



# NOTICE OF ANNUAL GENERAL MEETING

CREDIT GUARANTEE CORPORATION

**NOTICE IS HEREBY GIVEN** that the **Twenty Fifth (25th) Annual General Meeting** of Credit Guarantee Corporation Malaysia Berhad will be held at the **Level 16, Bangunan CGC, Kelana Business Centre, 97, Jalan SS 7/2, 47301 Petaling Jaya, Selangor Darul Ehsan** on **March 31, 1998** at **3.30 p.m.** for the following purposes:-

## AGENDA

1. To receive and adopt the Audited Accounts for the year ended December 31, 1997 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' fee.  
**(Resolution 3)**
4. To appoint Auditors and to authorise the Board of Directors to fix the Auditors' remuneration.  
**(Resolution 4)**
5. To transact any other business for which the notice shall have been given.

By Order of the Board.

**JOHAR HJ NOR**  
Company Secretary

Kuala Lumpur  
March 9, 1998



# BOARD OF DIRECTORS

CREDIT GUARANTEE CORPORATION



*Encik John Ting Sik Kang*



*Tan Sri 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*



*Encik Zakaria  
bin Ismail*



# CORPORATE INFORMATION

CREDIT GUARANTEE CORPORATION

## CHAIRMAN OF THE BOARD

Tan Sri 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  
Encik Zakaria bin Ismail

## SECRETARY

Encik Johar bin Haji Nor

## SOLICITOR

Amin Tan & Co.  
Advocates & Solicitors

## AUDITORS

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

## REGISTERED OFFICE

Level 13-16, Bangunan CGC  
Kelana Business Centre  
97, Jalan SS7/2  
47301, Petaling Jaya  
Selangor Darul Ehsan



## MANAGEMENT TEAM

CREDIT GUARANTEE CORPORATION



*Encik Wan Azhar  
bin Wan Ahmad*



*Encik Rusdi  
bin Haji Ibrahim*



*Encik Johar  
bin Haji Nor*



*Encik Khoo Kim Ho*



*Cik Guyah  
bte Hj Mohd Nordin*



*Encik Ismail  
bin Yunus*



*Encik Michael Chin  
Kon Hon*



*Encik Shuzwan Mohan  
bin Abdullah*



**Encik Wan Azhar bin Wan Ahmad**

*Chief Executive  
General Manager*

**Encik Johar bin Haji Nor**

*Assistant General Manager*

**Encik Rusdi bin Haji Ibrahim**

*Senior Manager  
Operations*

**Encik Khoo Kim Ho**

*Senior Manager  
Corporate Support*

**Cik Gayah bte Hj Mohd Nordin**

*Manager, Accounts*

**Encik Ismail bin Yunus**

*Manager, Guarantee*

**Encik Michael Chin Kon Hon**

*Manager, EDP*

**Encik Shazwan Mohan bin Abdullah**

*Manager, Claims*



## **CHAIRMAN**

Encik Wan Azhar bin Wan Ahmad - Chief Executive/General Manager  
Credit Guarantee Corporation  
Malaysia Berhad

## **MEMBERS**

Encik Johar bin Haji Nor - Assistant General Manager  
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

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

## **SECRETARY**

Encik Shazwan Mohan bin Abdullah - Manager, Claims  
Credit Guarantee Corporation  
Malaysia Berhad





On behalf of the Board of Directors, I am pleased to present **the 25th Annual Report of the Credit Guarantee Corporation** for the year ended **December 31, 1997**.

The Corporation maintained a commendable performance in 1997. Loans guaranteed by the Corporation in 1997 grew by 8.3% to RM3.9 billion, although the number of loans guaranteed declined by 3.6% to 20,655. During the year, the Corporation managed two schemes aimed at providing financing to micro-businesses. In this regard, loans amounting to RM17.8 million was disbursed to 6,249 borrowers in 1997. In total, the Corporation granted loans amounting to over RM3.9 billion to 26,904 borrowers, compared with RM3.6 billion for the year 1996.

The substantial growth in guaranteed loans over the last few years is indicative of the increased awareness and wider acceptance of the guarantee mechanism. Over the years, the growth of guaranteed loans has been faster than the growth of guarantee fund. The Corporation, while continuing to meet its objective of increasing access to credit for small and medium-scale enterprises at reasonable cost, had adopted a more careful and focused approach towards the guaranteeing of new loans during the last quarter of 1997. This approach reflected the Corporation's prudent policy of managing its overall risk exposure, given its limited capacity in terms of the size of its guarantee fund.

As part of the ongoing process of consolidating its position and strengthening its capability and capacity to issue guarantees, the Corporation completed yet another capital restructuring exercise and undertook a review of the New Principal Guarantee Scheme (NPGS). The capital restructuring exercise in 1997 raised the Corporation's paid-up capital from RM67.8 million to RM217.8 million through the issue of new shares. This was the third capital restructuring exercise undertaken by the Corporation, following the earlier exercises in 1994 and 1996.

The review of the NPGS resulted in the introduction of revised features that are applicable to all guarantee applications approved by the Corporation with effect from January 1, 1998. The revised features, among others, redefined the priority sector and new guarantee limits as well as guarantee fee structure under the NPGS. The definition of priority sector, apart from including those which are engaged in activities promoted by the government, will include small businesses with net assets or shareholders' funds not exceeding RM250,000, compared with RM500,000 previously. The maximum guarantee cover for the unsecured loans that may be issued to any one borrower, for the non-priority and priority sectors, has been reduced from RM1.0 million and RM1.5 million to RM0.5 million and RM0.75 million respectively. The percentage of guarantee cover now ranges between 50% to 90% compared to a range of between 70% to 90% previously. The rate of guarantee fee has also been reviewed to reflect the relative risks involved, and depending on the sector and collateral provided, the rate now ranges between 0.75% to 1.5% for loans up to RM1 million, and 0.75% to 2.0% for loans above RM1 million.

In 1997, the Corporation also managed to reduce its liabilities under its first three guarantee schemes, namely the General Guarantee Scheme (GGS), the Special Loan Scheme (SLS) and the Hawkers & Petty Traders Loan Scheme 1986 (HPT '86).



As in previous years, the Corporation's guarantee schemes continued to benefit two broad categories of businesses, namely, the small and medium-scale enterprises (SMEs) and the micro-businesses. Loans amounting to RM3.87 billion was granted to 16,222 SMEs and guaranteed under the Corporation's main guarantee schemes in 1997, representing an increase of 8% both in terms of number and value. Loans to micro-businesses were channelled under four schemes administered by the Corporation, namely, the Hawkers and Petty Traders Scheme, the Association Special Loan Scheme, Amanah Ikhtiar Loan Scheme and Projek Tekun. A total of RM47.7 million was disbursed to 10,682 borrowers during 1997 (1996 : RM59.5 million to 15,226 borrowers). Since the inception of the micro-business financing schemes in 1986, a total of 74,017 loans had been approved involving a total value of RM272.1 million.

On July 2, 1997, the Corporation launched its guarantee window for Interest-Free Banking Scheme (IFBS) together with all commercial banks and finance companies. It is hoped that through this scheme, access to lending especially under the IFBS will be made easier and will indirectly help to further promote the concept of interest-free banking. The guidelines of the scheme are similar to that of the NPGS but based on prescribed Islamic principles. Loans to 15 borrowers amounting to RM9.8 million was guaranteed under the IFBS in 1997.

In October 1997, the Corporation launched the Franchise Financing Scheme, with the participation of three commercial banks, to assist entrepreneurs who have viable franchise businesses to obtain the necessary financing. The scheme is backed by a special guarantee fund allocated by the Ministry of Entrepreneur Development under its Franchise Programme, and aims to assist the Government in developing middle-class Bumiputera. One of the attractive features of the Franchise Financing Scheme is that the cost of financing is reduced through a subsidy of between 2% - 6% during the first four years, hence, making it more affordable to the borrower. A total of seven loan accounts amounting to RM2.3 million were approved in 1997.

The cumulative value of loans guaranteed by the Corporation since its inception in 1973 amounted to RM14.0 billion, involving a total of 256,649 loans. Repayments and cancellations in 1997 amounted to RM1.1 billion, involving 9,509 loans (1996 : RM606.7 million; 6,899 loans). The number of loan accounts still under the Corporation's guarantee as at December 31, 1997 was 67,427 amounting to RM8.8 billion.

Loans to Bumiputera entrepreneurs under the NPGS accounted for 28.9% of the total number of loans guaranteed and 25.9% of the total value of loans guaranteed. As for the hawkers' schemes (both LFHPT'92 and ASLS'92), Bumiputera borrowers accounted for 59.3% and 60.1% in terms of number and value respectively.

Overall, the Corporation's lending in 1997 under its guarantee schemes was mainly to the general business sector, which accounted for 79.5% (RM3,105.0 million) of the total loans guaranteed, whilst the manufacturing sector accounted for 19.2% (RM748.8 million) of the total loans guaranteed.





