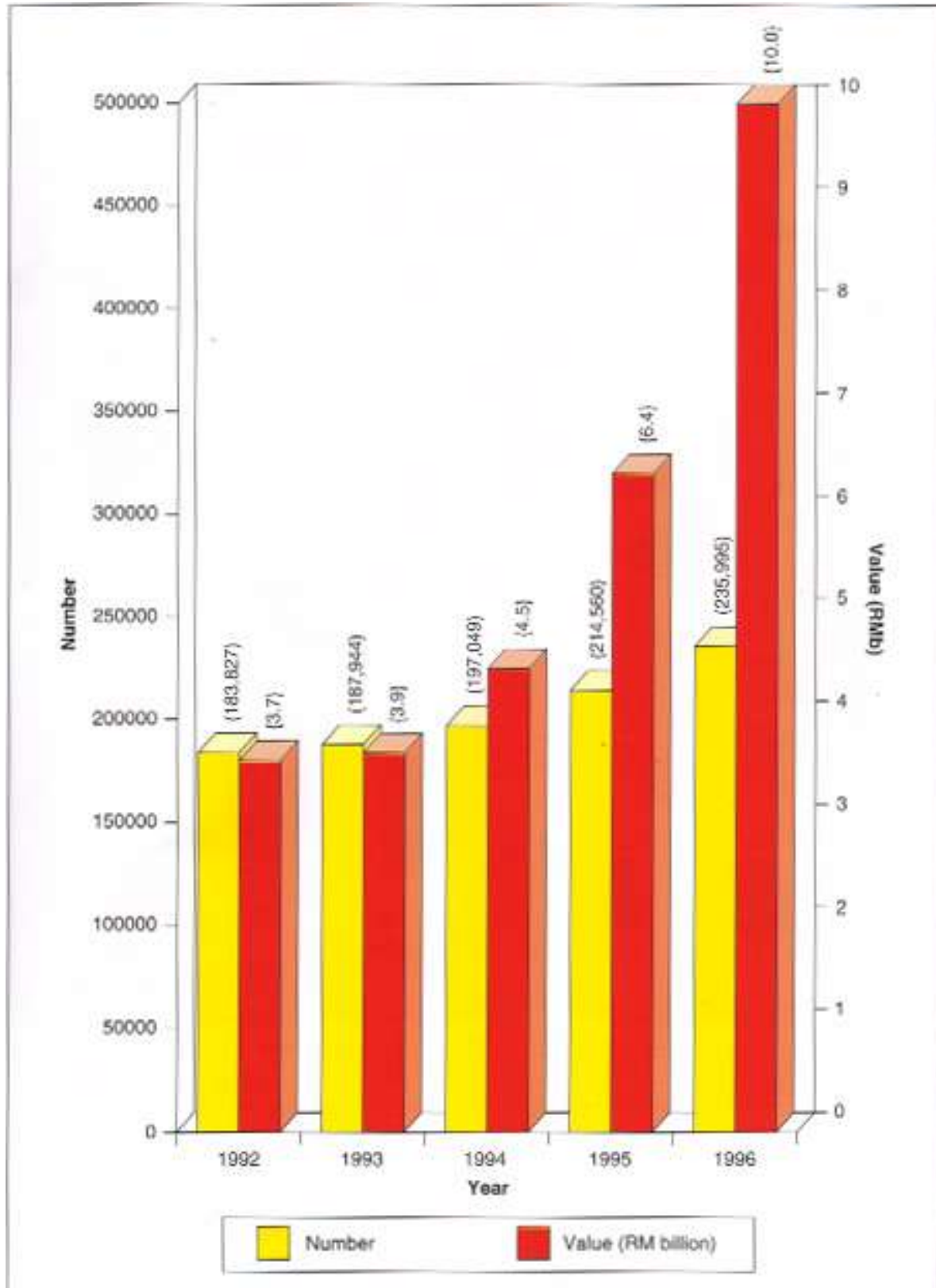
Since its inception, the Corporation had guaranteed RM10.0 billion loans benefiting 235,995 borrowers throughout the country. Charts I, II and III depicts the Corporation's lending under the CGC schemes.

In addition to the above, 8,407 loans valued at RM17.2 million were approved under the CGC-Amanah Ikhtiar Malaysia (CGC-AIM) cooperation in 1996, bringing total loans approved under this cooperation, since 1992, to RM31.2 million benefiting 17,665 poor households. The objective of the CGC-AIM cooperation is to channel tiny loans to AIM'S members, who are poor households, to finance their economic activities.

The "Projek Tekun" scheme, a collaboration between CGC and the Centre for Policy Research, Universiti Sains Malaysia and implemented in July 1995, is an action oriented research programme aimed at developing another avenue to channel small loans to micro-businesses. During the year, RM1.6 million loans were approved under this project involving 449 households, bringing the total loans approved to date to 1,162 households involving RM5.0 million. The Corporation had allocated RM6.0 million for this programme. Overall in 1996, the above two micro-credit schemes operated outside the banking system had benefited 8,856 borrowers involving RM 18.8 million.



Chart 1:
Cumulative Number and Value of Loans Guaranteed Under All Schemes



() : Number of Loans Guaranteed

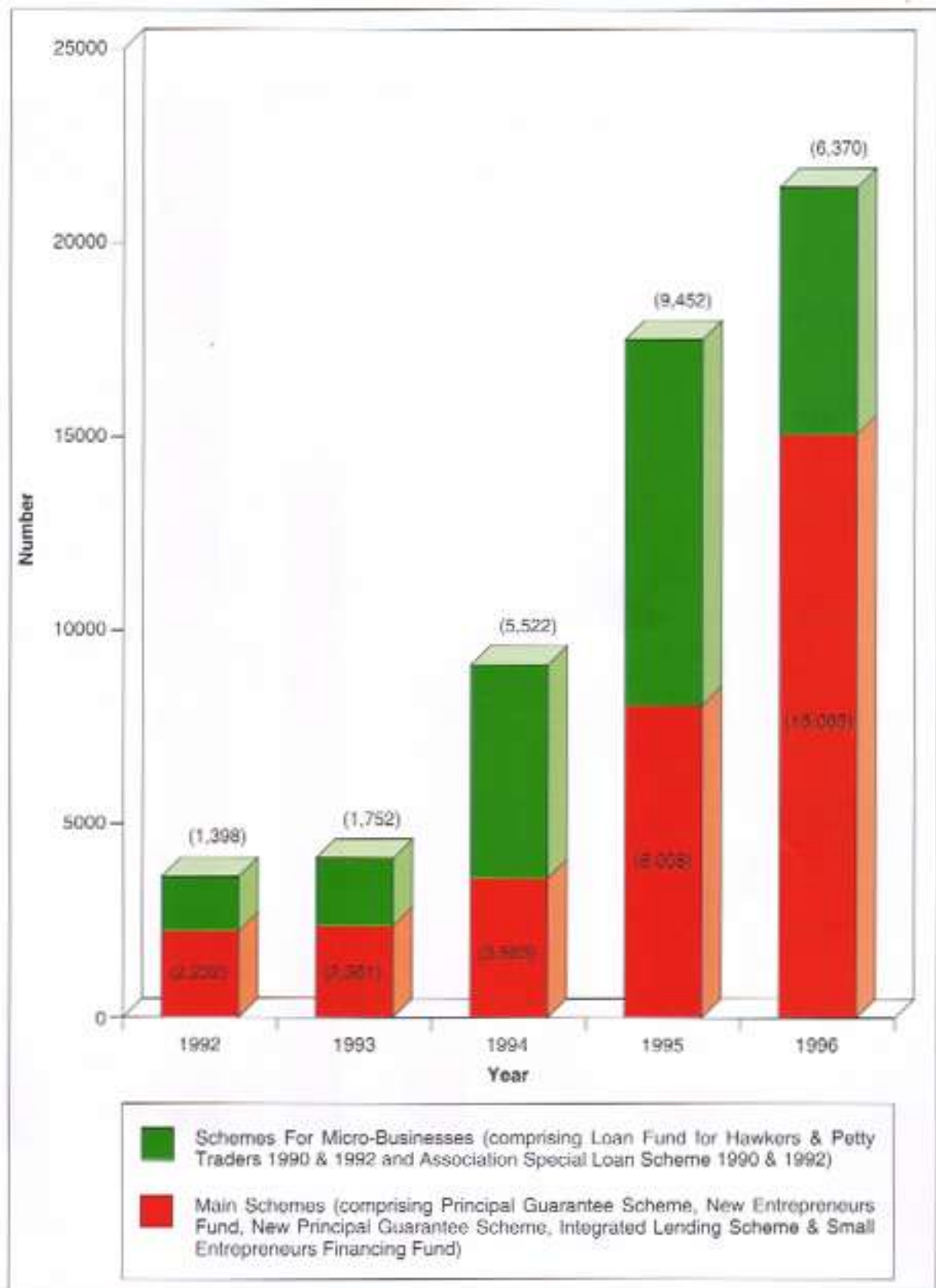
{ } : Value of Loans Guaranteed (RM Billion)



REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

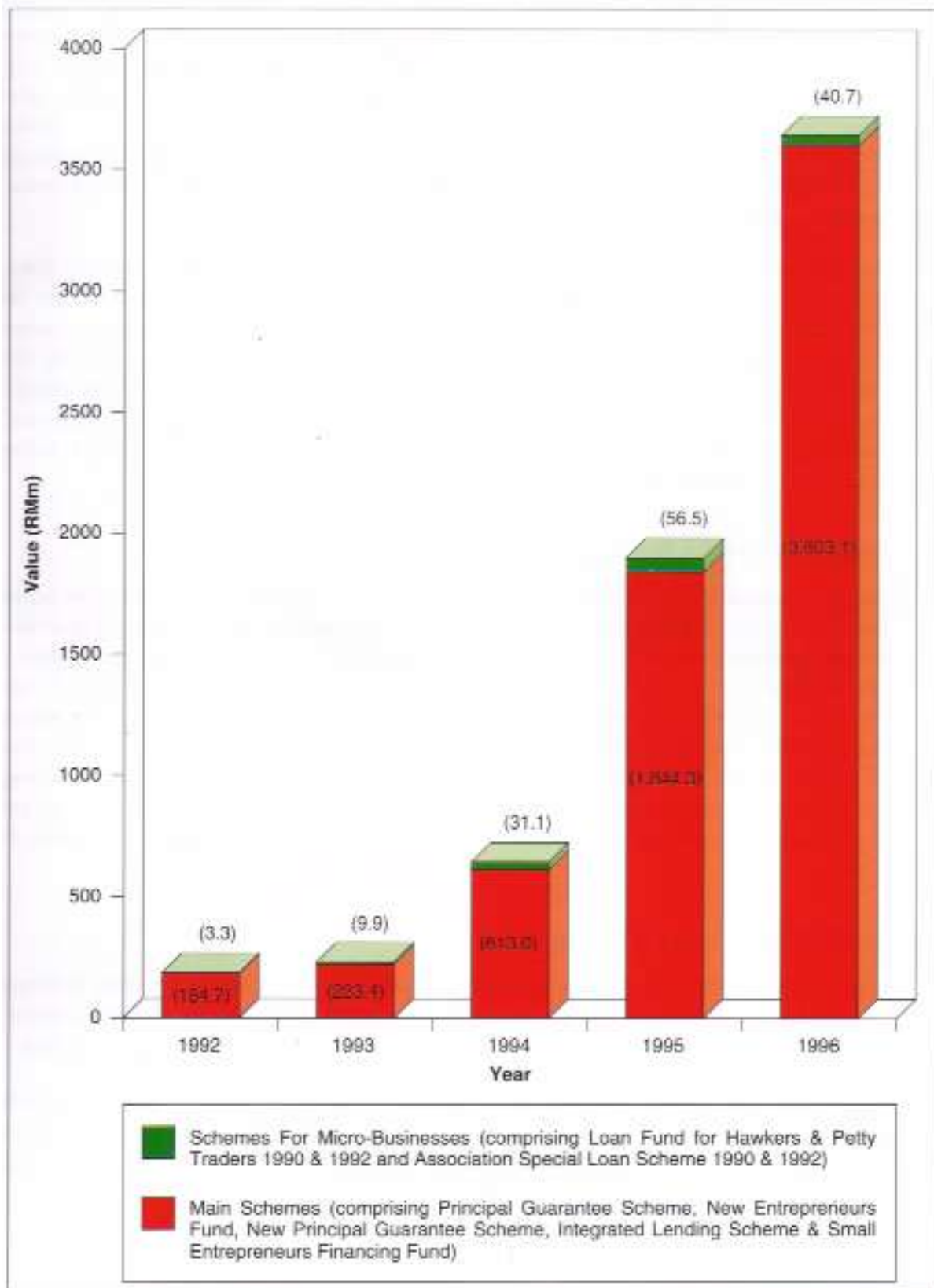
Chart II:
Loans Guaranteed (By Number) from 1992 - 1996



() : Number of Loans Guaranteed



Chart III:
Loans Guaranteed (By Value) From 1992 - 1996



() : Value of Loans Guaranteed (RM million)



REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

The Corporation, in collaboration with the Ministry of Entrepreneur Development, also managed another guarantee scheme known as the Small Entrepreneurs Financing Fund (SEFF) to provide small entrepreneurs with another avenue to obtain small loans ranging from RM10,000 to RM50,000 with the participation of 10 financial institutions. The scheme focuses on a proper selection of entrepreneurs, training and preparing them before they approach the financial institutions for a loan. This will help to reduce the processing time taken by the financial institutions. The funding for this scheme totals RM240 million, RM40 million from the government and a soft loan of RM200 million from Permodalan Nasional Berhad (PNB). During the year, 67 entrepreneurs had secured loans valued at RM2.3 million under this scheme following its introduction in October 1996.

The Integrated Lending Scheme (ILS) focuses on making available, credit facilities for SMIs in an integrated manner, whereby fixed asset financing is provided by Bank Industri or Perbadanan Usahawan Nasional Berhad whereas the working capital financing is provided by one of the 8 participating commercial banks, with CGC issuing its guarantee to the commercial banks in advance. All applications under the ILS will be referred to Bank Industri or Perbadanan Usahawan Nasional Berhad, acting as the lead manager, which will process and package the credit facilities under a single loan documentation.

To date, 7 loans amounting to RM4.6 million had been packaged under the ILS.

2. DIRECTION OF LENDING

Loans guaranteed under the guarantee schemes in 1996 had mainly benefited three broad sectors, namely, general business, manufacturing and agriculture. The general business sector accounted for 19,154 loans (1995 : 16,154 loans) valued at RM2.8 billion (1995 : RM1.4 billion), followed by the manufacturing sector with a total of 2,056 loans (1995 : 1,192 loans) valued at RM776.8 million (1995 : RM457.1 million) and the agriculture sector with a total of 215 loans (1995 : 159 loans) valued at RM39.5 million (1995 : RM28.7 million). The manufacturing sector's share of CGC-guaranteed loans had again exceeded 20%, accounting for 21.3% of the overall loans guaranteed in 1996. In terms of absolute amount, loans to the manufacturing sector had increased from RM457.1 million in 1995 to RM776.8 million in 1996.

3. DISTRIBUTION BY STATES

The regional distribution of loans guaranteed under the main schemes, in 1996, followed that of the previous years with a concentration in the Federal Territory of Kuala Lumpur, where more than 22.7% in terms of number and 31.9% in terms of value were committed.

Under the LFHPT'92, the distribution of loans showed a concentration in Johore which accounted for about 14.3% of such loans in terms of number and 15.7% in terms of value. Similarly, loans under the ASLS'92 were also concentrated in Johore accounting for 71.5% in terms of number and 80.0% in terms of value.



