



**NOTICE IS HEREBY GIVEN that the Twenty Sixth (26th) 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 May 11, 1999 at 3.30 p.m. for the following purposes:-**

**AGENDA**

- 1. To receive and adopt the Audited Accounts for the year ended December 31, 1998 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 reelection.**  
**(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**

**Petaling Jaya**  
**April 26, 1999**

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**Note:** A member entitled to attend and vote is entitled to appoint a proxy to attend and vote for him. A proxy or an attorney need not be a member of the Company. The instrument appointing a proxy must be deposited at the Registered Office of the Company, at Level 13 - 16, Bangunan CGC, Kelana Business Centre, 97, Jalan SS 7/2, 47301 Petaling Jaya, Selangor Darul Ehsan, not less than 48 hours before the time for holding the meeting or any adjournment thereof.



**Tan Sri Dato' Seri Ali Abul  
Hassan bin Sulaiman**



**Encik John Ting  
Sik Kang**



**Dato' Abdul Aziz  
bin Haji Othman**



**Datuk Amirsham bin  
A. Aziz**



**Encik Mohamed Azmi  
bin Mahmood**



**Encik Mohd Shah  
bin Dato' Abu Bakar**



**Encik Zakaria  
bin Ismail**



## **CHAIRMAN OF THE BOARD**

**Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman**

## **DIRECTORS**

**Encik John Ting Sik Kang  
Dato' Abdul Aziz bin Haji Othman  
Datuk Amirsham bin A. Aziz  
Encik Mohamed Azmi bin Mahmood  
Encik Mohd Shah bin Dato' Abu Bakar  
Encik Zakaria 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**



**Encik Wan Azhar bin Wan Ahmad**



**Encik Johar bin  
Haji Nor**



**Encik Rusdi bin  
Haji Ibrahim**



**Encik Khoo Kim Ho**



**Cik Gayah bte  
Hj Mohd Nordin**



**Encik Ismail  
bin Yunus**



**Encik Michael Chin  
Kon Hon**



**Encik Shazwan  
Mohan bin Abdullah**



**Encik Wan Azhar bin Wan Ahmad**  
Chief Executive

**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  
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, Bumiputera Development Department  
Malayan Banking Berhad

**Haji Sarkum bin Mohd Rantam**  
General Manager  
Bank Bumiputra Malaysia Berhad

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

**Encik Suhardi bin Buyong**  
Senior Manager  
Arab Malaysian Finance Berhad

## **SECRETARY**

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



**O**n behalf of the Board of Directors, I am pleased to present the 26th Annual Report of the Credit Guarantee Corporation for the year ended December 31, 1998.

In 1998, the Corporation, in its 26th year of operation, was severely challenged both in terms of ensuring adequate access to credit for viable small and medium businesses as well as in managing the Corporation's credit risk in view of increasing non performing loans (NPL).

Based on its capacity to guarantee, the Corporation had initially aimed to guarantee RM2 billion loans in 1998. However, following a drastic decline in the number and value of loans approved by the financial institutions due to the economic downturn, a reviewed target of RM500 million was set. It is worthy to note that the Corporation was able to meet the revised target and managed to guarantee overall, a total of 9,225 new loans with a combined value of RM599.2 million in 1998.

During the year under review, the Corporation's NPL rate reached a record high of 17.2%, partly intensified by the maturing of existing guarantee leading to an overall decline in the value of outstanding loans guaranteed.

## Highlights

The Corporation is committed to assisting viable businesses have ready access to institutional financing especially under the current economic conditions. This is reflected in the Corporation's effort to further boost its capacity to guarantee by increasing its paid-up capital through an issuance of RM200 million Ten Years Redeemable 1% Rate Non-Cumulative Preference Shares of RM1.00 each which was fully subscribed by Bank Negara Malaysia. This is to be followed by a proposed 1 for 1 rights issue of ordinary shares amounting to RM217.8 million due for implementation in 1999. With these measures, the Corporation will be in a better and stronger position to continue providing the necessary assistance for those with viable projects but do not have the required collateral to secure financing on their own.

The Corporation in close collaboration with the Ministry of Entrepreneur Development has been actively promoting several programmed lending schemes such as the Small Entrepreneurs Fund, the Small Entrepreneurs Financing Fund and the Franchise Financing Scheme. These schemes, especially the Small Entrepreneurs Fund have been well received by both borrowers as well as the participating financial institutions.



With the strong commitment of the government through the Ministry of Entrepreneur Development, such schemes have been able to assist the smaller borrowers and this has helped contribute positively towards improving the economy.

Recognising that the Corporation's guarantee is crucial in addressing the collateral issue especially in promoting the utilisation of several Government initiated funds for small and medium scale industries (SMIs), the Corporation introduced a new guarantee scheme named the Flexi Guarantee Scheme (FGS) on March 1, 1999. This new scheme provides guarantee cover for 4 such funds, namely the Fund for SMI, Rehabilitation Fund for SMI, Fund for Food and the New Entrepreneurs Fund. It is hoped that with the availability of the Corporation's guarantee through the FGS, the utilisation of these 4 funds will be maximised.

## Outlook

The Malaysian economy is projected to record a 1% growth in 1999 and possibly up to 2% if external conditions and private sector response are favourable. As small and medium scale businesses constitute the majority of Malaysian businesses in terms of number, it is therefore expected that they play an important role in contributing towards economic recovery. There are now several positive indications of the economy recovering and the pace is expected to pick up in the second half of 1999. The capacity of banks and finance companies to lend has improved and the interest rate has come down making it affordable for borrowers to secure loans. Under such circumstances, it is expected that demand for the Corporation's guarantee in favour of small business loans will also increase. As such, the Corporation is expected to guarantee total loans worth RM1.5 billion in 1999.

With the increased involvement of the Corporation in programmed lending schemes, in particular the Small Entrepreneurs Fund, a Small Loans Unit has been set up to specifically manage the scheme. It is hoped that with the setting up of the Unit, all activities associated with the scheme will be better streamlined and implemented hence contributing to its further success.

The role of the guarantee system in the overall development of small businesses is undeniably crucial especially in addressing the collateral issue. This is more evident under the current challenging conditions. It is believed that the guarantee system will be able to continue to contribute towards the healthy development of the small businesses in particular and the overall economy in general.





## Acknowledgments

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 4th CGC Top Supporter Awards in conjunction with the Corporation's 26th 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 Tan Sri Dato' Ahmad bin Mohd Don who resigned on September 1, 1998, Encik Yoong Yan Pin who resigned on September 1, 1998 and Dato' Abdul Murad bin Khalid who resigned on October 14, 1998 and welcome to the Board, Encik Zakaria Ismail who was appointed on January 15, 1998.

On behalf of the Board, I wish to also thank the Ministry of Entrepreneur Development, Ministry of Finance, other Government Ministries and agencies, commercial banks and finance companies as well as the various trade associations for their cooperation and support in helping the Corporation through a challenging year. I thank all the staff for their efforts and I am confident that the Board can rely on their loyalty and commitment in the years to come.

**Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman**

*Chairman*

*Board of Directors*



**T**he year 1998 had indeed been a very challenging year for the Corporation both in its efforts to ensure continuous growth in loan base as well as in managing the credit risk and the mounting non-performing loans. During the year, the Corporation focused on consolidating its position and strengthening its capacity to issue guarantee.

The Corporation is committed to ensuring that viable small and medium scale businesses, particularly those that lack collateral and require the Corporation's guarantee, continue to gain ready access to institutional financing. The need for the Corporation's guarantee is more evident especially under the current economic condition. Hence, the Corporation undertook a capital restructuring exercise to increase its authorised share capital to RM1 billion and its paid-up capital by another RM200 million through an issuance of RM200 million Ten Years Redeemable 1% Rate Non-Cumulative Preference Shares of RM1.00 each and fully subscribed by Bank Negara Malaysia. The increased capital will place the Corporation in a better position to meet the demands on its guarantee.