The Corporation's reserves and capital increased to RM688.7 million in 1997 from RM472.2 million at the end of 1996. Net profit increased significantly by 49.6% to RM84.2 million, compared with RM56.3 million in 1996. The increase in net profit was mainly due to the increase in guarantee fee income of RM33.9 million (1996: RM15.9 million), and higher interest income of RM19.5 million (1996 : RM8.2 million). Interest arbitrage remained important, contributing RM34.6 million, compared with RM36.0 million in 1996.

The Corporation's total operating revenue for 1997 amounted to RM53.4 million compared to RM24.1 million in 1996, representing an increase of 121.6%. With operating expenses amounting to RM5.7 million, the Corporation's operating profit for the year increased significantly to RM49.6 million from RM20.3 million in 1996.

The Corporation continued to discharge its liability on bad loans claimed by member institutions. During the year, a total of 314 claims amounting to RM29.1 million was lodged with the Corporation, and 119 claims amounting to RM7.6 million was settled. In addition, the Corporation settled 21 claims amounting to RM34.736 under the Hawkers and Petty Traders Loan Schemes (1996 : RM0.2 million).

## **OUTLOOK**

In the current economic environment, and recognising the limited capacity of the Corporation to issue guarantees under its existing guarantee fund, the Corporation has and will continue to undertake stringent risk management measures to ensure that it continues to provide the necessary support to the productive sectors of the economy. Hence, in 1998 the Corporation will further consolidate its position and strengthen its capability to continue issuing guarantees. Although the target for the guarantee of loans in 1998 has been reduced to RM2 billion (1997 : RM4.2 billion), the number of guaranteed loans is not expected to be significantly reduced as there will be an emphasis on sectors that are more productive and loan sizes that are generally smaller. The Corporation sees 1998 as a challenging year as it will have to deal with an expected higher rate of non-performing loans, and meet the demand for its guarantee against its limited capacity, whilst ensuring that it meets the objective of providing access to financing at reasonable cost.

In 1998, the Corporation will focus on several main activities to further consolidate its position. These activities would include the implementation of the revised features of the NPGS, the close monitoring of non-performing loans and recovery of claims paid, and the possible introduction of new guarantee schemes backed by separate guarantee funds.

In a continuing effort to improve productivity and ensure that the Corporation is able to serve both the targetted borrowers and the financial institutions with a high standard of operational efficiency, the Corporation plans to implement an electronic linkage with the financial institutions and make further enhancements to its Management Information System.



## CHAIRMAN'S STATEMENT

CREDIT GUARANTEE CORPORATION

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To maintain and further strengthen the close working relationship with the banks, the Corporation plans to hold regular dialogues with bankers to discuss and address current issues. These dialogues will be held in different regions in the country. In 1997, nine seminars were conducted in various parts of the country. Information on the guarantee schemes will continue to be disseminated to the public through the Corporation's participation in dialogue sessions organised by the various trade associations and related organisations. The Corporation conducted several seminars and briefing sessions to disseminate information to the public in 1997, which were attended by 1,528 participants.

To promote the exchange of skills and expertise among the members of the Asian Credit Supplementation Institutions Confederation (ACSIC), seven senior staff members from PT Askindo, Indonesia were attached with the Corporation for two weeks and two of the Corporation's staff attended the annual ACSIC Training Programme in Japan. As a member of ACSIC, the Corporation is scheduled, by rotation, to host the 12th ACSIC Conference in 1999.

The Corporation wishes to acknowledge and thank participating financial institutions for their cooperation and support for the various guarantee schemes. The top supporters will be presented the 3rd CGC Top Supporter Awards in conjunction with the Corporation's 25th Annual General Meeting. I take this opportunity to extend my congratulations to the recipients and hope to get their continued support.

I wish to express my appreciation to my colleagues on the Board for their invaluable contribution and support throughout the year. I wish to thank Puan Rafiah Salim, who left the Board on October 1, 1997, and welcome Encik Zakaria Ismail, who was appointed to the Board on January 15, 1998.

On behalf of the Board, I would like to thank the Ministry of Entrepreneur Development, other Government Ministries and agencies, commercial banks and finance companies, as well as the various trade associations for their cooperation and support in making 1997 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 commitment in the coming years.

**Ahmad Mohd Don**  
*Chairman*  
*Board of Directors*



# REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

The Corporation is continuing the process of consolidating its position and strengthening its capability and capacity to issue guarantee. In 1997, the Corporation undertook a review of the New Principal Guarantee Scheme (NPGS) and introduced some changes to the scheme guideline. The revised features redefine the priority sector and guarantee limits as well as the guarantee fee structure. The revised guideline are applicable to all loans guaranteed with effect from January 1, 1998. A summary of the revised features of the NPGS are as follows :-

**Table 1 : NEW FEATURES OF NPGS**

FEATURES	REVISED		PREVIOUS																																																	
Definition of Priority Sector (*)	Businesses in the priority sector are those engaged in activities promoted by the government and include those with net assets or shareholders' funds not exceeding <b>RM250,000</b>		Businesses in the priority sector are those engaged in activities promoted by the government and include those with net assets or shareholders' funds not exceeding RM500,000																																																	
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For loans between RM10,000 and RM50,000; guarantee cover is provided under the Block Guarantee Scheme where the guarantee cover is 70% of the value of the entire block. The types of credit facilities eligible are limited to term loans and overdrafts only. The guarantee fee is 1.25% per annum calculated on the guarantee cover issued.

Priority sector means all activities promoted by the Government especially those listed by the Ministry of International Trade & Industry and the Ministry of Entrepreneur Development.

All other terms and conditions of the New Principal Guarantee Scheme remain unchanged.



# REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

## 1. NEW LOANS GUARANTEED

The Corporation guaranteed a total of 20,655 new loans with a value of RM3.9 billion (1996 : 21,435 loans; RM3.6 billion). The slight decline in the number of loans guaranteed was mainly due to the decline in loans guaranteed under the microcredit schemes by 30.4%. The NPGS registered a moderate growth of 5.5%. Overall, there was an increase of 8.3% in value of loans guaranteed, with the NPGS accounting for 98.6% of the total figure. Details of loans guaranteed under the various schemes are shown in Table 2.

**Table 2 : LOANS GUARANTEED IN 1996 AND 1997**

Schemes	1996		1997	
	No.	RM (million)	No.	RM (million)
<b>Main Schemes</b>				
NPGS	14,965	3,578.84	15,784	3,847.42
NEF	29	19.93	-	-
ILS	4	2.06	-	-
SEFF	67	2.31	416	14.38
IFBS	-	-	15	9.83
FFS	-	-	7	2.29
<b>Sub-total</b>	<b>15,065</b>	<b>3,603.14</b>	<b>16,222</b>	<b>3,873.92</b>
<b>Microcredit Schemes</b>				
LFHPT'92	6,079	38.23	4,291	28.63
ASLS'92	291	2.51	142	1.24
<b>Sub-total</b>	<b>6,370</b>	<b>40.74</b>	<b>4,433</b>	<b>29.87</b>
<b>TOTAL</b>	<b>21,435</b>	<b>3,643.88</b>	<b>20,655</b>	<b>3,903.79</b>

*NPGS - New Principal Guarantee Scheme*

*NEF - New Entrepreneurs Fund*

*ILS - Integrated Lending Scheme*

*IFBS - Interest-Free Banking Scheme*

*SEFF - Small Entrepreneurs Financing Fund*

*LFHPT'92 - Loan Fund for Hawkers & Petty Traders 1992*

*ASLS'92 - Association Special Loan Scheme 1992*

*FFS - Franchise Financing Scheme*

During the year, 9,509 loans valued at RM1,065.2 million were repaid and cancelled (1996 : 6,899 loans, RM606.7 million). The number of loan accounts that are still subject to CGC guarantee as at December 31, 1997 amounted to 67,427 with a loan value of RM8.8 billion (1996 : 76,246 loans; RM6.4 billion).