4. RACIAL COMPOSITION OF LOANS

As in previous years, Bumiputera entrepreneurs continued to enjoy ready access to CGC-guaranteed loans under the NPGS in 1996. Loans to Bumiputera borrowers guaranteed during the year increased by 97.6% from RM486.7 million in 1995 to RM961.5 million in 1996. In terms of the proportion of total loans, Bumiputera borrowers accounted for 28.3% and 26.9% of the overall loans approved in terms of number and value respectively. Loans to Chinese borrowers accounted for 68.1% and 70.5% of the overall loans approved in terms of number and value respectively with Indian borrowers accounting for 2.9% in terms of number and 1.9% in terms of value.

Under the hawkers' schemes (both LFHPT'92 & ASLS'92), Bumiputera businesses took up 60.6% in terms of number and 61.2% in terms of value of the loans approved, whereas the Chinese community chalked up 31.8% and 30.7% respectively both in terms of number and value. The Indian community took up 7.4% and 7.9% respectively both in terms of number and value. Details of loans by race are shown in Chart IV.

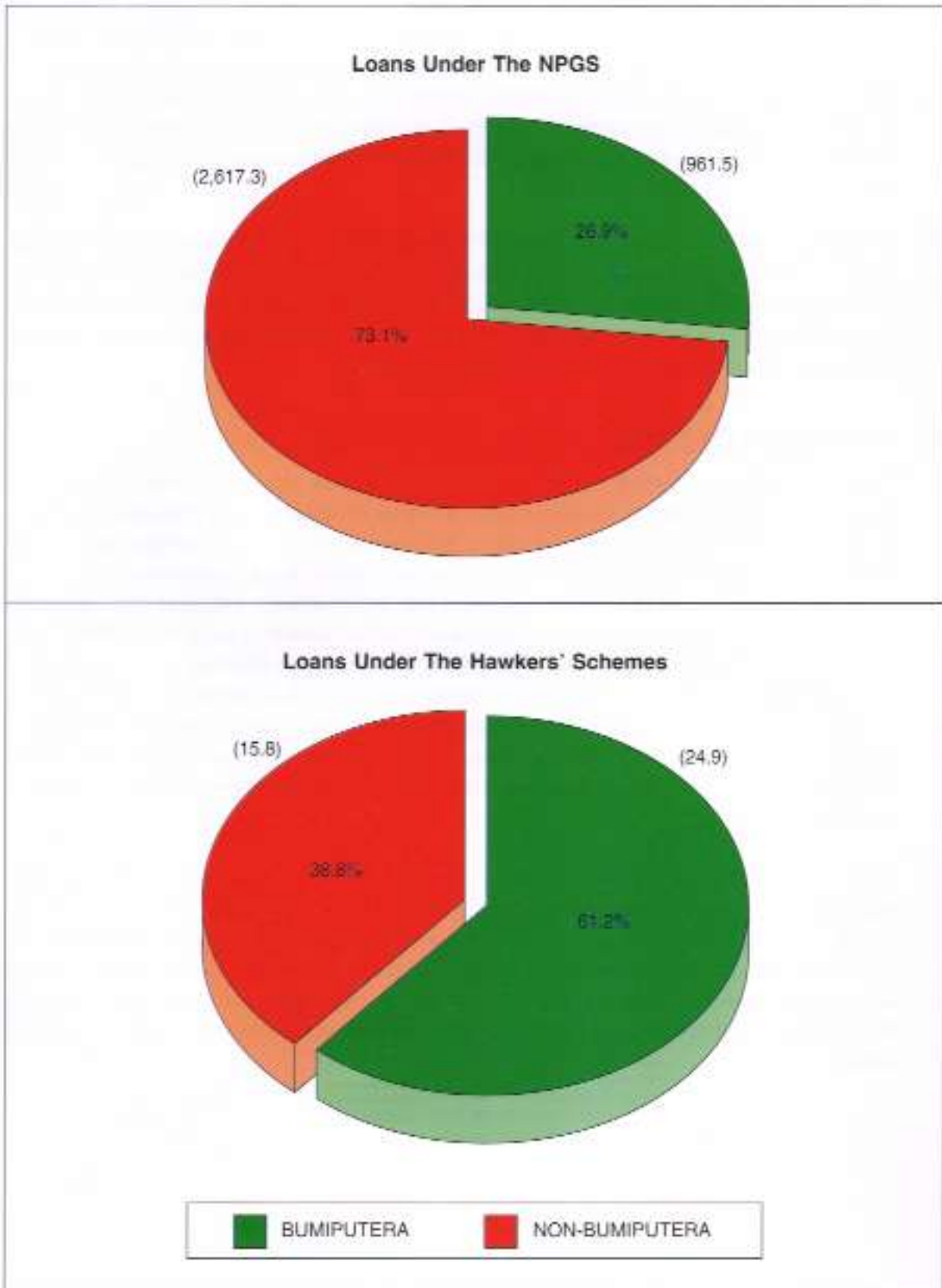
5. RANGE OF LOAN SIZE

Consistent with the current needs of entrepreneurs and higher loan limits eligible for guarantee under the NPGS, there had been a shift in the size of loans guaranteed by CGC to that of bigger loans. In 1996, 29.7% of the number of loans guaranteed were above RM250,000 compared with 25.2% in 1995. In terms of value, loans in excess of RM250,000 accounted for 69.4% (RM2.5 billion) compared with 66.7% (RM1.2 billion) in 1995. Although the proportion of bigger loans had increased, the absolute number of loans below RM250,000 guaranteed by the Corporation under the NPGS had increased from 5,934 loans valued at RM529.2 million in 1995 to 10,519 loans valued at RM1,038.9 million in 1996, representing an increase of 77.3% in terms of number and 96.3% in terms of value. Even though a shift to bigger loans was observed, small businesses continued to enjoy greater access to credit through the CGC guarantee mechanism. The range of loan size approved under the NPGS is shown in Chart V.

The highest number of loans guaranteed under the LFHPT'92 were loans ranging between RM4,001 and RM5,000 representing 63.2% (1995 : 66.9%) of the total number and 50.3% (1995 : 56.4%) in terms of value. Loans of between RM9,001 and RM10,000 formed the second largest category accounting for 26.0% in terms of number and 41.4% in terms of value. As for the ASLS'92, the highest number of loans approved were those between RM9,001 and RM10,000 accounting for 71.5% in terms of number and 84.0% in terms of value.