The Corporation currently manages 2 categories of schemes, namely the Main Schemes and the Programmed Lending Schemes which are listed as follows:

### **Main Schemes**

1. New Principal Guarantee Scheme (NPGS)
2. Interest-Free Banking Scheme (IFBS)

### **Programmed Lending Schemes**

1. Flexi Guarantee Scheme (FGS)
2. New Entrepreneurs Fund (NEF)
3. Small Entrepreneurs Fund (TUK)
4. Small Entrepreneurs Financing Fund (SEFF)
5. Franchise Financing Scheme (FFS)
6. Youth Economic Development Program (TEB)
7. Loan Fund For Hawkers & Petty Traders 1992 (LFHPT'92)
8. Association Special Loan Scheme 1992 (ASLS'92)

Taking cognizance of the changing needs of its target group while bearing in mind the credit risk exposure, the Corporation had in early 1998, revised the guidelines of the New Principal Guarantee Scheme (NPGS). The new guidelines among others redefined the priority sector and guarantee limits as well as the guarantee fee structure. The details of the revised scheme are as per Table 1.



Table 1 : NEW FEATURES OF NPGS

FEATURES	REVISED		
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' fund not exceeding RM250,000 (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).		
Maximum Guarantee Cover	<u>Unsecured Portion</u> Non-Priority RM0.5 million Priority RM0.75 million Manufacturing RM2.5 million There is no capping imposed on the secured portion.		
Percentage of Guarantee Cover		Unsecured Portion	Secured Portion
	Non-Priority	<b>50%</b>	<b>60%</b>
	Priority	<b>70%</b>	<b>80%</b>
	Manufacturing	80%	90%
Guarantee Fee	<u>Loans up to RM1 million</u> Unsecured Portion Non-Priority <b>1.50%</b> Priority <b>1.25%</b> Manufacturing 1.00% Secured Portion Non-Priority <b>1.00%</b> Priority <b>0.75%</b> Manufacturing 0.75%		
	<u>Loans above RM1 million</u> Unsecured Portion Non-Priority <b>2.00%</b> Priority <b>1.50%</b> Manufacturing 1.00% Secured Portion Non-Priority <b>1.00%</b> Priority <b>0.75%</b> Manufacturing 0.75%		

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.

In addition, 2 new schemes were introduced in 1998, namely the Small Entrepreneurs Fund (TUK) and the Youth Economic Development Program (TEB). Under the TUK scheme, the Government had in May, 1998 allocated RM50 million in addition to the existing RM40 million for the purpose of implementing a new credit scheme to assist small entrepreneurs gain access to loans ranging from RM2,000 to RM20,000. The scheme, fully funded and 100% guaranteed by the Corporation, requires the borrower to repay on a bi-weekly basis and attracts a borrowing cost of 6% per annum. It is implemented through three financing packages, namely the Individual Financing Package for individual borrowers, the Integrated Financing Package for groups of borrowers identified by specific organisations appointed by the Corporation, and the Hawker Centre Financing Package which is implemented with assistance of local authorities. The TUK schemes replaces the Loan Fund for



Hawkers and Petty Traders 1992 (LFHPT'92) and the Association Special Loan Scheme 1992 (ASLS'92) in June 1998. The response has been overwhelming with 17,934 applications amounting to RM234.6 million received in the 6 months till end 1998, and 4,034 loans involving RM43.0 million were approved during the period.

At the same time, the TEB involving the Ministry of Youth & Sports and BSN Commercial Bank Berhad was implemented in July. This program is an extension of the existing loan scheme currently managed by the Ministry and aims at assisting youths to obtain small loans ranging from RM5,000 to RM50,000. The Corporation had received 183 applications amounting to RM.4.7 million of which 115 applications valued at RM3.2 million were approved in 1998.

In response to government's call for greater utilisation of the special loan funds and recognising that the Corporation's guarantee is crucial to address the collateral issue, the Corporation introduced a new scheme named the Flexi Guarantee Scheme (FGS) on March 1, 1999. Loans granted under Fund for Small & Medium Industries (FSMI), Rehabilitation Fund For Small & Medium Industries (RFSMI), New Entrepreneurs Fund (NEF) and the Fund for Food (3F) are now eligible for guarantee under the FGS. The main features of the FGS are as per Table 2.

Table 2 : FEATURES OF FLEXI GUARANTEE SCHEME (FGS)

Loan Funds Eligible for Guarantee	1.Fund For Small & Medium Industries (FSMI) 2.Rehabilitation Fund For Small & Medium Industries (RFSMI) 3.New Entrepreneurs Fund (NEF), and 4.Fund for Food (3F)	
Eligibility Criteria	Based on the individual eligibility criteria of the FSMI, RFSMI, NEF and 3F.  Must be Malaysian owned or Malaysian controlled (majority of shareholding/interest is Malaysian). Except for the RFSMI scheme, borrower must have good credit record and is not listed under Biro Maklumat Cek of the Central Bank.	
Maximum Loan Limit	RM5.0 million - FSMI & RFSMI RM3.0 million - 3F RM2.0 million - NEF	
Interest Rates	6.5% p.a. - FSMI 6.0% p.a. - NEF	5.0% p.a. - RFSMI 4.0% p.a. - 3F
Guarantee Cover	Ranging from 30% to 80% as required by the lending institutions. <u>Maximum guarantee cover (for unsecured portion only)</u> RM2.50 million (manufacturing sector) RM0.75 million (priority sector) RM0.50 million (other sectors) There is no capping of guarantee cover for the secured portion of the loan.	



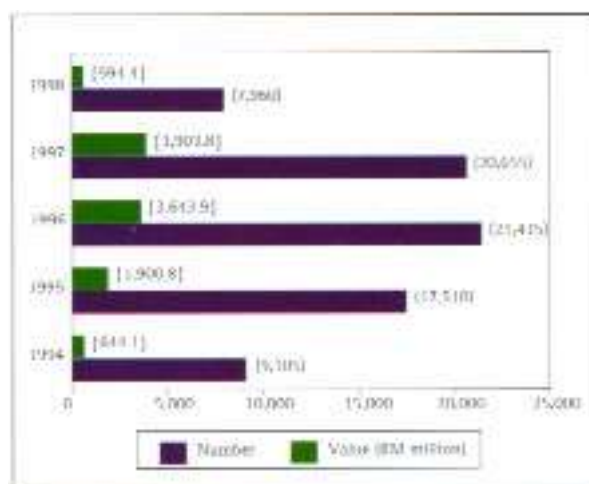
Guarantee Fee	The annual guarantee fee, payable in advance annually, is to be borne by the lending institution and is calculated based on the guarantee cover issued.		
	Guarantee Cover	Unsecured Portion	Secured Portion
	30%	0.75%	0.50%
	40%	0.75%	0.50%
	50%	0.75%	0.50%
	60%	1.00%	0.75%
	70%	1.25%	1.00%
	80%	1.50%	1.25%
Participating Financial Institutions	According to participating financial institutions for the FSMI, RFSMI, NEF and 3F respectively.		

### 1. NEW LOANS GUARANTEED

The Corporation guaranteed a total of 7,960 new loans with a combined value of RM594.4 million in 1998. The total number and value of loans guaranteed in 1998 were lower when compared to 1997 where 20,655 loans valued at RM3.9 billion were guaranteed. This was mainly due to the significant decline in guarantee applications during the second half of the year reflecting the overall decline in loan approvals in the banking sector.

In terms of the number of loans guaranteed, the TUK scheme accounted for the largest, representing 50.7% of total, whereas, the NPGS is highest in terms of loan value accounting for 86.8% of the total value of loans guaranteed. Table 3 details the loans guaranteed in 1998.

Loans Guaranteed (By Number & Value) from 1994 - 1998



In an effort to assist the marginalised sector of the population improve their social, standing through the setting up of micro-businesses, the Corporation has been cooperating with Amanah Ikhtiar Malaysia (AIM) since 1992, to finance the economic activities of AIM's members through the granting of tiny loans. Under this arrangement, loans valued at RM3.3 million and involving 808 borrowers were approved in 1998. With this, the total loans approved since 1992 totals RM46.4 million and had benefited 23,655 poor households.