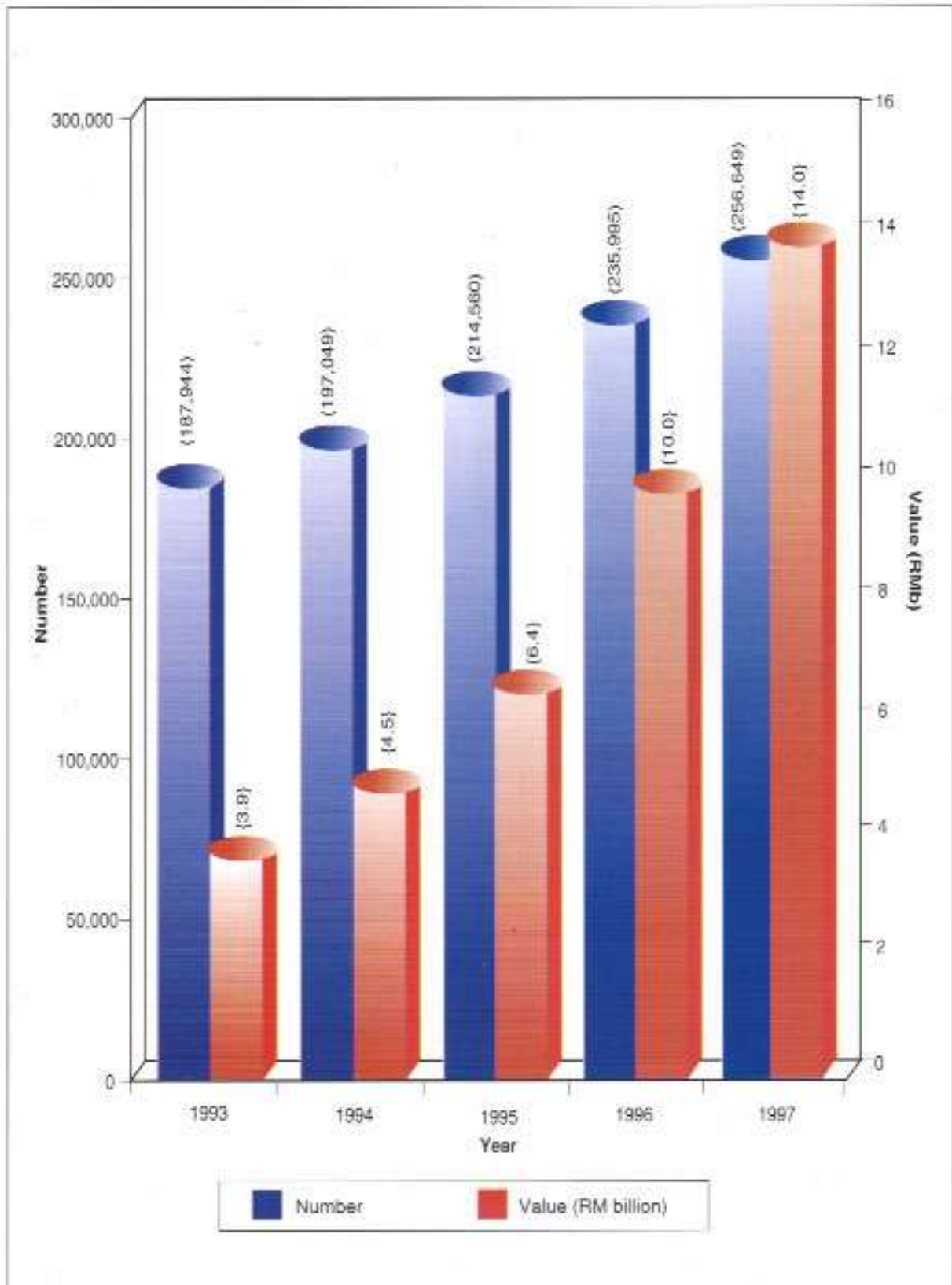
Since its inception, the Corporation had cumulatively guaranteed loans valued at RM14.0 billion benefiting 256,649 borrowers throughout the country. Details on lending under the schemes managed by the Corporation are depicted in Charts I and II.



# REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

Chart I:  
Cumulative Number & Value Of Loans Guaranteed Under All Schemes



( ) : Number of Loans Guaranteed

{ } : Value of Loans Guaranteed (RM billion)



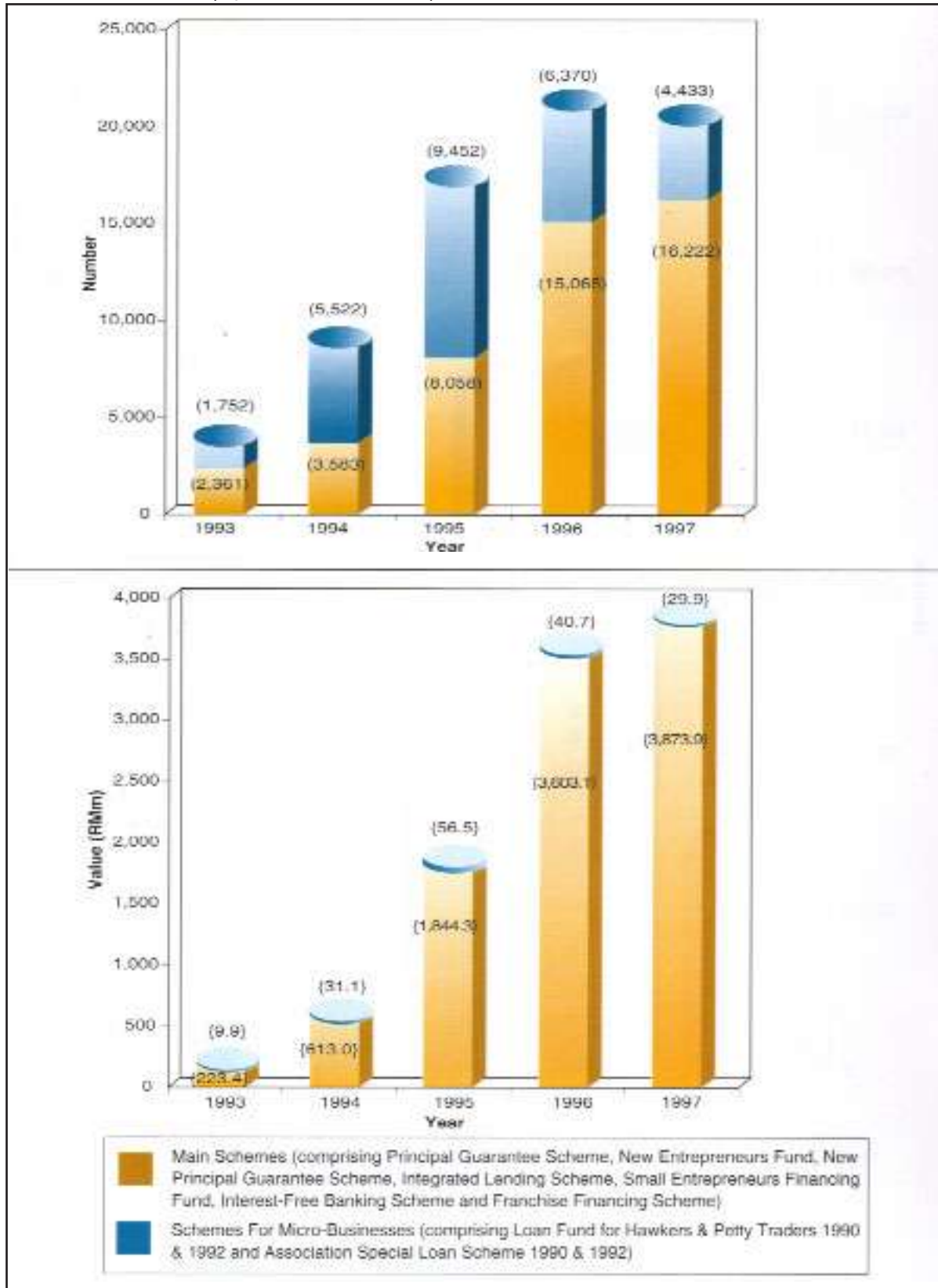


# REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

Chart II:

Loans Guaranteed (By Number & Value) from 1993 - 1997



( ) : Number of Loans Guaranteed { } : Value of Loans Guaranteed (RM million)





## REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

During the year, loans valued at RM11.9 million involving 5,182 borrowers were approved under the CGC-Amanah Ikhtiar Malaysia (CGC-AIM) cooperation. In this regard, the total loans approved since 1992 is RM43.1 million benefiting 22,847 poor households. The objective of the CGC-AIM cooperation is to channel tiny loans to AIM'S members, to finance their economic activities.

In continuing to assist micro-businesses, the action oriented research programme, namely the "Projek Tekun" scheme, developed in 1995 together with the Centre for Policy Research, Universiti Sains Malaysia; approved another RM5.9 million loans involving 1,067 households, bringing the total approved to date to 2,229 households involving RM11.0 million from an allocated revolving fund of RM6 million.

The Small Entrepreneurs Financing Fund (SEFF) is a scheme designed to assist small entrepreneurs by providing another avenue to obtain small loans ranging from RM10,000 to RM50,000 with the participation of 11 financial institutions. The scheme was developed in collaboration with the Ministry of Entrepreneur Development (KPU) whereby KPU would, through a formal process, select the entrepreneurs and arrange training in entrepreneurship for the successful candidates. The total funding for this scheme is RM240 million comprising of RM40 million in the form of guarantee fund from the government and RM200 million in the form of loanable funds from Permodalan Nasional Berhad (PNB). During the year, 416 such entrepreneurs secured loans valued at RM14.4 million under this scheme. Since its introduction in October 1996, 483 loans valued at RM16.7 million has been approved.

In promoting the concept of interest-free banking under Islamic principles, the Corporation introduced its guarantee window for Interest-Free Banking Scheme (IFBS) with the participation of all commercial banks and finance companies. Its objective is to assist entrepreneurs with viable projects but lacking the collateral to obtain the required IFBS facilities from the financial institutions. The scheme guidelines follows the NPGS but based on prescribed Islamic principles. In 1997, a total of 15 loans valued at RM9.8 million were guaranteed under the IFBS.