**Chart IV:
Racial Composition Of Loans By Value In 1996**



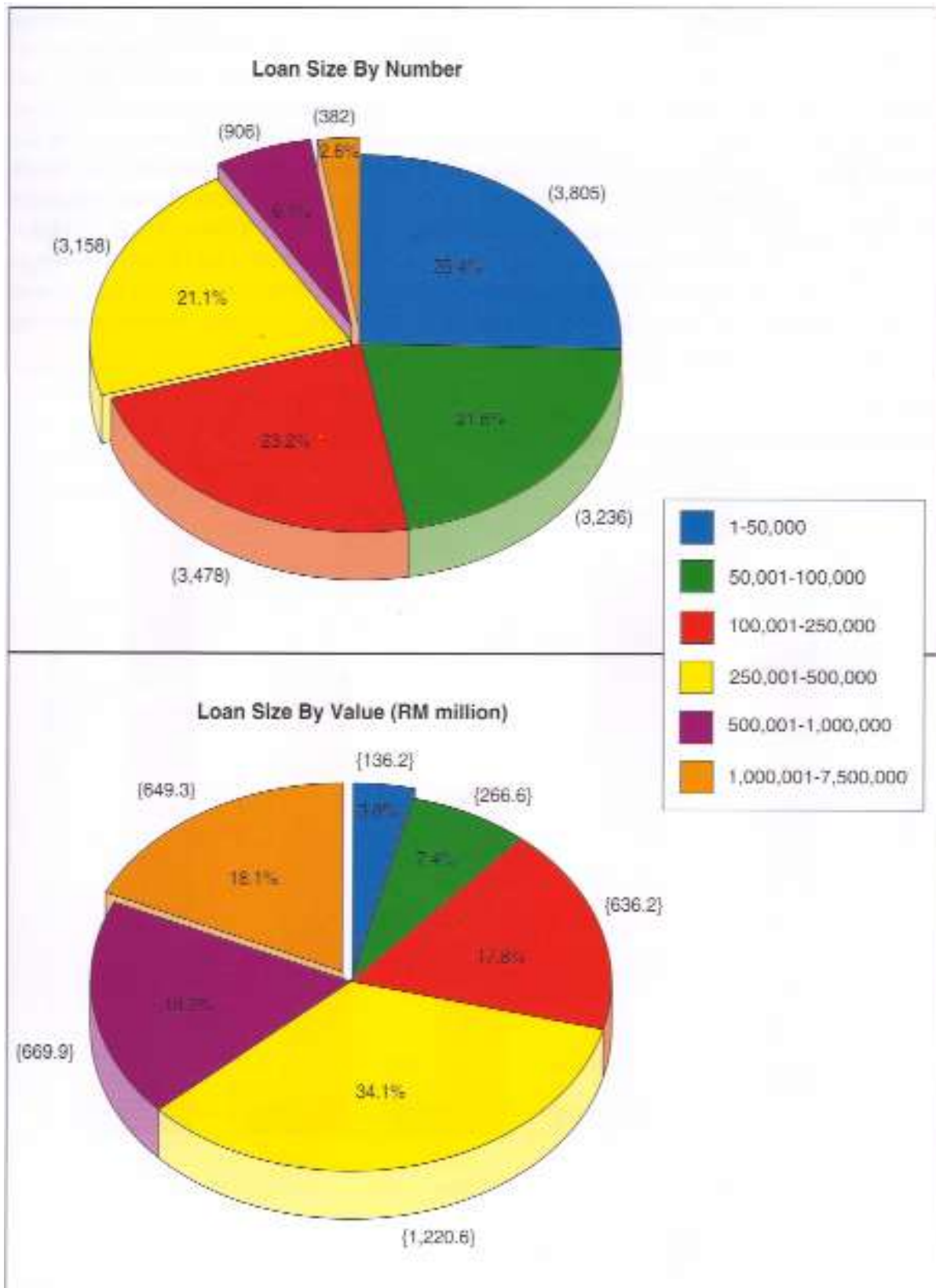
() : Value of Loans Guaranteed (RM million)



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CREDIT GUARANTEE CORPORATION

Chart V:
Range of Loans Size Under The New Principal Guarantee Scheme (NPGS) in 1996



() : Number of Loans Guaranteed

{ } : Value of Loans Guaranteed (RM million)



REPORT ON OPERATIONS

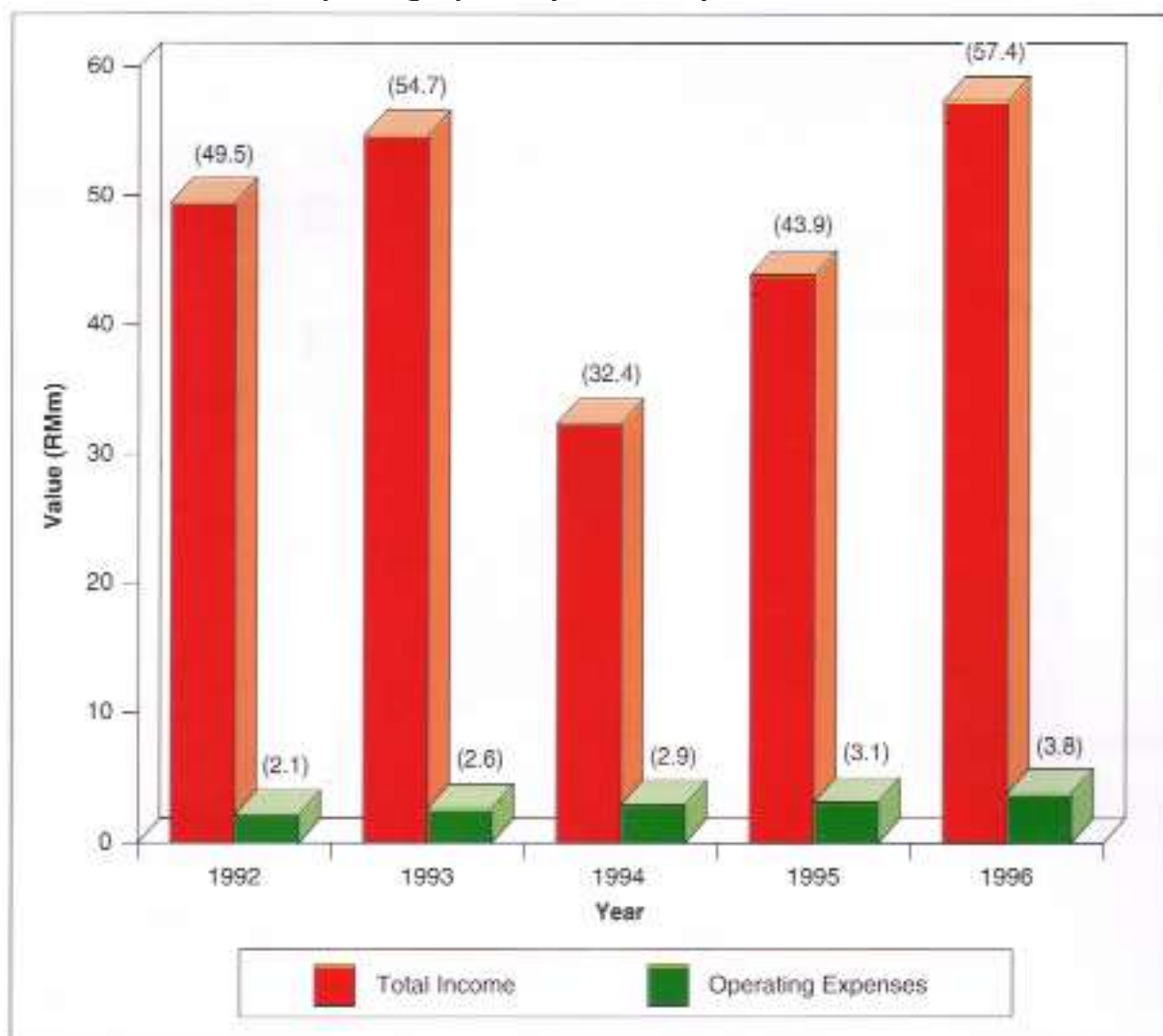
CREDIT GUARANTEE CORPORATION

FINANCIAL HIGHLIGHTS

The Corporation's operating revenue, comprising mainly guarantee fees and interest income, increased by RM13.6 million or 129.5% from RM10.5 million to RM24.1 million in 1996. Income from guarantee fees for the year increased by RM9.5 million or 148.4% to RM15.9 million compared with RM6.4 million in 1995. The increase in guarantee fees was mainly due to the increase in the value of loans guaranteed in 1996. Interest income increased from RM4.1 million in 1995 to RM8.2 million in 1996, reflecting a higher base and slightly higher interest rates on the deposits placed with financial institutions. With modest operating expenses amounting to RM3.8 million (1995 : RM3.1 million), operating profit for the year amounted to RM20.3 million compared with RM7.4 million in 1995. With interest arbitrage amounting to RM33.3 million

(1995 : RM33.4 million), total net profit for the year amounted to RM53.6 million compared with RM40.8 million in 1995, representing an increase of RM12.8 million or 31.4%. Chart VI depicts the Total Income and Operating Expenses for the last 5 years, while Chart VII shows the Operating Income comprising guarantee fees and interest income over the same period.