Table 3 : LOANS GUARANTEED IN 1998

Schemes	No.	RM (million)
<b>Main Schemes</b>	<b>2,712</b>	<b>516.9</b>
<i>Comprising :-</i>		
<i>New Principal Guarantee Scheme (NPGS)</i>	<i>2,711</i>	<i>515.9</i>
<b>Programmed Lending Schemes</b>	<b>5,248</b>	<b>77.5</b>
<i>Comprising :-</i>		
<i>Small Entrepreneurs Fund (TUK)</i>	<i>4,034</i>	<i>42.9</i>
<i>Small Entrepreneurs Financing Fund (SEFF)</i>	<i>799</i>	<i>18.9</i>
<i>Loan Fund For Hawkers &amp; Petty Traders 1992 (LFHPT'92)</i>	<i>262</i>	<i>1.8</i>
<i>Youth Economic Development Program (TEB)</i>	<i>115</i>	<i>3.2</i>
<i>Franchise Financing Scheme (FFS)</i>	<i>23</i>	<i>4.5</i>
<i>New Entrepreneurs Fund (NEF)</i>	<i>13</i>	<i>6.2</i>
<b>TOTAL</b>	<b>7,960</b>	<b>594.4</b>

In continuing to assist micro-businesses gain access to credit, an action oriented research programme, the "Projek Tekun" scheme, developed in 1995 together with the Centre for Policy Research, Universiti Sains Malaysia; recorded RM1.5 million loans involving 457 households in 1998, bringing the total approved to date to RM11.3 million involving 2,237 households from an allocated revolving fund of RM6 million.

The Corporation had therefore as a whole guaranteed a total of 9,225 loans with a total value of RM599.2 million in 1998.

During the year, 14,665 loans valued at RM1,691.0 million were repaid and cancelled (1997 : 9,509 loans; RM1,065.2 million). The number of loan accounts that are still subject to CGC guarantee as at December 31, 1998 totals 59,227 loans valued at RM7.7 billion (1997 : 67,427 loans; RM8.8 billion).

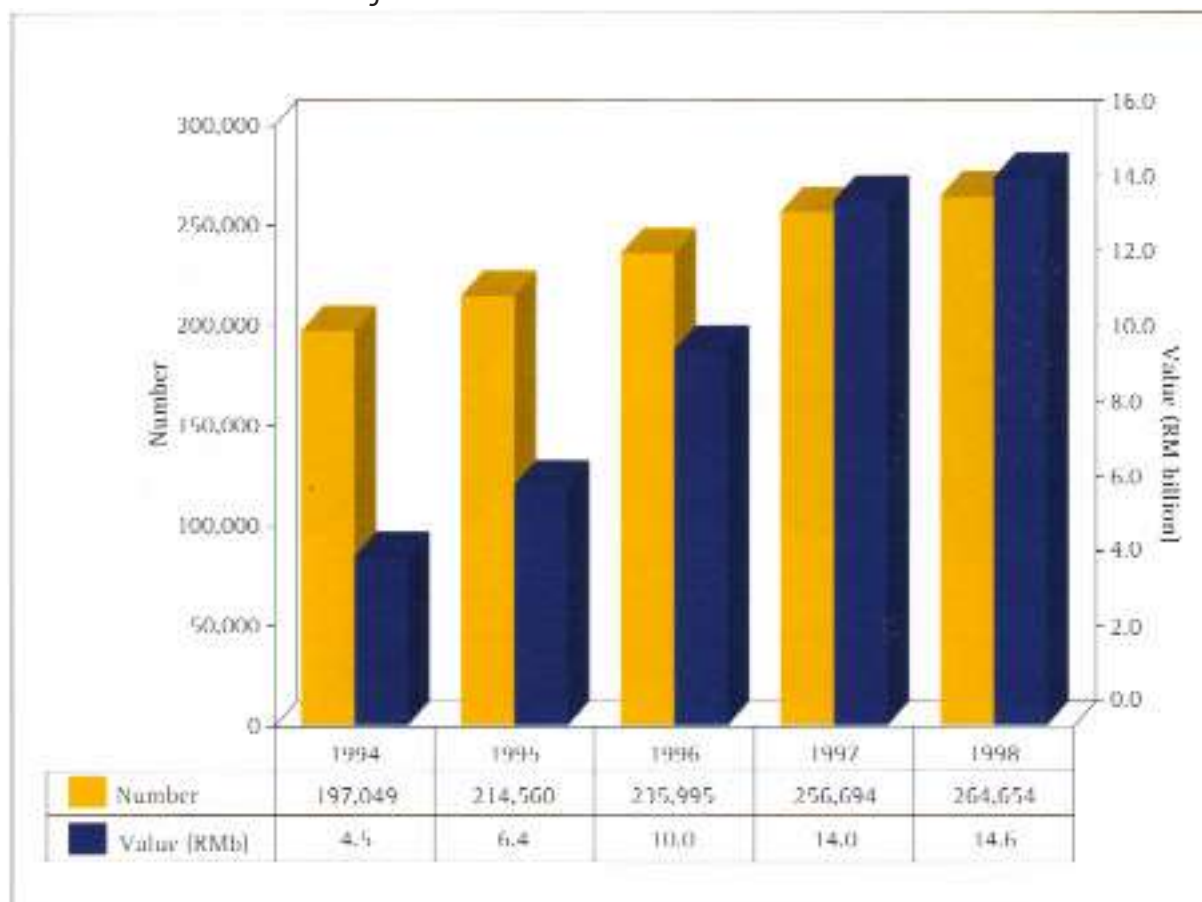
Since its inception, the Corporation has cumulatively guaranteed loans valued at RM14.6 billion benefiting 264,654 borrowers throughout the country.

## 2. DIRECTION OF LENDING

Loans guaranteed under the various guarantee schemes in 1998 benefited three broad sectors, namely, general business, manufacturing and agriculture. The general business sector accounted for 7,209 loans valued at RM455.7 million, followed by the manufacturing sector with a total of 432 loans valued at RM119.0 million and the agriculture sector with a total of 316 loans valued at RM18.7 million.



Cumulative Number & Value Of Loans Guaranteed Under All Schemes



### 3. DISTRIBUTION BY STATES

As in the previous year, the distribution of loans guaranteed under the main schemes by region indicated a concentration in Federal Territory of Kuala Lumpur, with more than 20.3% in terms of number and 26.9% in terms of value approved.

Under the Programmed Lending Schemes, the distribution of loans showed a concentration in Perak in terms of number of loans which accounted for about 17.3%, and Selangor in terms of value, accounting for 16.4%.

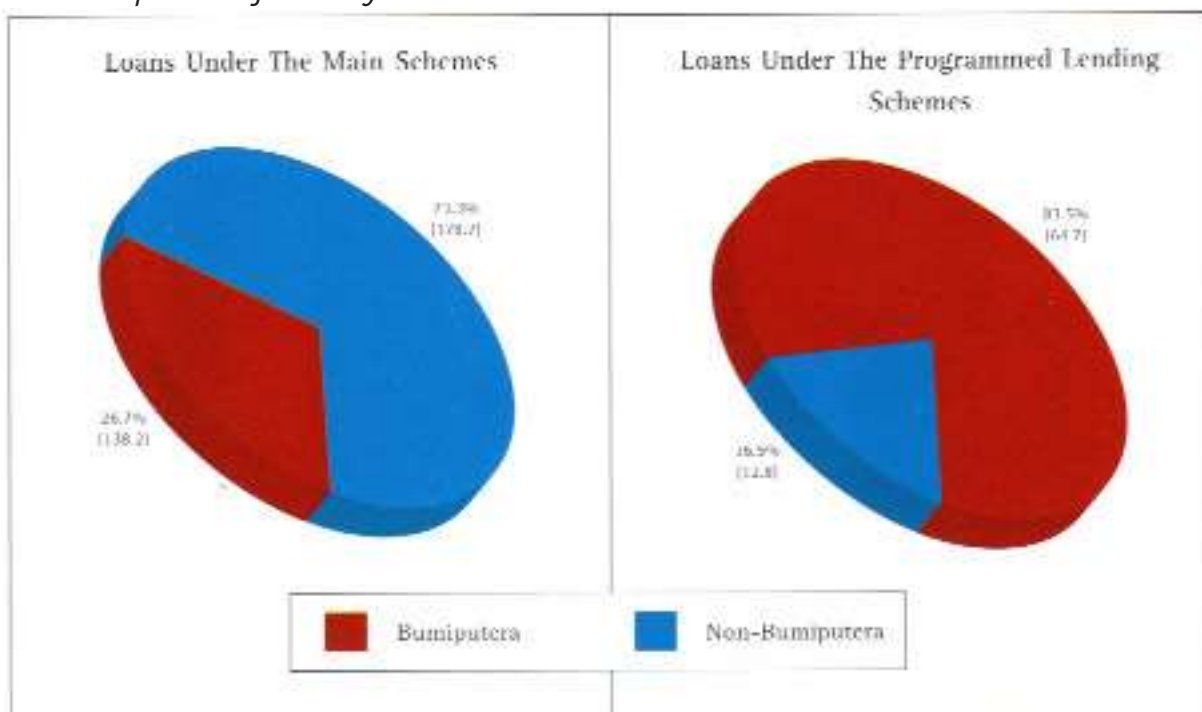
### 4. RACIAL COMPOSITION OF LOANS

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 main schemes in 1998. Loans to Bumiputera borrowers under the main schemes during the year were RM138.2 million. In this regard, Bumiputera borrowers accounted for 31.3% and 26.7% of the overall loans approved in terms of number and value respectively. Loans to Chinese borrowers accounted for 65.2% and 70.9% of the overall loans approved in terms of number and value respectively with Indian borrowers accounting for 2.9% in terms of number and 2.1% in terms of value.