In promoting franchise businesses under the Ministry of Entrepreneur Development's Franchise Programme, the Corporation together with the Ministry introduced the Franchise Financing Scheme with the participation of three commercial banks. The scheme also aims to assist the Government in developing middle-class Bumiputera. One of the attractive features of the Franchise Financing Scheme is that the cost of financing is reduced through a subsidy of between 2% - 6% during the first four years, hence, making it more affordable to the borrower. During the year, a total of 7 loans valued at RM2.3 million were approved under the scheme.

In 1997, the Corporation also managed to reduce its liabilities under its first three guarantee schemes, namely, the General Guarantee Scheme (GGS), the Special Loan Scheme (SLS) and the Hawkers & Petty Traders Loan Scheme 1986 (HPT'86).



## 2. **DIRECTION OF LENDING**

Loans guaranteed under the various guarantee schemes in 1997 benefited three broad sectors, namely, general business, manufacturing and agriculture. The general business sector accounted for 18,044 loans (1996 : 19,154 loans) valued at RM3.1 billion (1996 : RM2.8 billion), followed by the manufacturing sector with a total of 2,395 loans (1996 : 2,056 loans) valued at RM748.8 million (1996 : RM776.8 million) and the agriculture sector with a total of 201 loans (1996 : 215 loans) valued at RM44.1 million (1996 : RM39.5 million).

## 3. **DISTRIBUTION BY STATES**

As in the previous year, the distribution of loans guaranteed under the main schemes by region indicated a concentration in the Federal Territory of Kuala Lumpur, with more than 22.4% in terms of number and 29.1% in terms of value approved.

Under the LFHPT'92, the distribution of loans also showed a concentration in the Federal Territory of Kuala Lumpur which accounted for about 12.0% in terms of number and 13.4% in terms of value. Loans under the ASLS'92 were however concentrated in Johore accounting for 56.9% in terms of number and 75.8% in terms of value.

## 4. **RACIAL COMPOSITION OF LOANS**

There has been no significant change in the racial composition of loans. Bumiputera entrepreneurs continued to enjoy ready access to CGC-guaranteed loans under the NPGS in 1997. Loans to Bumiputera borrowers during the year increased by 3.5% from RM961.5 million in 1996 to RM995.0 million in 1997. In this regard, Bumiputera borrowers accounted for 28.9% and 25.9% of the overall loans approved in terms of number and value respectively. Loans to Chinese borrowers accounted for 67.6% and 71.2% of the overall loans approved in terms of number and value respectively with Indian borrowers accounting for 2.8% in terms of number and 2.0% in terms of value.

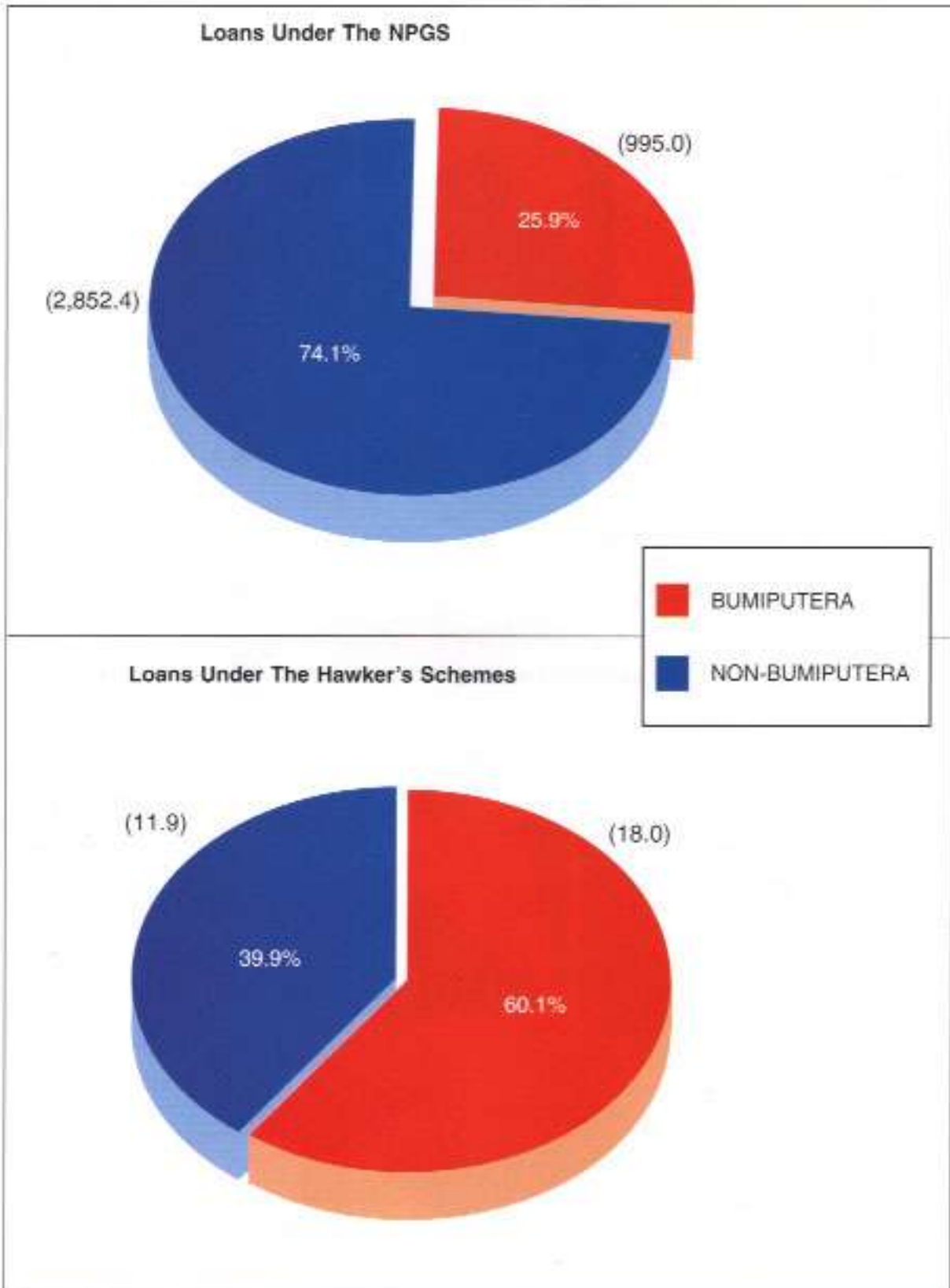
Under the hawkers' schemes (both LFHPT'92 & ASLS'92), Bumiputera businesses accounted for 59.3% of the total loans approved in terms of number, and 60.1% in terms of value; whereas the Chinese community accounted for 34.5% and 33.4% respectively both in terms of number and value. The Indian community accounted for 6.0% and 6.3% respectively both in terms of number and value. Details of loans by race are shown in Chart III.

## 5. **RANGE OF LOAN SIZE**

As in the previous year, 29.7% of the number of loans guaranteed were above RM250,000. In terms of value, loans in excess of RM250,000 accounted for 68.4% (RM2.6 billion) compared with 69.4% (RM2.5 billion) in 1996. 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 10,519 loans valued at RM1,038.9 million in 1996 to 11,090 loans valued at RM1,216.3 million in 1997, representing an increase of 5.4% in terms of number and 17.1% 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 IV.