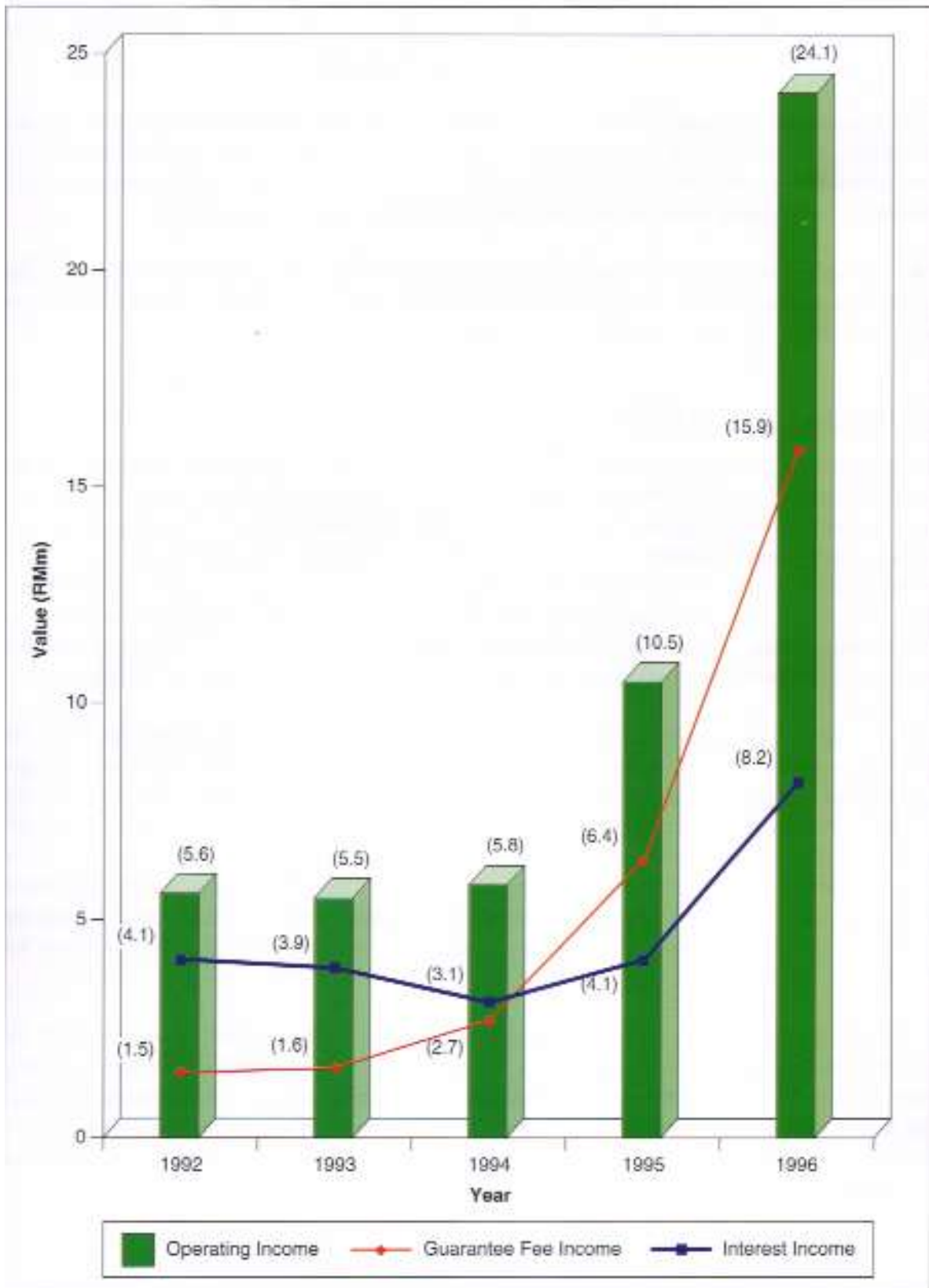
Chart VI :Total Income & Operating Expenses (1992 -1996)



() : Value (RM million)



Chart VII
Operating Income (1992 - 1996)



() : Value (RM million)



REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

The Corporation conducted a review on all loans reported by banks as non-performing with the view to determining the extent of the Corporation's liability on the guaranteed loans. Based on that review, the Corporation set aside an amount of RM17.3 million as Specific Provision and a further sum of RM42.8 million as General Provision making total provision amounting to RM108.6 million to meet potential claims on loans guaranteed by the Corporation.

The Corporation continued to discharge its liability on bad loans claimed by member financial institution. During the year, the Corporation settled a total of 243 claims amounting to RM7.0 million under the main schemes (GGS, SLS, NEF, PGS & NPGS). Another 202 claims amounting to RM0.2 million were settled under the hawkers and petty traders loan schemes.

With a net profit of RM53.6 million earned during the year, total shareholders' funds of the Corporation, comprising share capital, reserves and provision for claims increased by 16.9% from RM367.5 million in 1995 to RM429.5 million in 1996.

SUPPORT ACTIVITIES

As in previous years, the Corporation continued to promote its guarantee schemes through various activities. CGC, with the cooperation of the Institute of Banks Malaysia (IBBM) had conducted 9 workshops all over the country which benefited 899 bankers from various banks and finance companies. A further 270 bankers attended 3 workshops organised by the Corporation itself. In conjunction with the workshops, CGC had also conducted Information Sessions and attended briefing sessions organised by various organisations which were specially designed for the public to create greater awareness amongst them. A total of 15 such workshops and briefing sessions were conducted throughout the country in 1996, attended by a total of 1,332 participants.

The Corporation was given the honour to host the 7th ACSIC Training Programme (7th ATP). The training programme provides excellent opportunity for mid level executives to learn from one another on the guarantee mechanism. The 7th ATP was held over one week, from July 14-20, 1996 at the National Productivity Corporation (NPC) Hotel in Petaling Jaya. The 7th ACSIC Training Programme was attended by a total of 27 participants representing 11 member institutions from 8 member countries namely Japan, Korea, Taiwan, Thailand, Indonesia, Philippines, Nepal and Malaysia. The organisers also decided to allow 2 senior staff members from PT Penjamin Kredit Pengusaha Indonesia (a new Credit Guarantee Corporation in Indonesia) to attend the training as observers.

1997 will be an important year for the Corporation as it approaches its 25th Anniversary. CGC will continue to provide greater value added and impact through its guarantee schemes in ensuring that the needs of the SMEs as well as that of its shareholders are met. The Corporation will also be looking forward to its new office building in Kelana Jaya to be named as "**Bangunan CGC**". With this, the Corporation hopes to play a more prominent role in reaching out to the entrepreneurs consistent with national objectives.



The directors have pleasure in submitting their annual report and the audited accounts of the Corporation for the year ended 31st December, 1996.

1. PRINCIPAL ACTIVITIES

The Corporation provides guarantees in respect of credit facilities extended by member banks and finance companies to borrowers under the following schemes:-

- Credit Guarantee Corporation (Small Loans) Guarantee Scheme, 1973;
- Special Loan Scheme for Small Scale Enterprises, 1981;
- CGC Special Loan Scheme for Hawkers and Petty Traders, 1986;
- Principal Guarantee Scheme, 1989;
- Loan Fund for Hawkers and Petty Traders Scheme;
- Association Special Loan Scheme; and
- New Principal Guarantee Scheme.

During the year, a new scheme known as the Small Entrepreneurs Financing Fund (SEFF) was introduced to provide another avenue for small entrepreneurs to obtain financial assistance to improve and upgrade their businesses.

There have been no other significant changes in the activities during the year.

2. ACCOUNTS

	RM
Operating profit for the year	20,313,761
Add: Interest arbitrage earned	33,264,183
Profit for the year	<u>53,577,944</u>
Retained profits brought forward	13,712,577
Profit available for appropriation	<u>67,290,521</u>
Transfer to Reserves	(33,264,183)
Retained profits carried forward	<u><u>34,026,338</u></u>

3. SHARE CAPITAL

Pursuant to the 23rd Annual General Meeting held on 21st March, 1996, the Corporation:-
(i) increased its authorised share capital from 30,000,000 ordinary shares of RM1.00 each to 100,000,000 ordinary shares of RM 1.00 each and reclassified its authorised share capital into the following categories:-

Class A

20,000,000 ordinary shares of RM1.00 each registered to Bank Negara Malaysia.

Class B

50,000,000 ordinary shares of RM1.00 each registered to shareholders who are carrying on business as a bank.

Class C

30,000,000 ordinary shares of RM 1.00 each registered to shareholders who are carrying on business as a finance company.