Racial Composition Of Loans By Value In 1998



( ) : Value of Loans Guaranteed (RM million)

Under the Programmed Lending Schemes, Bumiputera businesses accounted for 79.3% of the total loans approved in terms of number, and 83.5% in terms of value; whereas the Chinese community accounted for 16.7% and 13.4% respectively both in terms of number and value. The Indian community accounted for 3.6% and 2.9% respectively both in terms of number and value.

### 5. RANGE OF LOAN SIZE

Under the NPGS, 20.6% of the total number of loans guaranteed in 1998 were above RM250,000 compared to 29.7% in 1997. In terms of value, loans in excess of RM250,000 accounted for 61.8% of the total compared to 68.4% in 1997. There is a noticeable shift towards smaller individual loans during the period under review.

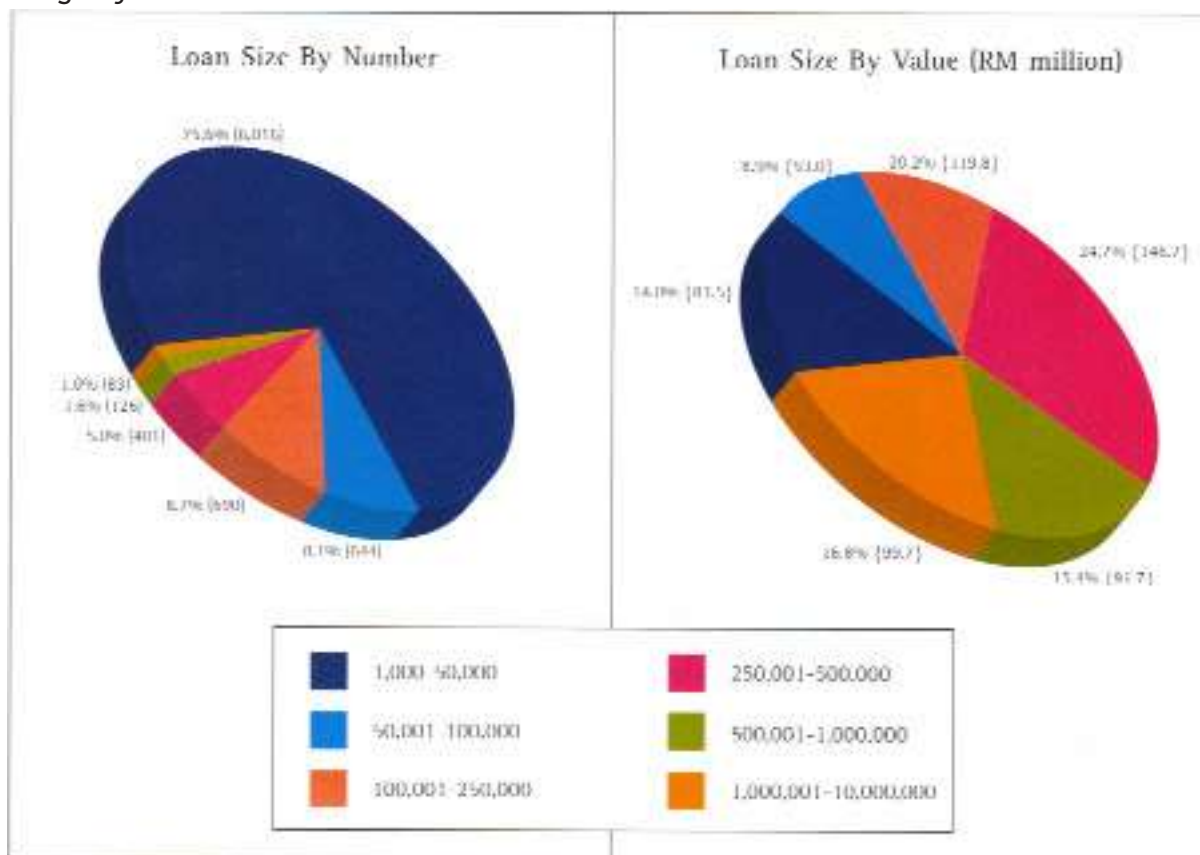
Under the Franchise Financing Scheme, loans below RM250,000 prevailed in terms of number and value, namely 82.6% and 60.9% respectively. The majority of loans under the Small Entrepreneurs Fund were those below RM10,000 (70.8% in terms of number and 51.3% in terms of value).

Hence, it is quite evident that the majority of loans guaranteed by the Corporation in 1998 were those below RM250,000 and directly benefiting the small enterprises.





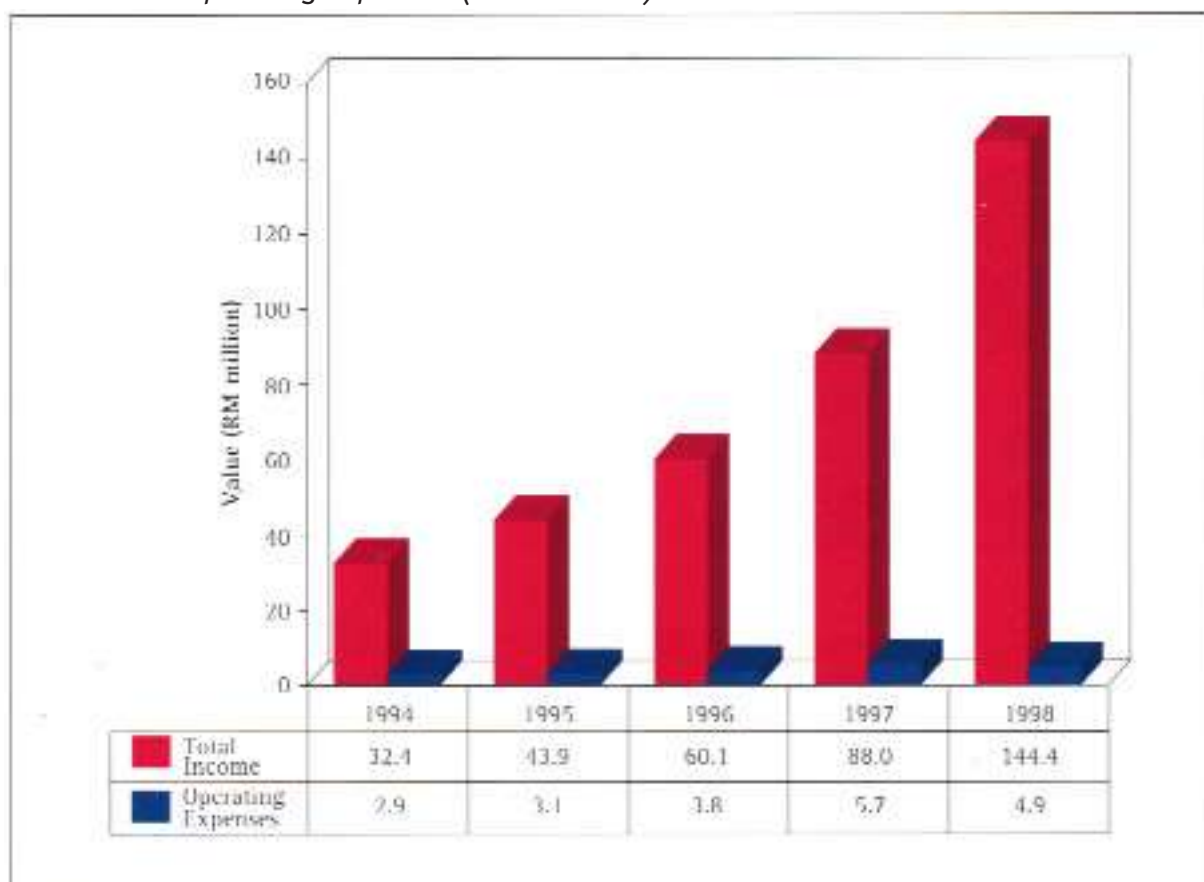
Range Of Loan Size Under All Schemes in 1998