Chart III:  
Racial Composition Of Loans By Value In 1997



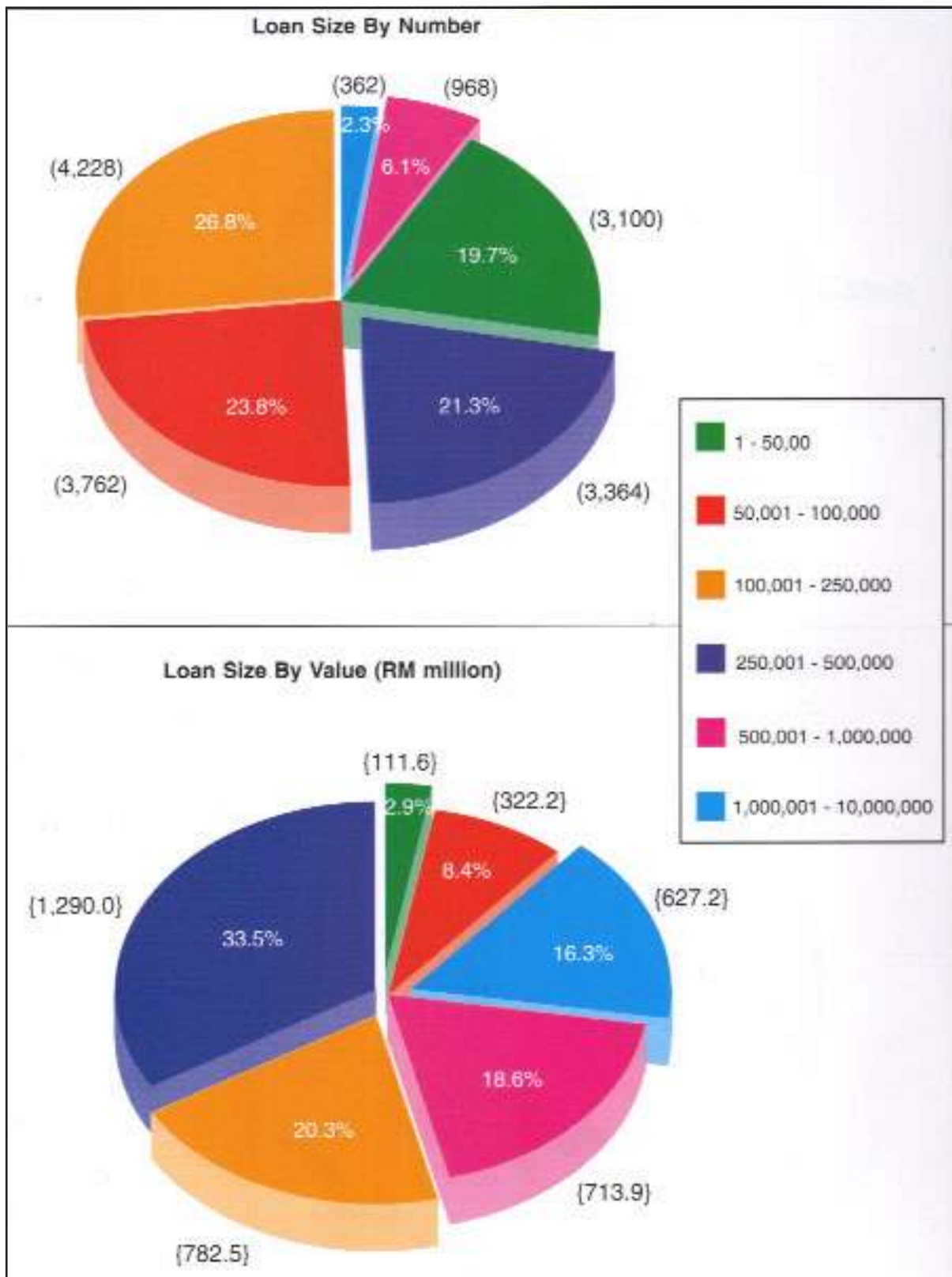
( ) : Value of Loans Guaranteed (RM million)



# REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

Chart IV:  
Range of Loan Size Under The New Principal Guarantee Scheme (NPGS) in 1997



( ) : Number of Loans Guaranteed

{ } : Value of Loans Guaranteed (RM million)



For loans guaranteed under the LFHPT'92, those ranging between RM4,001 and RM5,000 accounted for the highest number of loans, that is 54.4% (1996 : 63.2%) and the second highest in terms of value accounting for 40.8% (1996 : 50.3%). Loans of between RM9,001 and RM10,000 formed the second largest category accounting for 34.4% in terms of number and the highest in terms of value accounting for 51.6%. As for the ASLS'92, the highest number of loans approved were those between RM9,001 and RM10,000 accounting for 73.2% in terms of number and 83.6% in terms of value.

## **FINANCIAL HIGHLIGHTS**

The Corporation's operating revenue, comprising mainly of guarantee fees and interest income, increased by RM29.3 million or 121.6% from RM24.1 million in 1996 to RM53.4 million in 1997. Income from guarantee fees for the year increased by RM18.0 million or 113.2% to RM33.9 million compared with RM15.9 million in 1996. The increase in guarantee fees was due to the increase in the value of loans guaranteed in 1997 and prior years. Interest income increased from RM8.2 million in 1996 to RM19.5 million in 1997, reflecting higher interest rates on the deposits placed with financial institutions. With operating expenses amounting to RM5.7 million (1996 : RM3.8 million), operating profit for the year amounted to RM49.6 million compared with RM20.3 million in 1996. With interest arbitrage amounting to RM34.6 million (1996 : RM36.0 million), total net profit for the year amounted to RM84.2 million compared with RM56.3 million in 1996, representing an increase of RM27.9 million or 49.6%. Chart V depicts the Total Income and Operating Expenses for the last 5 years, while Chart VI shows the Operating Income comprising guarantee fees and interest income over the same period.

Based on 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, the Corporation set aside an amount of RM130.4 million as Specific Provision and a further sum of RM53.9 million as General Provision, making the year's total provision of RM285.0 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 119 claims amounting to RM7.6 million under the main schemes (GGS, SLS, NEF, PGS & NPGS). Another 21 claims amounting to RM34,736 were settled under the hawkers and petty traders loan schemes.

With a net profit of RM84.2 million earned during the year, total shareholders' funds of the Corporation, comprising share capital, reserves and provision for claims increased by 45.8% from RM472.2 million in 1996 to RM688.7 million in 1997.