- (ii) increased its issued and fully paid share capital from 22,600,000 ordinary shares of RM1.00 each to 67,800,000 ordinary shares of RM1.00 each by way of:-
- (a) a bonus issue of 31,640,000 new ordinary shares of RM1.00 each to the shareholders of Class A shares and Class B shares on the basis of two (2) bonus shares for every existing share held; and
 - (b) a special issue of 13,560,000 new ordinary shares of RM1.00 each under Class C, issued at par for cash.

4. RESERVES AND PROVISIONS

(a) Reserves

The directors are recommending the transfer of RM33,264,183 from the profit and loss account to the following reserves:-

Special Reserve	RM 32,820,501
General Development Reserve	<u>443,682</u>
	<u>33,264,183</u>

(b) Provision

During the year, a provision of RM60,102,089 representing possible claims against the Corporation was made by way of a charge against the Special Reserve.

5. DIRECTORS

The Directors in office since the date of the last Directors' Report are:-

Dato' Ahmad bin Mohd Don - Chairman

Encik John Ting Sik Kang

Dato' Abdul Aziz bin Haji Othman

Encik Amirsham bin A. Aziz

Encik Mohamed Azmi bin Mahmood

Encik Yoong Yan Pin

Encik Mohd Shah Dato' Abu Bakar (Appointed on April 12, 1996)

Puan Rafiah Salim (Appointed on January 2, 1997)

Dr. Awang Adek bin Hussin (Resigned on July 1, 1996)

None of the directors held any shares in the Corporation during the year covered by the profit and loss account.

Dato' Ahmad bin Mohd Don and Encik Amirsham bin A. Aziz retire by rotation in accordance with Article 76A and 76B of the Corporation's Articles of Association at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Encik Mohd Shah Dato' Abu Bakar and Puan Rafiah Salim retire in accordance with Article 77 of the Corporation's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.



Since the end of the last financial year, no director of the Corporation has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the accounts, or the fixed salary of a full time director of the Corporation) by reason of a contract made by the Corporation with the director or with a firm in which the director is a member, or with a company in which the director has a substantial financial interest.

Neither during nor at the end of the financial year was the Corporation a party to any arrangements whose object was to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Corporation or any other body corporate.

6. OTHER STATUTORY INFORMATION

- (a) Before the profit and loss account and balance sheet of the Corporation were made up, the directors took reasonable steps:-
- (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts, and have satisfied themselves that all known bad debts had been written off and that adequate provision has been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise, in the ordinary course of business, their value as stated in the accounting records of the Corporation have been written down to an amount which they might be expected so to realise.
- (b) At the date of this report:-
- (i) the directors are not aware of any circumstances which would render the amount written off as bad debts or the amount provided for as doubtful debts inadequate to any substantial extent;
 - (ii) the directors are not aware of any circumstances that would render the values attributed to the current assets in the accounts of the Corporation misleading;
 - (iii) the directors are not aware of any circumstances which have arisen that would render adherence to the existing method of valuation of assets or liabilities of the Corporation misleading or inappropriate;
 - (iv) the directors are not aware of any circumstances, not otherwise dealt with in this report or the accounts of the Corporation, that would render any amount stated in the accounts misleading;
 - (v) there does not exist any charge on the assets of the Corporation that has arisen since 31st December, 1996 which secures the liabilities of any other person; and
 - (vi) there does not exist any contingent liability that has arisen since 31st December, 1996 other than those that may arise from guarantees given in respect of credit facilities extended by member banks and finance companies in the ordinary course of business.
- (c) No contingent liability or other liability of the Corporation has become enforceable, or is likely to become enforceable within the period of twelve months from 31st December, 1996 which, in the opinion of the directors, will or may affect the ability of the Corporation to meet its obligations as and when they fall due.



- (d) In the opinion of the directors:-
- (i) the results of the operations of the Corporation for the year ended 31st December, 1996 were not substantially affected by any item, transaction or event of a material and unusual nature; and
 - (ii) there has not arisen in the interval between 31st December, 1996 and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the result of the operations of the Corporation for the financial year in which this report is made.

7. AUDITORS

Salleh, Leong, Azlan & Co. have expressed their willingness to accept re-appointment.

On behalf of the Board,

AHMAD BIN MOHD DON

ABDUL AZIZ BIN HAJI OTHMAN

Kuala Lumpur
5th March, 1997



BALANCE SHEET
AS AT 31st DECEMBER 1996
CREDIT GUARANTEE CORPORATION

	Note	1996 RM	1995 RM
FIXED ASSETS	3	45,831,207	1,491,005
CURRENT ASSETS			
Fees receivable		7,721,633	2,733,827
Other debtors		2,093,372	1,879,748
Loans and advances	4	118,581,500	98,021,189
Malaysian Government Securities	5	82,909,319	106,659,691
Term deposits and interest receivable	6	588,902,310	531,628,008
Cash and bank balances		3,915,134	257,891
		804,123,268	741,180,354
DEDUCT: CURRENT LIABILITIES			
Claims payable		719,503	582,245
Other creditors		13,270,812	5,720,093
Government Funds	7	300,407,671	350,485,753
Amanah Ikhtiar Malaysia Fund	8	13,562,985	7,000,000
Small Entrepreneurs Financing Fund	9	92,150,534	-
Short term loan (secured)	10	395,600	11,362,000
Provision for claims under the Guarantee Schemes		108,553,492	53,616,704
		529,060,597	428,766,795
NET CURRENT ASSETS		275,062,671	312,413,559
		320,893,878	313,904,564
FINANCED BY:			
SHARE CAPITAL	11	67,800,000	22,600,000
RESERVES	12	253,093,878	291,304,564
		320,893,878	313,904,564

The notes on pages 32 to 39 form part of these accounts.



PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31st DECEMBER 1996
CREDIT GUARANTEE CORPORATION

	Note	1996 RM	1995 RM
OPERATING REVENUE	13	<u>24,121,441</u>	<u>10,534,429</u>
OPERATING PROFIT FOR THE YEAR	14	20,313,761	7,361,675
ADD: INTEREST ARBITRAGE EARNED	15	<u>33,264,183</u>	<u>33,402,275</u>
NET PROFIT FOR THE YEAR		53,577,944	40,763,950
RETAINED PROFITS BROUGHT FORWARD			
As previously reported		13,712,577	7,647,918
Prior year adjustment	16	-	(1,297,016)
As restated		<u>13,712,577</u>	<u>6,350,902</u>
PROFITS AVAILABLE FOR APPROPRIATION		67,290,521	47,114,852
TRANSFER TO RESERVES	12	<u>(33,264,183)</u>	<u>(33,402,275)</u>
RETAINED PROFITS CARRIED FORWARD	12	<u>34,026,338</u>	<u>13,712,577</u>

The notes on pages 32 to 39 form part of these accounts.



CASH FLOW STATEMENT
FOR THE YEAR ENDED 31st DECEMBER 1996
CREDIT GUARANTEE CORPORATION

	1996 RM	1995 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before taxation	53,577,944	40,763,950
Adjustments for:		
Depreciation	457,641	332,889
Gain on disposal of fixed assets	(311)	(46,347)
Diminution in value of Malaysian Government Securities	195,724	226,644
Interest arbitrage	(33,264,183)	(33,402,275)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	20,966,815	7,874,861
Increase in fees receivable	(4,987,806)	(2,078,989)
(Increase)/decrease in other debtors	(213,624)	366,25
Increase in loans and advances	(20,560,311)	(36,437,457)
Increase in claims payable	137,258	316,123
Increase in other creditors	7,550,719	993,396
Payment of claims under the Guarantee Schemes	(5,165,301)	(3,012,106)
Claims paid under the "HPT Scheme"	(46,541)	(393,017)
General development expenditure	-	(108,138)
NET CASH USED IN OPERATING ACTIVITIES	(2,318,791)	(32,478,702)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of fixed assets	320	51,445
Purchase of fixed assets	(44,797,852)	(825,458)
Proceeds from Malaysian Government Securities matured	22,696,372	-
Interest arbitrage earned	34,122,459	35,525,089
NET CASH FROM INVESTING ACTIVITIES	12,021,299	34,751,076
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Government Funds	(50,078,082)	(10,078,083)
Funds received under the Amanah Ikhtiar Malaysia Fund	6,562,985	7,000,000
Funds received under the Small Entrepreneurs Financing Fund	92,150,534	-
Repayment of short term loan	(10,966,400)	(48,733,369)
Proceeds from issuance of share capital	13,560,000	-
NET CASH FROM / (USED IN) FINANCING ACTIVITIES	51,229,037	(51,811,452)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	60,931,545	(49,539,078)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	531,885,899	581,424,977
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	592,817,444	531,885,899