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

FINANCIAL HIGHLIGHTS

The Corporation's operating revenue, comprising mainly of guarantee fees and interest income, increased by RM47.5 million or 88.9% from RM53.4 million in 1997 to RM100.9 million in 1998. Income from guarantee fees for the year increased by RM4.7 million or 13.8% to RM38.7 million compared with RM34.0 million in 1997. The increase in guarantee fees was due to the increase in the value of loans guaranteed in prior years. Interest income increased from RM19.5 million in 1997 to RM62.2 million in 1998, reflecting higher interest rates on the deposits placed with financial institutions. The operating expenses for the year reduced to RM4.9 million compared to RM5.7 million in 1997, attributed mainly to a write back in the value of Malaysian Government Securities. However, the 1998 profits has been reduced drastically as part of the provision amounting to RM88.7 has been charged against the 1998 profits. As a result, the operating profit for the year amounted to RM13.9 million compared with RM49.6 million in 1997. With interest arbitrage amounting to RM43.5 million (1997 : RM34.6 million), total net profit for the year amounted to RM57.5 million compared with RM84.2 million in 1997, representing a decrease of RM26.7 million or 31.7%.

*Total Income & Operating Expenses (1994 - 1998)*

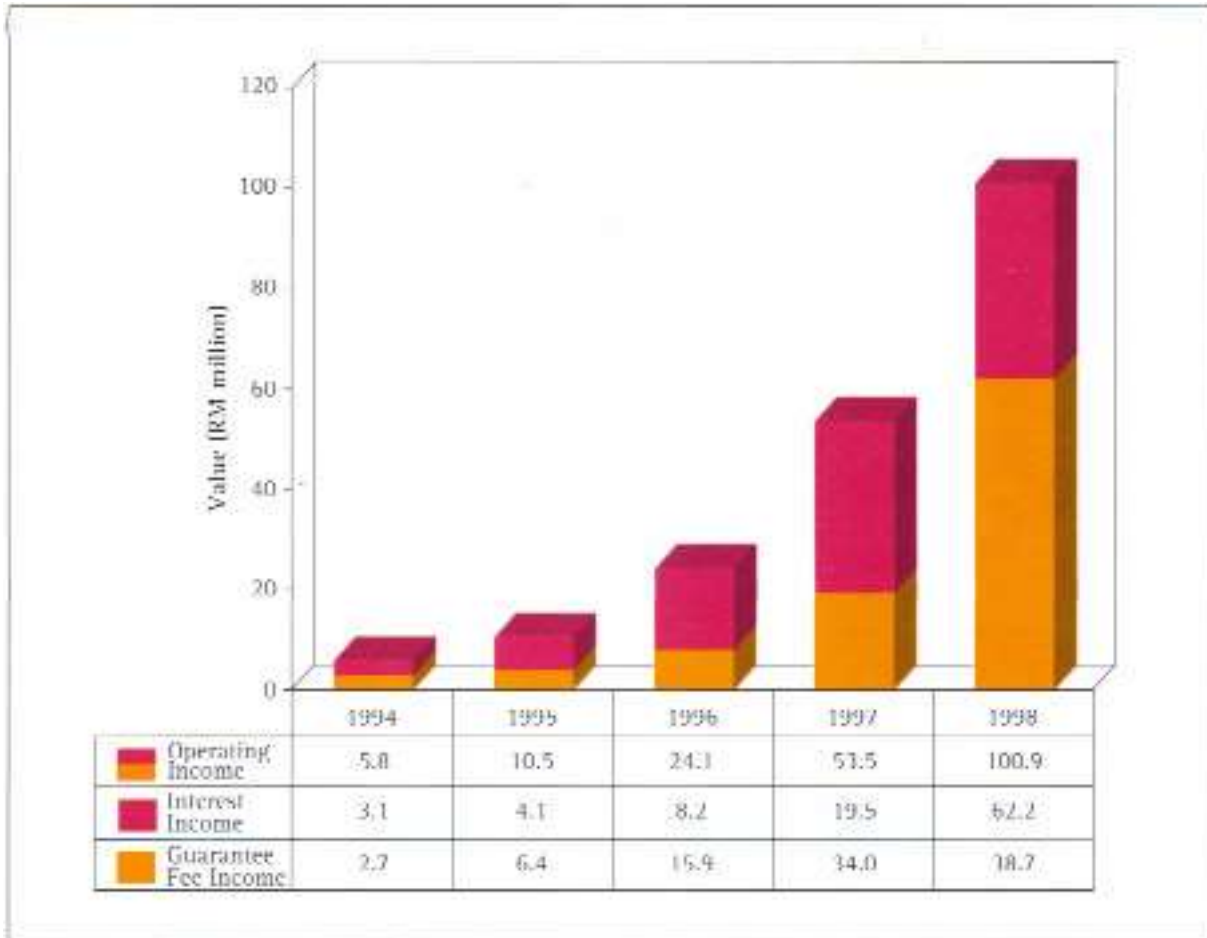
Based on a review on all loans reported by banks as non-performing with the view to determining the extent of the Corporation's liability on guaranteed loans, the Corporation has set aside an additional Specific Provision of RM213.8 million (1997 : RM130.4 million). However, there is a write back of RM50.8 million in the General Provision (1997 : Charge of RM53.9 million), hence, making the total provision for 1998 of RM163.0 million (1997 : RM184 million). The total provision to meet potential claims on loans guaranteed by the Corporation stood at RM441.9 million (1997 : RM285 million) as at the end of 1998.

The Corporation continued to discharge its liability on bad loans claimed by member financial institution. During the year, 505 claims were lodged amounting to RM94.7 million, of which a total of 232 claims amounting to RM27.0 million were processed and a total of 81 claims amounting to RM5.5 million were settled.

With a net profit of RM57.5 million earned during the year, total shareholders' funds of the Corporation, comprising share capital, reserves and provision for claims increased by 51.6% from RM688.7 million in 1997 to RM1,044.2 million in 1998.



Operating Income (1994 - 1998)



SUPPORT ACTIVITIES

To create greater public awareness of the CGC's schemes,. the Corporation continued to participate in information sessions and exhibitions for the public organised by various organisations. During the period under review, a total of 36 sessions were held all over the country benefiting 7,160 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; one staff of the Corporation attended the 9th ACSIC Training Programme in Bangkok, Thailand. The Corporation will be hosting the 12th ACSIC Conference in Kuala Lumpur from November 14 - 18, 1999. This is the second time Malaysia has been given the honour, the first in 1990 during the 3rd ACSIC Conference.

The Corporation is currently implementing the electronic linkage with financial institutions whereby identified banks and finance companies are linked via the Corporation's Wide Area Network (WAN). Using this linkage, the financial institutions may submit applications and retrieve information and reports as and when required. Currently, a total of 3 banks and 3



finance companies are linked to the Corporation via its WAN. The Corporation is also placing top priority in terms of being Y2K ready. Various measures and procedures are underway to ensure that the Corporation is able to continue its operations smoothly come year 2000.

In recognition of banks and finance companies which have been supportive of our guarantee schemes, the Corporation will be presenting awards to the top 3 banks and 1 finance company in conjunction with the Corporation's 26th Annual General Meeting. This will be the fourth year the Corporation is presenting these awards.

## **OUTLOOK**

Under the current economic condition, the Corporation's guarantee is deemed crucial for small and medium sized enterprises, especially those that are without collateral or inadequate collateral, to continue having access to institutional financing. With the presence of some signs of economic recovery, coupled with an improvement in the capacity of banks and finance companies to lend, the demand on the Corporation's guarantee is expected to increase. In 1999, the Corporation is expected to guarantee total loans worth RM1.5 billion.