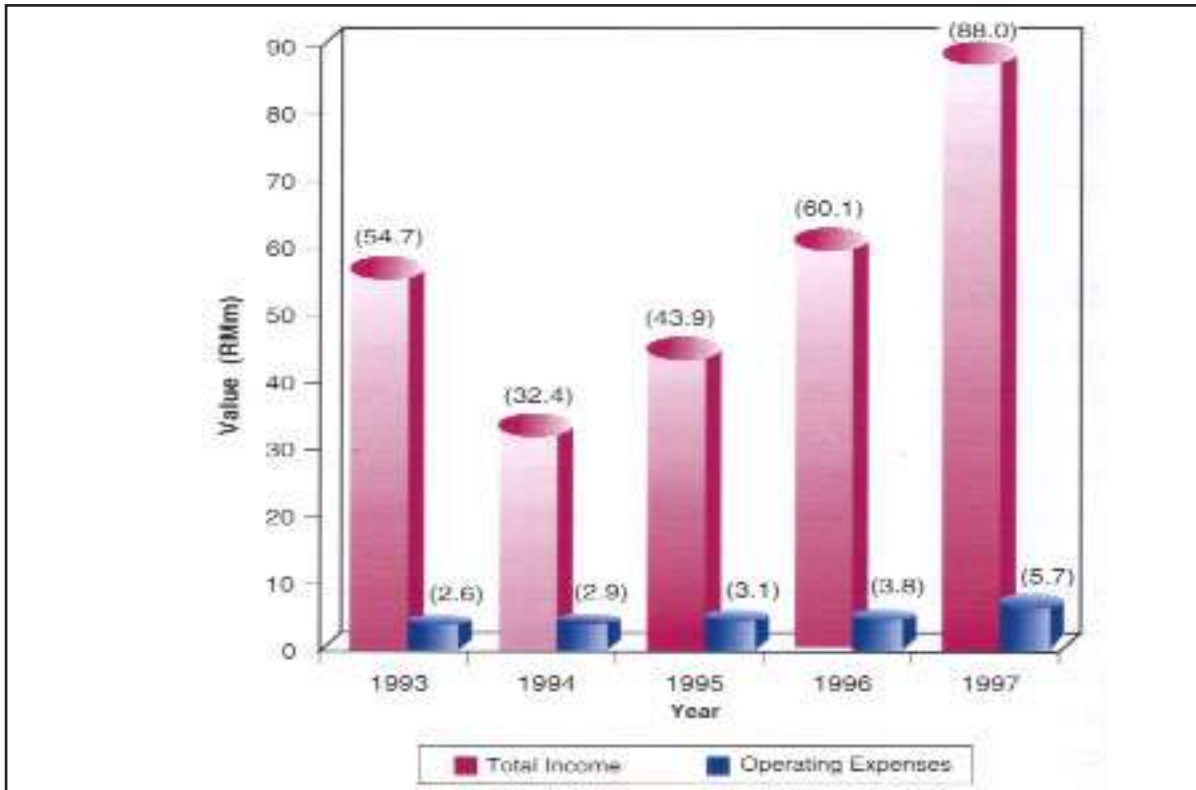




# REPORT ON OPERATIONS

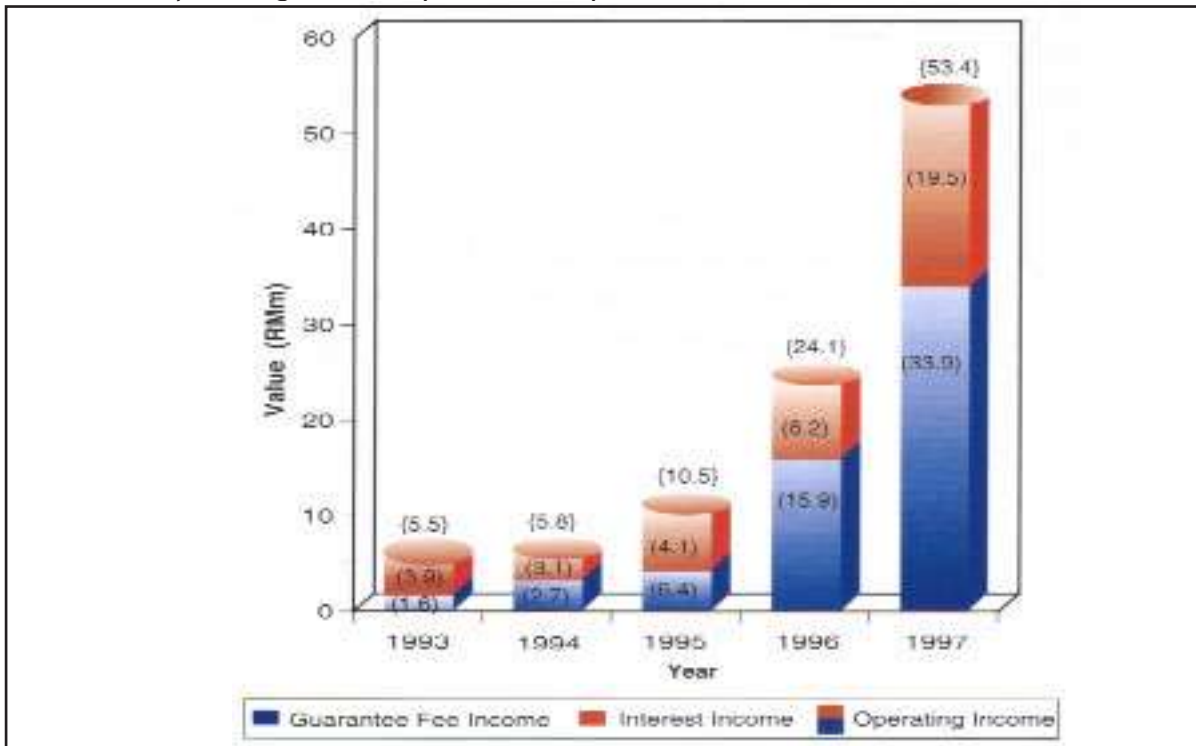
CREDIT GUARANTEE CORPORATION

Chart V :Total Income & Operating Expenses (1993 -1997)



( ) : Value (RM million)

Chart VI :Operating Income (1993 -1997)



( ) : Value (RM million)

{ } : Operating Income (RM million)





# REPORT ON OPERATIONS

CREDIT GUARANTEE CORPORATION

## SUPPORT ACTIVITIES

As in previous years, the Corporation continued to promote its guarantee schemes through various activities. A total of 9 workshops were held all over the country benefiting 1,189 bankers from various banks and finance companies. In conjunction with the workshops, the Corporation had also conducted Information Sessions for the public. The Corporation also participated in briefing sessions organised by various organisations which were specially designed to create greater public awareness of the schemes. On the whole, 18 such workshops and briefing sessions were conducted throughout the country in 1997, attended by a total of 1,528 participants.

As a member of the Asian Credit Supplementation Institutions Confederation (ACSIC) consisting of Credit Guarantee Institutions in 9 member countries, namely, Japan, Korea, Taiwan, Thailand, Philippines, Indonesia, Nepal, Sri Lanka and Malaysia; two staff of the Corporation attended the 8th ACSIC Training Programme in Kobe, Japan.





The directors have pleasure in submitting their annual report and the audited accounts of the Corporation for the year ended 31st December, 1997.

## 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;
- New Principal Guarantee Scheme; and
- Small Entrepreneurs Financing Fund (SEFF).

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

## 2. ACCOUNTS

	<b>RM</b>
Operating profit for the year	49,594,110
Add: Interest arbitrage earned	<u>34,594,737</u>
Net profit for the year	84,188,847
Retained profits brought forward	<u>34,026,338</u>
Profit available for appropriation	118,215,185
Transfer to Reserves	<u>(34,594,737)</u>
Retained profits carried forward	<u><u>83,620,448</u></u>

## 3. SHARE CAPITAL

Pursuant to the 24th Annual General Meeting held on 24th March, 1997, the Corporation:-

- (i) increased its authorised share capital from 100,000,000 ordinary shares of RM1.00 each to 300,000,000 ordinary shares of RM1.00 each as follows:-

Class A

60,000,000 ordinary shares of RM1.00 each registered to Bank Negara Malaysia.

Class B

150,000,000 ordinary shares of RM1.00 each registered to shareholders who are carrying on business as a bank.

Class C

90,000,000 ordinary shares of RM1.00 each registered to shareholders who are carrying on business as a finance company.



### 3. SHARE CAPITAL (CONTD)

- (ii) increased its issued share capital from 67,800,000 ordinary shares of RM1.00 each to 217,800,000 ordinary shares of RM1.00 each by an issue of 150,000,000 new ordinary shares of RM1.00 each for cash, to the following classes of shareholders, to rank pari passu with the existing shares in the same class in all respects.

	No. of Shares of RM1.00 Each
Class A	30,000,000
Class B	75,000,000
Class C	45,000,000
	<u>150,000,000</u>

Of the issue of 150,000,000 new ordinary shares of RM 1.00 each issued, a total of RM141,342,500 was received in 1997 while the balance of RM8,657,500 was received in January and February 1998.

### 4. RESERVES AND PROVISIONS

- (a) Reserves  
The directors are recommending the transfer of RM34,594,737 from the profit and loss account to the following reserves:-

	RM
Special Reserve	27,167,121
General Development Reserve	490,566
SPTF Reserve	247,513
Special Program Reserve	6,689,537
	<u>34,594,737</u>

- (b) Provision  
During the year, a provision of RM184,290,029 representing possible claims against the Corporation was made by way of a charge against the Special Reserve and SPTF Reserve.

### 5. DIRECTORS

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

Tan Sri 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  
Puan Rafiah Salim (resigned on 1st October, 1997)  
Encik Zakaria bin Ismail (appointed on 15th January, 1998)

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



## 5. DIRECTORS (CONTD)

Dato' Abdul Aziz bin Haji Othman and Encik John Ting Sik Kang 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 Zakaria bin Ismail retires in accordance with Article 77 of the Corporation's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offers himself 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 values 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 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 1997 which secures the liabilities or any other person;
  - (vi) and there does not exist any contingent liability that has arisen since 31st December, 1997 other than those that may arise from guarantee given in respect of credit facilities extended by member banks and finance companies in the ordinary course of business.



## 6. OTHER STATUTORY INFORMATION (CONTD)

- (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, 1997 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, 1997 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, 1997 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  
Date: 9th March, 1998



**BALANCE SHEET**  
AS AT 31ST DECEMBER, 1997  
CREDIT GUARANTEE CORPORATION

		1997	1996
	Note	RM	RM
<b>FIXED ASSETS</b>			
	3	44,777,324	45,831,207
<b>CURRENT ASSETS</b>			
Fees receivable		7,661,312	7,721,633
Other debtors		1,619,094	2,093,372
Loans and advances	4	122,208,299	118,581,500
Malaysian Government Securities	5	80,297,219	82,909,319
Term deposits and interest receivable	6	840,629,938	588,902,310
Cash and bank balances		16,358,968	3,915,134
		<b>1,068,774,830</b>	<b>804,123,268</b>
<b>DEDUCT: CURRENT LIABILITIES</b>			
Claims payable		927,031	719,503
Other creditors		20,503,249	13,270,812
Government Funds	7	340,407,671	300,407,671
Amanah Ikhtiar Malaysia Fund	8	13,000,000	13,000,000
Small Entrepreneurs Financing Fund	9	50,000,000	50,000,000
Short term loan (secured)	10	-	395,600
Provision for claims under the Guarantee Schemes		284,998,090	108,553,492
		<b>709,836,041</b>	<b>486,347,078</b>
<b>NET CURRENT ASSETS</b>		<b>358,938,789</b>	<b>317,776,190</b>
		<b>403,716,113</b>	<b>363,607,397</b>
<b>FINANCED BY:</b>			
<b>SHARE CAPITAL</b>	11	209,142,500	67,800,000
<b>RESERVES</b>	12	194,573,613	295,807,397
		<b>403,716,113</b>	<b>363,607,397</b>

*The notes on pages 29 to 37 form part of these accounts.*





**PROFIT AND LOSS ACCOUNT**  
FOR THE YEAR ENDED 31ST DECEMBER, 1997  
CREDIT GUARANTEE CORPORATION

	Note	1997 RM	1996 RM
<b>OPERATING REVENUE</b>	13	<u>53,439,580</u>	<u>24,121,441</u>
<b>OPERATING PROFIT FOR THE YEAR</b>	14	49,594,110	20,313,761
<b>ADD: INTEREST ARBITRAGE EARNED</b>	15	<u>34,594,737</u>	<u>35,977,702</u>
<b>NET PROFIT FOR THE YEAR</b>		84,188,847	56,291,463
<b>RETAINED PROFITS BROUGHT FORWARD</b>		34,026,338	13,712,577
<b>PROFITS AVAILABLE FOR APPROPRIATION</b>		118,215,185	70,004,040
<b>TRANSFER TO RESERVES</b>	12	(34,594,737)	(35,977,702)
<b>RETAINED PROFITS CARRIED FORWARD</b>	12	<u>83,620,448</u>	<u>34,026,338</u>