NOTES TO THE ACCOUNTS

31st DECEMBER 1997

CREDIT GUARANTEE CORPORATION

1. BASIS OF ACCOUNTING

The accounts of the Corporation have been prepared under the historical cost convention and comply with approved accounting standards.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Depreciation of Fixed Assets

Depreciation is calculated using the straight line method to write off the cost of fixed assets over their estimated useful lives. The principal annual rates used for this purpose are as follows:-

	%
Motor vehicles	20
Office equipment	20
Furniture, fittings and fixtures	10-20
Computer equipment	20

The leasehold building was not depreciated as it was only completed at the end of the year and has not been put to use.

(b) Malaysian Government Securities

Malaysian Government Securities are stated at the lower of cost and market value on a portfolio basis.

(c) Revenue Recognition

Guarantee fees are recognised on the accrual basis proportionately over the period of the respective guarantees.

Interest income from term deposits and Malaysian Government Securities are recognised on the accrual basis.

(d) Provision For Claims Under The Guarantee Schemes

Specific provision for claims are made to the extent of the exposure of the Corporation's guarantee on bad and doubtful accounts which have been individually reviewed and specifically identified as bad and doubtful.

In addition, a general provision based on a certain percentage of the loans portfolio is also maintained.



NOTES TO THE ACCOUNTS

CREDIT GUARANTEE CORPORATION

3. FIXED ASSETS

	Cost RM	Accumulated Depreciation RM	Net Book Value RM	Current Year Depreciation RM
1996				
Motor vehicles	400,270	182,978	217,292	80,054
Office equipment	189,324	155,068	34,256	13,785
Furniture, fittings and fixtures	533,430	436,450	96,980	40,837
Computer equipment	2,331,589	940,484	1,391,105	322,965
Leasehold building	44,091,574	-	44,091,574	-
	<u>47,546,187</u>	<u>1,714,980</u>	<u>45,831,207</u>	<u>457,641</u>
1995				
Motor vehicles	287,908	102,924	184,984	48,017
Office equipment	183,022	141,283	41,739	14,130
Furniture, fittings and fixtures	480,434	408,469	71,965	31,892
Computer equipment	1,294,272	617,519	676,753	238,850
Capital work-in-progress	515,564	-	515,564	-
	<u>2,761,200</u>	<u>1,270,195</u>	<u>1,491,005</u>	<u>332,889</u>

The strata title to the leasehold building acquired during the year has not been issued by the relevant authorities yet.

4. LOANS AND ADVANCES

	1996 RM	1995 RM
At 1st January	98,021,189	61,583,732
Add: Funds disbursed	61,577,780	63,482,800
	<u>159,598,969</u>	<u>125,066,532</u>
Less: Repayments received	(41,017,469)	(27,045,343)
At 31st December	<u>118,581,500</u>	<u>98,021,189</u>

This represents the balance of the total amount drawdown under the CGC Special Loan Schemes referred to in Note 7 to the accounts, Amanah Ikhtiar Malaysia funding schemes and the Small Entrepreneurs Financing Fund (SEFF).



NOTES TO THE ACCOUNTS

CREDIT GUARANTEE CORPORATION

5. MALAYSIAN GOVERNMENT SECURITIES

	1996	1995
	RM	RM
Malaysian Government Securities	89,206,600	114,736,669
Provision for diminution in value	<u>(8,134,200)</u>	<u>(10,285,969)</u>
	81,072,400	104,450,700
Interest receivable	1,836,919	2,208,991
	<u>82,909,319</u>	<u>106,659,691</u>
Market value	<u>81,072,400</u>	<u>104,450,700</u>

6. TERM DEPOSITS AND INTEREST RECEIVABLE

	1996	1995
	RM	RM
Term deposits	320,484,460	254,910,000
- with licensed banks	254,731,362	238,807,000
- with licensed finance companies	395,600	24,000,000
- others	<u>575,611,422</u>	<u>517,717,000</u>
Interest receivable		
- from licensed banks	7,637,486	7,146,789
- from licensed finance companies	5,632,028	6,335,552
- others	21,374	428,667
	<u>13,290,888</u>	<u>13,911,008</u>
	<u>588,902,310</u>	<u>531,628,008</u>

7. GOVERNMENT FUNDS

	1996	1995
	RM	RM
Principal	300,000,000	350,000,000
Accrued interest payable	407,671	485,753
	<u>300,407,671</u>	<u>350,485,753</u>



NOTES TO THE ACCOUNTS

CREDIT GUARANTEE CORPORATION

These comprise various placements from Bank Negara Malaysia which are subject to interest at 1% p.a. The placements are intended to enable the Corporation to implement the CGC Special Loan Schemes for Hawkers and Petty Traders and for the Corporation to build up its special reserve to meet claim contingencies arising from the loans guaranteed by the Corporation under the various guarantee schemes.

Of the above, RM200,000,000 is secured by way of deposits of Malaysian Government Securities and Fixed Deposits with face values of RM77,000,000 and RM154,000,000 respectively.

Interest arbitrage earned from the above placements has been transferred to Special Reserve (Notes 12 and 15).

8. AMANAH IKHTIAR MALAYSIA FUND

On 31st October, 1995, 15 financial institutions had entered into an agreement with Amanah Ikhtiar Malaysia (AIM) to set up a revolving fund for the total amount of RM13,000,000 in the form of interest free loan to be managed by the Corporation for the loan scheme known as "Skim Pinjaman Ikhtiar AIM". The earnings from the unutilised portion of the fund will be offset against the bad debts on loans given to borrowers under this scheme.

9. SMALL ENTREPRENEURS FINANCING FUND

During the year, the Corporation entered into an agreement with Permodalan Nasional Berhad (PNB) who shall contribute RM200,000,000 to a fund known as Small Entrepreneurs Financing Fund (SEFF). In addition, the Ministry of Entrepreneur Development (MED) will contribute a guarantee fund of RM40,000,000 to absorb possible losses on loans granted under the SEFF.

The purpose of the fund is to provide another avenue to small entrepreneurs to obtain financial assistance to improve and upgrade their businesses. The rate of interest charged on loans granted to small entrepreneurs under the SEFF shall not exceed 6% per annum and the amount of loan for each small entrepreneur shall not be more than RM50,000. All income generated from the fund shall be utilised for the implementation of the scheme under the SEFF.

The Corporation has received RM50,000,000 from PNB under the SEFF and RM40,000,000 from the MED during the year.

10. SHORT TERM LOAN (SECURED)

	1996 RM	1995 RM
Principal	<u>395,600</u>	<u>11,362,000</u>



NOTES TO THE ACCOUNTS

CREDIT GUARANTEE CORPORATION

The interest free short term loan was extended to the Corporation on 20th April, 1996 by Bank Negara Malaysia. The amount is placed as term deposits with specific financial institutions by Bank Negara Malaysia on behalf of the Corporation. The interest arbitrage earned has been transferred to the Special Reserve (Notes 12 and 15).

The amount forms part of the "penalty funds" imposed by Bank Negara Malaysia on certain financial institutions because of their inability to meet the lending guidelines stipulated by Bank Negara Malaysia.