In anticipation of the increasing demand, the Corporation proposes to undertake yet another capital restructuring exercise involving a 1 for 1 rights issue to all existing shareholders with the issuance of 217.8 million new ordinary shares valued at RM1.00 each.

It is also expected that with the economy recovering the rate of non-performing loans will stabilize if not improve during the new year.

The credit guarantee system is still very much needed for the overall promotion and development of small and medium scale enterprises, especially so during these trying times.

It is hoped that with the ready availability of the Corporation's guarantee, banks and finance companies will be in a more comfortable position to continue to lend to viable businesses, hence contributing towards a speedy economic recovery.



**T**he directors have pleasure in submitting their annual report and the audited accounts of the Corporation for the year ended 31st December, 1998.

## 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:-

- . Principal Guarantee Scheme, 1989 (wound down with effect from November 1998);
- . Loan Fund for Hawkers and Petty Traders Scheme (ceased operation in June 1998);
- . Association Special Loan Scheme (ceased operation in June 1998);
- . New Principal Guarantee Scheme (NPGS);
- . Small Entrepreneurs Financing Fund (SEFF);
- . New Entrepreneurs Fund (NEF); and
- . Amanah Ikhtiar Malaysia (AIM).

During the year, the Corporation introduced the following schemes:-

- . Franchise Financing Scheme (FFS).
- . Tabung Usahawan Kecil (TUK); and
- . Youth Economic Development Program (YEDP).

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

## 2. ACCOUNTS

	RM
Operating profit for the year	13,929,781
Add: Interest arbitrage earned	43,540,567
Net profit for the year	<u>57,470,348</u>
Retained profits brought forward	83,620,448
Profits available for appropriation	<u>141,090,796</u>
Transfer to reserves	43,540,567
Retained profits carried forward	<u><u>97,550,229</u></u>

## 3. SHARE CAPITAL

Authorised Share Capital

Pursuant to the Extraordinary General Meeting held on 10th September, 1998, the Corporation increased its authorised share capital from RM300,000,000 to RM1,000,000,000 as follow.

- (i) Ordinary Share Capital  
Increase in its authorised ordinary share capital from 300,000,000 ordinary shares of RM1.00 each to 500,000,000 ordinary shares' of RM1.00 each as follows:-

### Class A

100,000,000 ordinary shares of RM1.00 each registered to Bank Negara Malaysia.



### 3. SHARE CAPITAL (CONTD)

#### Class B

250,000,000 ordinary shares of RM1.00 each registered to shareholders who are carrying on business as a bank.

#### Class C

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

#### (ii) Preference Share Capital

Creation of authorised preference share capital of 500,000,000 preference shares of RM1.00 each.

#### Issued and Paid up Capital

At the same meeting, the Corporation issued RM200,000,000 ten years redeemable 1% rate non-cumulative preference shares of RM1.00 each to Bank Negara Malaysia for cash at par for working capital purposes.

The preference shares confer the right to a preference dividend rate of 1% (less tax) on the capital for the time being paid up thereon to be paid within such time and upon such terms as the Directors in their absolute discretion may deem fit to declare, make or pay in relation to any financial year but shall not confer the right to any further participation in profits. The Corporation is not obliged to pay any dividend except the right to a preferential dividend rate of 1% (less tax) on the capital.

### 4. RESERVES AND PROVISIONS

#### (a) Reserves

The directors are recommending the transfer of RM43,540,567 from the profit and loss account to the following reserves:-

	RM
Special Reserve	26,264,922
Special Program Reserve	15,960,780
SPTF Reserve	551,360
General Development Reserve	763,505
	<u>43,540,567</u>

#### (b) Provision

During the year, a provision of RM162,989,340 representing possible claims against the Corporation was made by way of a charge against the Special Reserve, SPTF Reserve Special Program Reserve and the Profit and Loss Account.

### 5. DIRECTORS

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

Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman - Chairman (appointed on 1st October, 1998)

Encik John Ting Sik Kang

Dato' Abdul Aziz bin Haji Othman



## 5. DIRECTORS (CONTD)

Datuk Amirsham bin A. Aziz

Encik Mohamed Azmi bin Mahmood

Encik Mohd Shah bin Dato' Abu Bakar

Encik Zakaria bin Ismail

Tan Sri Dato' Ahmad bin Mohd Don - Chairman (resigned on 1st September, 1998)

Encik Yoong Yan Pin (resigned on 1st September, 1998)

Dato' Abdul Murad bin Khalid (appointed on 7th September, 1998 and resigned on 14th October, 1998)

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

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

Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman 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;





## 6. OTHER STATUTORY INFORMATION (CONTD)

- (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, 1998 which secures the liabilities of any other person; and
  - (vi) there does not exist any contingent liability that has arisen since 31st December, 1998 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, 1998 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, 1998 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, 1998 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. YEAR 2000 ISSUE

The Corporation has set up a Y2K specific committee, comprising all departmental heads and chaired by the Chief Executive, to look into all proposals set out by the BNM Y2K Audit team. The Corporation is fully committed and has set a target to make it Y2K ready by 30th June, 1999.

## 8. AUDITORS

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

On behalf of the Board,

TAN SRI DATO' SERI ALI ABUL HASSAN BIN SULAIMAN

DATO' ABDUL AZIZ BIN HAJI OTHMAN

Kuala Lumpur  
Date : April 26, 1999





	Note	1998 RM	1997 RM
<b>FIXED ASSETS</b>	3	42,449,636	44,777,324
<b>CURRENT ASSETS</b>			
Fees receivable		9,920,063	7,661,312
Other debtors		1,835,208	1,619,094
Loans and advances	4	145,168,826	122,208,299
Malaysian Government Securities	5	97,396,589	80,297,219
Term deposits and interest receivable	6	1,221,376,219	840,629,938
Cash and bank balances		1,538,934	16,358,968
		<b>1,477,235,839</b>	<b>1,068,774,830</b>
<b>DEDUCT:CURRENT LIABILITIES</b>			
Claims payable		1,687,269	927,031
Other creditors		20,782,844	20,910,920
Government Funds	7	120,000,000	120,000,000
Provision for claims under the Guarantee Schemes	8	441,877,766	284,998,090
		<b>584,347,879</b>	<b>426,836,041</b>
<b>NET CURRENT ASSETS</b>		<b>892,887,960</b>	<b>641,938,789</b>
		<b>935,337,596</b>	<b>686,716,113</b>
<b>FINANCED BY:</b>			
SHARE CAPITAL	9	417,800,000	209,142,500
RESERVES	10	184,537,596	194,573,613
SHAREHOLDERS' FUNDS		<b>602,337,596</b>	<b>403,716,113</b>
<b>LONG TERM LIABILITIES</b>			
Government Funds	7	180,000,000	220,000,000
Amanah Ikhtiar Malaysia Fund		13,000,000	13,000,000
Small Entrepreneurs Financing Fund	12	50,000,000	50,000,000
Tabung Usahawan Kecil	13	90,000,000	-
		<b>935,337,596</b>	<b>686,716,113</b>



## Profit and Loss Account

for the year ended 31st December 1998

	Note	1998 RM	1997 RM
<b>OPERATING REVENUE</b>	16	<u>100,895,039</u>	<u>53,439,580</u>
<b>OPERATING PROFIT FOR THE YEAR</b>	17	13,929,781	49,594,110
<b>ADD: INTEREST ARBITRAGE EARNED</b>	18	<u>43,540,567</u>	<u>34,594,737</u>
<b>NET PROFIT FOR THE YEAR</b>		57,470,348	84,188,847
<b>RETAINED PROFITS BROUGHT FORWARD</b>		<u>83,620,448</u>	<u>34,026,338</u>
<b>PROFITS AVAILABLE FOR APPROPRIATION</b>		141,090,796	118,215,185
<b>TRANSFER TO RESERVES</b>	10	(43,540,567)	(34,594,737)
<b>RETAINED PROFITS CARRIED FORWARD</b>	10	<u>97,550,229</u>	<u>83,620,448</u>