*The notes on pages 29 to 37 form part of these accounts.*



**CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 31ST DECEMBER, 1997  
CREDIT GUARANTEE CORPORATION

	1997 RM	1996 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit before taxation	84,188,847	56,291,463
Adjustments for:		
Depreciation of fixed assets	2,527,148	457,641
Gain on disposal of fixed assets	(102,244)	(311)
Diminution in value of Malaysian Government Securities	886,951	195,724
Interest arbitrage	(34,594,737)	(35,977,702)
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	52,905,965	20,966,815
Decrease/(increase) in fees receivable	60,321	(4,987,806)
(Increase)/decrease in interest receivable	(6,001,707)	620,120
Decrease/(increase) in other debtors	474,278	(213,624)
Increase in loans and advances	(4,625,736)	(20,560,311)
Increase in claims payable	-	137,258
Increase in other creditors	7,232,437	7,550,719
Payment of claims under the Guarantee Schemes	(7,637,903)	(5,165,301)
Claims paid under the "HPT Scheme"	(133,665)	(46,541)
<b>NET CASH FROM/ (USED IN) OPERATING ACTIVITIES</b>	42,273,990	(1,698,671)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of fixed assets	179,490	320
Purchase of fixed assets	(1,550,511)	(44,797,852)
Proceeds from Malaysian Government Securities matured	-	22,696,372
Interest arbitrage earned	36,319,886	36,835,978
<b>NET CASH FROM INVESTING ACTIVITIES</b>	34,948,865	14,734,818
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Drawdown/(repayment) of Government Funds	40,000,000	(50,078,082)
Funds received under the Amanah Ikhtiar Malaysia Fund	-	6,000,000
Funds received under the Small Entrepreneurs Financing Fund	-	90,000,000
Repayment of short term loan	(395,600)	(10,966,400)
Proceeds from issuance of share capital	141,342,500	13,560,000
<b>NET CASH FROM FINANCING ACTIVITIES</b>	180,946,900	48,515,518
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	258,169,755	61,551,665
<b>CASH AND CASH EQUIVALENTS AT 1ST JANUARY</b>	579,526,556	517,974,891
<b>CASH AND CASH EQUIVALENTS AT 31ST DECEMBER</b>	837,696,311	579,526,556
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Term deposits	821,337,343	575,611,422
Cash and bank balances	16,358,968	3,915,134
	837,696,311	579,526,556

*The notes on pages 29 to 37 form part of these accounts.*



## 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) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. 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:-

Leasehold building	4%
Motor vehicles	20%
Office equipment	20%
Furniture, fittings and fixtures	10%-20%
Computer equipment	20%

### (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 ACCOUNT

CREDIT GUARANTEE CORPORATION

## 3. FIXED ASSETS

	Motor Vehicles	Office Equipment	Furniture &Fittings	Computers Equipment	Leasehold Building	Capital work-in- progress	Total
	RM	RM	RM	RM	RM	RM	RM
<b>1997</b>							
Cost:							
At 1st January	400,270	189,324	533,430	2,331,589	44,091,574	-	47,546,187
Additions	215,431	69,826	1,219,459	45,795	-	-	1,550,511
Disposals	(287,908)	-	-	-	-	-	(287,908)
At 31st December	<u>327,793</u>	<u>259,150</u>	<u>1,752,889</u>	<u>2,377,384</u>	<u>44,091,574</u>	<u>-</u>	<u>48,808,790</u>
Accumulated depreciation:							
At 1st January	182,978	155,068	436,450	940,484	-	-	1,714,980
Charge for the year	81,779	20,565	200,389	460,752	1,763,663	-	2,527,148
Elimination on disposal	(210,662)	-	-	-	-	-	(210,662)
At 31st December	<u>54,095</u>	<u>175,633</u>	<u>636,839</u>	<u>1,401,236</u>	<u>1,763,663</u>	<u>-</u>	<u>4,031,466</u>
Net book value	<u>237,698</u>	<u>83,517</u>	<u>1,116,050</u>	<u>976,148</u>	<u>42,327,911</u>	<u>-</u>	<u>44,777,324</u>
<b>1996</b>							
Cost:							
At 1st January	287,908	183,022	480,434	1,294,272	-	515,564	2,761,200
Additions	112,362	6,302	65,861	521,753	44,091,574	-	44,797,852
Disposals	-	-	(12,865)	-	-	-	(12,856)
Reclassification	-	-	-	515,564	-	(515,564)	-
At 31st December	<u>400,270</u>	<u>189,324</u>	<u>533,430</u>	<u>2,331,589</u>	<u>44,091,574</u>	<u>-</u>	<u>47,546,187</u>
Accumulated depreciation:							
At 1st January	102,924	141,283	408,469	617,519	-	-	1,270,195
Charge for the year	80,054	13,785	40,837	322,965	-	-	457,641
Elimination on disposal	-	-	(12,856)	-	-	-	(12,856)
At 31st December	<u>182,978</u>	<u>155,068</u>	<u>436,450</u>	<u>940,484</u>	<u>-</u>	<u>-</u>	<u>1,714,980</u>
Net book value	<u>217,292</u>	<u>34,256</u>	<u>96,980</u>	<u>1,391,105</u>	<u>44,091,574</u>	<u>-</u>	<u>45,831,207</u>



# NOTES TO THE ACCOUNT

CREDIT GUARANTEE CORPORATION

## 4. LOANS AND ADVANCES

	1997 RM	1996 RM
At 1st January	118,581,500	98,021,189
Add: Funds disbursed	50,827,360	61,577,780
	<u>169,408,860</u>	<u>159,598,969</u>
Less: Repayments received	(47,200,561)	(41,017,469)
At 31st December	<u>122,208,299</u>	<u>118,581,500</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).

## 5. MALAYSIAN GOVERNMENT SECURITIES

	1997 RM	1996 RM
Malaysian Government Securities	89,206,600	89,206,600
Provision for diminution in value	(10,746,300)	(8,134,200)
	<u>78,460,300</u>	<u>81,072,400</u>
Interest receivable	1,836,919	1,836,919
	<u>80,297,219</u>	<u>82,909,319</u>
Market value	<u>78,460,300</u>	<u>81,072,400</u>

## 6. TERM DEPOSITS AND INTEREST RECEIVABLE

	1997 RM	1996 RM
Term deposits		
- with licensed banks	368,350,006	320,484,460
- with licensed finance companies	412,987,337	254,731,362
- others	40,000,000	395,600
	<u>821,337,343</u>	<u>575,611,422</u>
Interest receivable		
- from licensed banks	7,780,296	7,637,486
- from licensed finance companies	8,622,526	5,632,028
- others	2,889,773	21,374
	<u>19,292,595</u>	<u>13,290,888</u>
	<u>840,629,938</u>	<u>588,902,310</u>





# NOTES TO THE ACCOUNT

CREDIT GUARANTEE CORPORATION

## 7. GOVERNMENT FUNDS

	1997 RM	1996 RM
Principal	340,000,000	340,000,000
Accrued interest payable	407,671	407,671
	<u>300,407,671</u>	<u>300,407,671</u>

These comprise various placements from Bank Negara Malaysia. RM200,000,000 of the principal is subject to interest at 1% per annum while RM140,000,000 is interest free. 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 RM155,444,190 respectively.

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

## 8. AMANAH IKHTIAR MALAYSIA FUND

	1997 RM	1996 RM
At 1st January	13,000,000	7,000,000
Drawdown during the year	-	6,000,000
At 31st December	<u>13,000,000</u>	<u>13,000,000</u>

On 31st October, 1995, 15 financial institutions had entered into an agreement with Amanah Ikhtiar Malaysia (AIM) and the Corporation 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 has been transferred to the Special Program Reserve and will be used to absorb possible losses on loans granted under this scheme (Note 12).

## 9. SMALL ENTREPRENEURS FINANCING FUND

	1997 RM	1996 RM
At 1st January	50,000,000	-
Drawdown during the year	-	50,000,000
At 31st December	<u>50,000,000</u>	<u>50,000,000</u>



# NOTES TO THE ACCOUNT

CREDIT GUARANTEE CORPORATION

In 1996, 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) contributed a guarantee fund of RM40,000,000, which will be included under the Special Program Reserve, to absorb possible losses on loans granted under the SEFF (Note 12).

The purpose of the Fund is to provide another avenue for 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.

The earnings from the unutilised portion of the Fund has been transferred to the Special Program Reserve and will be used to absorb possible losses on loans granted under this scheme (Note 12).

The Corporation has received RM50,000,000 from PNB under the SEFF and RM40,000,000 from the MED in 1996.