11. SHARE CAPITAL

	1996 RM	1995 RM
Authorised:		
At 1st January	30,000,000	30,000,000
Increased during the year	70,000,000	-
At 31st December	<u>100,000,000</u>	<u>30,000,000</u>
Issued and fully paid:		
At 1st January	22,600,000	22,600,000
Increased during the year	45,200,000	-
At 31st December	<u>67,800,000</u>	<u>22,600,000</u>

Pursuant to the 23rd Annual General Meeting held on 21st March, 1996, the Corporation:-

- (i) increased its authorised share capital from 30,000,000 ordinary shares of RM1.00 each to 100,000,000 ordinary shares of RM1.00 each and reclassified its authorised share capital into the following categories:-

Class A

20,000,000 ordinary shares of RM1.00 each registered to Bank Negara Malaysia.

Class B

50,000,000 ordinary shares of RM1.00 each registered to shareholders who are carrying on business as a bank.

Class C

30,000,000 ordinary shares of RM1.00 each registered to shareholders who are carrying on business as a finance company.

- (ii) increased its issued and fully paid share capital from 22,600,000 ordinary shares of RM1.00 each to 67,800,000 ordinary shares of RM1.00 each by way of:-
- (a) a bonus issue of 31,640,000 new ordinary shares of RM1.00 each to the shareholders of Class A shares and Class B shares on the basis of two (2) bonus shares for every existing share held; and
 - (b) a special issue of 13,560,000 new ordinary shares of RM1.00 each under Class C, issued at par for cash.



NOTES TO THE ACCOUNTS

CREDIT GUARANTEE CORPORATION

At 31st December, 1996, the issued and fully paid up share capital of the Corporation under the various categories are as follows:-

	RM
<u>Class A</u>	
13,560,000 ordinary shares of RM1.00 each	13,560,000
<u>Class B</u>	
33,900,000 ordinary shares of RM1.00 each	33,900,000
<u>Class C</u>	
20,340,000 ordinary shares of RM1.00 each	20,340,000
	<u>67,800,000</u>

12. RESERVES

	1996	1997
	RM	RM
Special Reserve	208,470,669	267,438,798
General Development Reserve	6,596,871	6,153,189
General Reserve	4,000,000	4,000,000
Retained Profits	34,026,338	13,712,577
	<u>253,093,878</u>	<u>291,304,564</u>
Special Reserve:-		
At 1st January	267,438,798	251,118,684
Amount capitalised for bonus issue	(31,640,000)	-
Transfer from profit and loss	32,820,501	33,089,100
Claims paid under "HPT Scheme"	(46,541)	(393,017)
Provision for claims	(60,102,089)	(16,375,969)
At 31st December	<u>208,470,669</u>	<u>267,438,798</u>
General Development Reserve:-		
At 1st January	6,153,189	5,948,152
Transfer from profit and loss account	443,682	313,175
General development expenses	-	(108,138)
At 31st December	<u>6,596,871</u>	<u>6,153,189</u>

The Special Reserve was created to meet claim contingencies arising from loans guaranteed by the Corporation under the various schemes and is not distributable as cash dividends. The amount transferred from the profit and loss account comprises interest arbitrage earned from government funds and the term loan (Notes 7 and 10).

The General Development Reserve was created to meet the future expenses arising from general development activities and is not distributable as cash dividends. The amount transferred from the profit and loss account comprises interest arbitrage earned from the short term loan (Note 10).



NOTES TO THE ACCOUNTS

CREDIT GUARANTEE CORPORATION

13. OPERATING REVENUE

	1996 RM	1995 RM
Guarantee fees	15,878,830	6,386,519
Interest on term deposits	8,242,611	4,147,910
	<u>24,121,441</u>	<u>10,534,429</u>

14. OPERATING PROFIT FOR THE YEAR

This is arrived at after charging/(crediting):-

	1996 RM	1995 RM
Directors' fees - current year	36,210	36,000
- over provision in previous year	(2,707)	-
Rental of premises	812,473	822,436
Depreciation of fixed assets (Note 3)	457,641	332,889
Auditors' remuneration 15,000	12,000	
Diminution in value of Malaysian Government Securities	195,724	226,644
Gain on disposal of fixed assets	(311)	(46,347)
	<u>3,280,194</u>	<u>5,721,267</u>

15. INTEREST ARBITRAGE EARNED

	1996 RM	1995 RM
Interest earned on term deposits and Malaysian Government Securities	36,144,866	38,850,604
Interest on Loans and Advances to banks	399,511	272,938
	<u>36,544,377</u>	<u>39,123,542</u>
Less: Interest payable to Bank Negara Malaysia	2,421,918	3,373,808
Provision for diminution in value of Malaysian Government Securities	858,276	2,122,815
"LFHPT and ASL Scheme" expenses	-	224,644
	<u>3,280,194</u>	<u>5,721,267</u>
	<u>33,264,183</u>	<u>33,402,275</u>



NOTES TO THE ACCOUNTS

CREDIT GUARANTEE CORPORATION

16. PRIOR YEAR ADJUSTMENT

The prior year adjustment for the previous year represents the effect of the change in accounting policy relating to guarantee fees. Previously, guarantee fees were recognised as and when invoiced. With effect from 1995, guarantee fees are recognised on the accrual basis proportionately over the period of the respective guarantee fees.

17. TAXATION

The Corporation has been granted exemption from income tax up to the year of assessment 2001 under Section 127(3) (b) of the Income Tax Act, 1967.

18. CONTINGENCIES

The Corporation is contingently liable by virtue of guarantees provided in respect of credit facilities extended by member banks and finance companies to borrowers under the various schemes.

	1996 RM	1995 RM
Total credit facilities guaranteed by the Corporation under the Schemes	<u>2,783,342,595</u>	<u>1,551,593,946</u>
Contingencies arising thereon	2,441,619,576	1,200,444,942
Less: Amount deemed to be bad and doubtful for which provisions have been made	<u>108,553,492</u>	<u>53,616,704</u>
Amount set aside in the Reserves to meet future claims	<u>208,470,669</u>	<u>267,438,798</u>
	317,024,161	321,055,502
Net contingencies	<u>2,124,595,415</u>	<u>879,389,440</u>

19. CAPITAL COMMITMENTS

	1996 RM	1995 RM
Authorised and contracted for	160,000	670,000
Authorised but not contracted for	1,300,000	-
	<u>1,460,000</u>	<u>670,000</u>



STATEMENT BY DIRECTORS

CREDIT GUARANTEE CORPORATION

We, **AHMAD BIN MOHD DON** and **ABDUL AZIZ BIN HAJI OTHMAN**, being two of the directors of **CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD**, state that in the opinion of the directors, the accounts set out on pages 29 to 39 are drawn up so as to give a true and fair view of the state of affairs of the Corporation as at 31st December, 1996 and of its results and cash flows for the year ended on that date.

On behalf of the Board,

AHMAD BIN MOHD DON

ABDUL AZIZ BIN HAJI OTHMAN

Kuala Lumpur

Date: 5th March, 1997

STATUTORY DECLARATION

I, **HAJI MOHD IDRIS HAJI MOHD ISA**, the person primarily responsible for the financial management of **CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD**, do solemnly and sincerely declare that the accounts set out on pages 29 to 39 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the above named **HAJI MOHD
IDRIS HAJI MOHD ISA**
at Kuala Lumpur in the
Federal Territory on
5th March, 1997

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)
)

HAJI MOHD IDRIS HAJI MOHD ISA

Before me,



5 MAR 1997
TING 3, WISMA YAKIN
JALAN MASJID INDIRA
50100 KUALA LUMPUR.



**REPORT OF THE AUDITORS TO THE MEMBERS OF
CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD**
CREDIT GUARANTEE CORPORATION

We have audited the accounts set out on pages 29 to 39 in accordance with approved auditing standards.

In our opinion:-

- (a) the accounts give a true and fair view of the state of affairs of the Corporation as at 31st December, 1996 and of its results and cash flows for the year ended on that date and comply with the Companies Act, 1965; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Corporation have been properly kept in accordance with the provisions of the Act.

SALLEH, LEONG, AZLAN & CO.

AF: 0010

Public Accountants

SIVADASAN A/L NARAYANAN NAIR

1420/12/97(J)

Partner of the Firm

Kuala Lumpur

Date: 5th March, 1997