*The notes on pages 29 to 40 form part of these accounts*



	1998 RM	1997 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net profit before taxation</b>	57,470,348	84,188,847
Adjustments for:		
Depreciation of fixed assets	2,495,335	2,527,148
Gain on disposal of fixed assets	-	(102,244)
(Write back)/diminution in value of Malaysian Government Securities	(766,072)	886,951
Interest arbitrage	(43,540,567)	(34,594,737)
Provision for claims	88,711,711	-
	<b>104,370,755</b>	<b>52,905,965</b>
<b>Operating profit before working capital changes</b>		
Net interest subsidy	(49,492)	-
(Increase)/decrease in fees receivable	(2,258,751)	60,321
Increase in interest receivable	(25,361,143)	(6,001,707)
(Increase)/decrease in other debtors	(216,114)	474,278
Increase in loans and advances	(22,960,527)	(4,625,736)
Decrease in claims payable	(62,632)	-
(Decrease)/increase in other creditors	(128,076)	7,232,437
<b>Cash generated from operations</b>	<b>53,334,020</b>	<b>50,045,558</b>
Payment of claims under the Guarantee Schemes	(5,307,933)	(7,637,903)
Claims paid under the "HPT Scheme"	-	(133,665)
Service charges under "LFHPT 1992"	(4,741,056)	-
Administrative expenses under SEFF	(42,687)	-
Claims refunded	33,594	-
<b>Net cash generated from operating activities</b>	<b>43,275,938</b>	<b>42,273,990</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of fixed assets	-	179,490
Purchase of fixed assets	(167,647)	(1,550,511)
Proceeds of Malaysian Government Securities	(15,931,299)	-
Interest arbitrage earned	43,160,782	36,319,886
<b>Net cash from investing activities</b>	<b>27,061,836</b>	<b>34,948,865</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Drawdown of Government Funds	-	40,000,000
Funds received under the Franchise Financing Scheme	4,000,000	-
Funds received under the Tabung Usahawan Kecil	50,000,000	-
Funds received under the Youth Economic Development Program	7,600,000	-
Repayment of short term loan	-	(395,600)
Proceeds from issuance of ordinary share capital	8,657,500	141,342,500
Proceeds from issuance of preference share	200,000,000	-
<b>Net cash from financing activities</b>	<b>270,257,500</b>	<b>180,946,900</b>

*The notes on pages 29 to 40 form part of these accounts*



	1998 RM	1997 RM
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<b>340,595,274</b>	258,169,755
<b>CASH AND CASH EQUIVALENTS AT 1ST JANUARY</b>	<b>837,696,311</b>	579,526,556
<b>CASH AND CASH EQUIVALENTS AT 31ST DECEMBER</b>	<b><u>1,178,291,585</u></b>	<u>837,696,311</u>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Term deposits	<b>1,176,752,651</b>	821,337,343
Cash and bank balances	<b>1,538,934</b>	16,358,968
	<b><u>1,178,291,585</u></b>	<u>837,696,311</u>

*The notes on pages 29 to 40 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 guarantees are made based on notification by banks and finance companies when an account is classified as Non-performing. The classification of accounts as non-performing by financial institution is based on the requirements stipulated in Bank Negara Malaysia's "Guidelines on the Suspension of Interest on Non-performing Loans and Provision for Bad and Doubtful Debts, BNM/GP3"

In addition, a general provision of 1.5% (1997: 2.0%) of the total credit facilities guaranteed by the Corporation net of specific provision for claims is also maintained.

**3. FIXED ASSETS**

	Motor Vehicles RM	Office Equipment RM	Furniture & Fittings RM	Computer Equipment RM	Leasehold Building RM	Total RM
<b>1998</b>						
Cost						
At 1st January	327,793	259,150	1,752,889	2,337,384	44,091,574	48,808,790
Additions	98,761	2,258	7,910	58,718	-	167,647
At 31st December	426,554	261,408	1,760,799	2,436,102	44,091,574	48,976,437
Accumulated depreciation:						
At 1st January	54,095	175,633	636,839	1,401,236	1,763,663	4,031,446
Charge for the year	81,169	25,283	270,759	354,461	1,763,663	2,495,335
At 31st December	135,264	200,916	907,598	1,755,697	3,527,326	6,526,801
Net book value at 31st December	291,290	60,492	853,201	680,405	40,564,248	42,449,636
<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	327,793	259,150	1,752,889	2,377,384	44,091,574	48,808,790
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	54,095	175,663	636,839	1,401,236	1,763,663	4,031,466
Net book value at 31st December	273,698	83,157	1,116,050	976,148	42,327,911	44,777,324

The title deed for leasehold land has yet to be received from the Land Office.

**4. LOANS AND ADVANCES**

	1998 RM	1997 RM
At 1st January	122,208,299	118,581,500
Add: Funds disbursed	<u>64,980,890</u>	<u>50,827,360</u>
	187,189,189	169,408,860
Less: Repayments received	<u>(42,020,363)</u>	<u>(47,200,561)</u>
At 31st December	<u>145,168,826</u>	<u>122,208,299</u>

This represents the balance of the total amount drawdown under the CGC Special Loan Schemes referred to in Note 7 to the accounts, the Amanah Ikhtiar Malaysia funding scheme and Small Entrepreneurs Financing Fund (SEFF), Tabung Usahawan Kecil (TUK) and Franchise Financing Scheme (FFS).

**5. MALAYSIAN GOVERNMENT SECURITIES**

	1998 RM	1997 RM
Malaysian Government Securities	105,137,899	89,206,600
Provision for diminution in value	<u>(9,608,399)</u>	<u>(10,746,300)</u>
	95,529,500	78,460,300
Interest receivable	<u>1,867,089</u>	<u>1,836,919</u>
	<u>97,396,589</u>	<u>80,297,219</u>
Market Value	<u>95,529,500</u>	<u>78,460,300</u>

**6. TERM DEPOSITS AND INTEREST RECEIVABLE**

	1998 RM	1997 RM
Term Deposits		
- with licensed banks	231,196,385	368,350,006
- with licensed finance companies	905,556,266	412,987,337
- other	40,000,000	40,000,000
	<u>1,176,752,651</u>	<u>821,337,343</u>
Interest receivable		
- from licensed banks	<u>6,252,036</u>	<u>7,780,296</u>
- from licensed finance companies	<u>33,440,025</u>	<u>8,622,526</u>
- others	<u>4,931,507</u>	<u>2,889,773</u>
	<u>44,623,568</u>	<u>19,292,595</u>
	<u>1,221,376,219</u>	<u>840,629,938</u>

**7. GOVERNMENT FUNDS**

	1998 RM	1997 RM
At 1st January	340,000,000	340,000,000
Transferred to TUK (Note 13)	<b>(40,000,000)</b>	-
At 31st December	<u><u>300,000,000</u></u>	<u><u>340,000,000</u></u>
Repayable on demand	<b>120,000,000</b>	120,000,000
Repayable after 12 months	<b>180,000,000</b>	220,000,000
	<u><u>300,000,000</u></u>	<u><u>340,000,000</u></u>

These comprise various placements from Bank Negara Malaysia. RM200 million of these funds intended to enable the Corporation to build up its reserves is subject to interest at 1% per annum while RM140 million, intended for loanable funds, is interest free. During the year, RM40 million was transferred to Tabung Usahawan Kecil (TUK).

Included in the Government Funds is RM20 million for the implementation of Association Special Loan Scheme (ASLS) which is repayable on demand, RM100 million for New Investment Fund (NIF) which is repayable on 14th December, 2003 and RM100 million loanable funds which is repayable on demand under LFHPT 1992.

Of the above, RM200 million is secured by way of deposits of Malaysian Government Securities and Fixed Deposits with face values of RM77,000,000 and RM159,300,000 respectively.

Interest arbitrage earned from the above placements has been transferred to Special Reserve, Special Program Reserve and SPTF Reserve (Notes 10 and 18).