## 10. SHORT TERM LOAN (SECURED)

	1997 RM	1996 RM
Principal	-	395,600

The interest free short term loan was extended to the Corporation on 20th April, 1996 by Bank Negara Malaysia 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

	1997 RM	1996 RM
Ordinary shares of RM1 each		
Authorised:		
At 1 st January	100,000,000	30,000,000
Increased during the year	200,000,000	70,000,000
At 31st December	<u>300,000,000</u>	<u>100,000,000</u>



# NOTES TO THE ACCOUNT

CREDIT GUARANTEE CORPORATION

## 11. SHARE CAPITAL (CONTD)

	1997 RM	1996 RM
Made up of:		
Class A		
At 1st January	20,000,000	-
Reclassified during the year	-	20,000,000
Increased during the year	40,000,000	-
At 31st December	<u>60,000,000</u>	<u>20,000,000</u>
Class B		
At 1st January	50,000,000	-
Reclassified during the year	-	50,000,000
Increased during the year	100,000,000	-
At 31st December	<u>150,000,000</u>	<u>50,000,000</u>
Class C		
At 1st January	30,000,000	-
Reclassified during the year	-	30,000,000
Increased during the year	60,000,000	-
At 31st December	<u>90,000,000</u>	<u>30,000,000</u>
Grand Total	<u>300,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
Issued at 1st January	67,800,000	22,600,000
Issued during the year	150,000,000	45,200,000
Issued at 31st December	217,800,000	67,800,000
Less: Amount unpaid	8,657,500	-
Paid up at 31st December	<u>209,142,500</u>	<u>67,800,000</u>
Made up of:		
Class A		
Issued at 1st January	13,560,000	-
Reclassified during the year	-	4,520,000
Issued during the year	30,000,000	9,040,000
Issued and paid up at 31st December	<u>43,560,000</u>	<u>13,560,000</u>
Class B		
Issued at 1st January	33,900,000	-
Reclassified during the year	-	11,300,000
Issued during the year	75,000,000	22,600,000
Issued at 31st December	108,900,000	33,900,000
Less: Amount unpaid	7,202,500	-
Paid up at 31st December	<u>101,697,500</u>	<u>33,900,000</u>



# NOTES TO THE ACCOUNT

CREDIT GUARANTEE CORPORATION

## 11. SHARE CAPITAL (CONTD)

	1997 RM	1996 RM
Class C		
Issued at 1st January	20,340,000	-
Reclassified during the year	-	6,780,000
Issued during the year	45,000,000	13,560,000
Issued at 31st December	<u>65,340,000</u>	<u>20,340,000</u>
Less: Amount unpaid	1,455,000	-
Paid up at 31st December	<u>63,885,000</u>	<u>20,340,000</u>
Grand total	<u>209,142,500</u>	<u>67,800,000</u>

The shares allotted during the year rank pari passu with the existing shares in the same class in all respects. The amount unpaid in respect of Class B and Class C shares have been fully paid subsequent to 31st December, 1997.

## 12. RESERVES

	1997 RM	1996 RM
Special Reserve	45,343,018	208,470,669
Special Program Reserve	49,403,056	42,713,519
SPTF Reserve	5,119,654	-
General Development Reserve	7,087,437	6,596,871
General Reserve	4,000,000	4,000,000
Retained Profits	<u>83,260,448</u>	<u>34,026,338</u>
	<u>194,573,613</u>	<u>295,807,397</u>
Special Reserve:-		
At 1st January	208,470,669	267,438,798
Amount capitalised for bonus issue	-	(31,640,000)
Transfer from profit and loss account	27,167,121	32,820,501
Transfer to SPTF Reserve	(5,000,000)	-
HPT "Winding Down" Exercise	(998,937)	-
Claims paid under "HPT Scheme"	(133,665)	(46,541)
Provision for claims	(184,162,170)	(60,102,089)
At 31st December	<u>45,343,018</u>	<u>208,470,669</u>
Special Program Reserve:-		
At 1st January	42,713,519	-
Government grant received	-	40,000,000
Transfer from profit and loss account	6,689,537	2,713,519
At 31st December	<u>49,403,056</u>	<u>42,713,519</u>
SPTF Reserve:-		
At 1st January	-	-
Transfer from Special Reserve	5,000,000	-
Transfer from profit and loss account	247,513	-
Provision for claims	(127,859)	-
At 31st December	<u>5,119,654</u>	<u>-</u>



# NOTES TO THE ACCOUNT

CREDIT GUARANTEE CORPORATION

## 12. RESERVES (CONTD)

	1997 RM	1996 RM
General Development Reserve:-		
At 1 st January	6,596,871	6,153,189
Transfer from profit and loss account	490,566	443,682
At 31st December	<u>7,087,437</u>	<u>6,596,871</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 SPTF (Skim Perbankan Tanpa Faedah) Reserve was created to meet claim contingencies under Islamic Guarantee for SPTF facilities and is not distributable as cash dividends.

The Special Program Reserve was created to meet possible losses arising from the loans granted under the Small Entrepreneurs Financing Fund (SEFF) and Amanah Ikhtiar Malaysia Fund and is not distributable as cash dividends. It includes a guarantee fund of RM40,000,000 granted by the Ministry of Entrepreneur Development (MED) in respect of SEFF (Note 9).

The amount transferred from the profit and loss account to these reserves comprises interest arbitrage earned from the government funds, AIM Fund and the SEFF (Notes 7, 8 and 9).

The General Development Reserve was created to meet future expenses arising from general development activities and is not distributable as cash dividends.

## 13. OPERATING REVENUE

	1997 RM	1996 RM
Guarantee fees	33,954,152	15,878,830
Interest on term deposits and MGS	19,485,428	8,242,611
	<u>53,439,580</u>	<u>24,121,441</u>

## 14. OPERATING PROFIT FOR THE YEAR

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

	1997 RM	1998 RM
Directors' fees - current year	39,750	36,210
- overprovision in previous year	-	(2,707)
Rental of premises	209,593	812,473
Depreciation of fixed assets (Note 3)	2,527,148	457,641
Auditors' remuneration	15,000	15,000
Diminution in value of Malaysian Government Securities	1,203,531	195,724
Gain on disposal of fixed assets	(102,244)	(311)
Rental income	<u>(1,948,910)</u>	<u>-</u>





# NOTES TO THE ACCOUNT

CREDIT GUARANTEE CORPORATION

## 15. INTEREST ARBITRAGE EARNED

	1997 RM	1996 RM
Interest earned on term deposits and Malaysian Government Securities	38,178,667	38,858,385
Interest on Loans and Advances	<u>141,219</u>	<u>399,511</u>
	<b>38,319,886</b>	<b>39,257,896</b>
Less: Interest payable on Government Funds	<b>2,000,000</b>	2,421,918
Provision for diminution in value of Malaysian Government Securities	<b>1,725,149</b>	858,276
	<b>3,725,149</b>	<u>3,280,194</u>
	<b>34,594,737</b>	<b>35,977,702</b>

## 16. 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.

## 17. 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.

	1997 RM	1996 RM
Total credit facilities guaranteed by the Corporation under the Schemes	<u>5,935,667,300</u>	<u>2,783,342,595</u>
Contingencies arising thereon	<b>4,750,912,561</b>	2,441,619,576
Less: Amount deemed to be bad and doubtful for which provisions have been made	<b>284,982,638</b>	108,553,492
Amount set aside in the Reserves to meet future claims	<b>65,318,457</b>	208,470,669
	<b>350,301,095</b>	<u>317,024,161</u>
Net Contingencies	<b>4,400,611,466</b>	<b>2,124,595,415</b>

## 18. CAPITAL COMMITMENTS

Authorised and contracted for	105,900	160,000
Authorised but not contracted for	-	1,300,000
	<u>105,900</u>	<u>1,460,000</u>

## 19. COMPARITIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation.



# 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 26 to 37 are drawn up so as to give a true and fair view of the state of affairs of the Corporation as at 31st December, 1997 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: 9th March, 1998

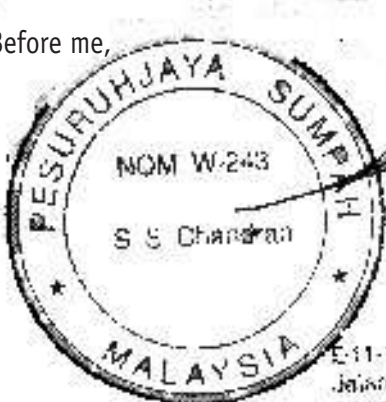
## STATUTORY DECLARATION

I, **WAN AZHAR BIN WAN AHMAD**, 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 26 to 37 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 abovenamed **WAN AZHAR** )  
**BIN WAN AHMAD** at Kuala Lumpur )  
in the Federal Territory on )  
19th March, 1998 )

**WAN AZHAR BIN WAN AHMAD**

Before me,



E-11-1 Block 2, Plaza Fokelling  
Jalan Tun Razak  
50400 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 26 to 37 in accordance with approved auditing standards.

- (a) the accounts give a true and fair view of the state of affairs of the Corporation as at 31st December, 1997 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: 9th March, 1998