**8. PROVISION FOR CLAIMS UNDER THE GUARANTEE SCHEMES**

	1998 RM	1997 RM
Specific provision:		
At 1st January	<b>171,648,206</b>	49,125,354
Provision made during the year		
- charged to Reserves	<b>125,103,891</b>	130,368,283
- charged to Retained Profits	<b>88,711,711</b>	-
Refund of claims in respect of settled accounts	<b>21,139</b>	-
Claims entertained and paid	<b>(5,307,933)</b>	(7,637,903)
Claims payable	<b>(822,870)</b>	(207,528)
At 31st December	<u><u>379,354,144</u></u>	<u><u>171,648,206</u></u>
General provision:		
At 1st January	<b>113,349,884</b>	59,428,138
Provision made during the year		
- Special Reserve	-	53,860,922
- SPTF Reserve	-	60,824
Writeback of provision during the year		
- Special Reserve	<b>(50,436,071)</b>	-
- Special Programme Reserve	<b>(292,655)</b>	-
- SPTF Reserve	<b>(97,536)</b>	-
At 31st December	<u><u>62,523,622</u></u>	<u><u>113,349,884</u></u>
Total	<u><u>441,877,766</u></u>	<u><u>284,998,090</u></u>



**9. SHARE CAPITAL**

	1998 RM	1997 RM
<b>AUTHORISED:</b>		
Ordinary shares of RM1 each-		
At 1st January	300,000,000	100,000,000
Increased during the year	200,000,000	200,000,000
At 31st December	<u>500,000,000</u>	<u>300,000,000</u>
Preference shares of RM1 each-		
At 1st January	-	-
Created during the year	500,000,000	-
At 31st December	<u>500,000,000</u>	-
	<u>1,000,000,000</u>	<u>300,000,000</u>
The authorised ordinary share capital is made up of:		
Class A		
At 1st January	60,000,000	20,000,000
Increased during the year	40,000,000	40,000,000
At 31st December	<u>100,000,000</u>	<u>60,000,000</u>
Class B		
At 1st January	150,000,000	50,000,000
Increased during the year	100,000,000	100,000,000
At 31st December	<u>250,000,000</u>	<u>150,000,000</u>
Class C		
At 1st January	90,000,000	30,000,000
Increased during the year	60,000,000	60,000,000
At 31st December	<u>150,000,000</u>	<u>90,000,000</u>
Total ordinary share capital	<u>500,000,000</u>	<u>300,000,000</u>

**ISSUED AND FULLY PAID:**

	1998 RM	1997 RM
Ordinary shares of RM1 each		
Issued at 1st January	217,800,000	67,800,000
Issued during the year	-	150,000,000
Issued at 31st December	217,800,000	217,800,000
Less: amount unpaid	-	(8,657,500)
Paid up at 31st December	<u>217,800,000</u>	<u>209,142,500</u>
200,000,000 ten years redeemable 1% rate non-cumulative preference share of RM I each -		
Issued at 1st January	-	-
Issued during the year	200,000,000	-
Issued at 31st December	<u>200,000,000</u>	-
	<u>417,800,000</u>	<u>209,142,500</u>

**9. SHARE CAPITAL (CONTD)**

The issued and fully paid ordinary share capital is made up of:

	<b>1998</b>	1997
	<b>RM</b>	RM
Class A		
Issued at 1st January	<b>43,560,000</b>	13,560,000
Issue during the year	-	30,000,000
Issued & paid up at 31st December	<u><b>43,560,000</b></u>	<u>43,560,000</u>
Class B		
Issued at 1st January	<b>108,900,000</b>	33,900,000
Reclassified during the year	<b>5,977,000</b>	-
Issue during the year		75,000,000
Issued at 31st December	<u><b>114,877,000</b></u>	<u>108,900,000</u>
Less: Amount unpaid	-	7,202,500
Paid up at 31st December	<u><b>114,877,000</b></u>	<u>101,697,500</u>
Class C		
Issued at 1st January	<b>65,340,000</b>	20,340,000
Reclassified during the year	<b>(5,977,000)</b>	-
Issue during the year	-	45,000,000
Issued at 31st December	<u><b>59,363,000</b></u>	<u>65,340,000</u>
Less: Amount unpaid	-	1,455,000
Paid up at 31st December	<u><b>59,363,000</b></u>	<u>63,885,000</u>
Total ordinary share capital	<u><b>217,800,000</b></u>	<u>209,142,500</u>

The reclassification from Class C to Class B was due to the merger exercise between certain finance companies and commercial banks.

On 10th September, 1998, 200 million ten years redeemable 1% rate non-cumulative preference shares of RM1.00 each were issued to Bank Negara Malaysia. The said shares are to be redeemed within 10 years from the date of issued.

The preference shares issued confer the right to a preference dividend rate of 1% (less tax) on the capital for the time being paid up thereon to be paid within such time and upon such terms as the Directors in their absolute discretion may deem fit to declare, make or pay in relation to any financial year but shall not confer the right to any further participation in profits. The Corporation is not obliged to pay any dividend except the right to a preferential dividend rate of 1% (less tax) on the capital.

**10. RESERVES**

	<b>1998</b>	<b>1997</b>
	<b>RM</b>	<b>RM</b>
Special Reserve	-	45,343,018
Special Program Reserve	<b>75,567,836</b>	49,403,056
SPTF Reserve	<b>3,568,589</b>	5,119,654
General Development Reserve	<b>7,850,942</b>	7,087,437
General Reserve	-	4,000,000
Retained Profits	<b>97,550,229</b>	83,620,448
	<b><u>184,537,596</u></b>	<b><u>194,573,613</u></b>
Special Reserve:-		
At 1st January	<b>45,343,018</b>	208,470,669
Claims refunded under "HPT Scheme"	<b>12,455</b>	-
Transfer from profit and loss account	<b>26,264,922</b>	27,167,121
Transfer from General Reserves	<b>4,000,000</b>	-
Transfer from SPTF Reserve	-	(5,000,000)
HPT " Winding Down" Exercise	-	(998,937)
Claims paid under "HPT Scheme"	-	(133,665)
Provision for claims	<b>(70,879,339)</b>	(184,162,170)
Service charges under "LFHPT 1992 Scheme"	<b>(4,741,056)</b>	-
At 31st December	<b><u>-</u></b>	<b><u>45,343,018</u></b>
Special Program Reserve:-		
At 1st January	<b>49,403,056</b>	42,713,519
Franchise Financing Scheme Fund received		
- guarantee fund	<b>2,000,000</b>	-
- interest subsidy	<b>2,000,000</b>	-
Youth Economic Development Program Fund received		
- guarantee fund	<b>7,600,000</b>	-
Administrative expenses under "SEFF"	<b>(42,687)</b>	-
Interest subsidy under "FFS"	<b>(57,448)</b>	-
Transfer from profit and loss account	<b>15,960,780</b>	6,689,537
Provision for claims	<b>(1,295,865)</b>	-
At 31st December	<b><u>75,567,836</u></b>	<b><u>49,403,056</u></b>
SPTF Reserve:-		
At 1st January	<b>5,119,654</b>	-
Transfer from Special Reserve	-	5,000,000
Transfer from profit and loss account	<b>551,360</b>	247,513
Provision for claims	<b>(2,102,425)</b>	(127,859)
At 31st December	<b><u>3,568,589</u></b>	<b><u>5,119,654</u></b>
General Development Reserve:-		
At 1st January	<b>7,087,437</b>	6,596,871
Transfer from profit and loss account	<b>763,505</b>	490,566
At 31st December	<b><u>7,850,942</u></b>	<b><u>7,087,437</u></b>
General Reserve:-		
At 1st January	<b>4,000,000</b>	4,000,000
Transfer to Special Reserve	<b>(4,000,000)</b>	-
At 31st December	<b><u>-</u></b>	<b><u>4,000,000</u></b>

**10. RESERVES (CONTD)**

The Special Reserve was created to meet claim contingencies arising from loans guaranteed by the Corporation under the various schemes, namely NPGS, NEF and PGS and is not distributable as cash dividends. During the year, the reserve had been fully utilised to provide for claims. Additional provision for claims of RM88,711,711 (1997 : RM Nil) required during the year has been charged to the profit and loss account.

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), Amanah Ikhtiar Malaysia Fund, Franchise Financing Scheme Fund and Youth Economic Development 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 1997 in respect of SEFF (Note 12).

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, 11, 12).

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

Pursuant to a Board meeting held on 30th April, 1998, the sum of RM4 million in the General Reserve Account was transferred to Special Reserve for the purpose of meeting claim contingencies.

**11. AMANAH IKHTIAR MALAYSIA FUND**

	<b>1999</b>	<b>1998</b>
	<b>RM</b>	<b>RM</b>
At 31st December	<u><b>13,000,000</b></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 RM 13,000,000 in the form of an 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 10).

**12. SMALL ENTREPRENEURS FINANCING FUND**

	1998 RM	1997 RM
At 31st December	<u>50,000,000</u>	<u>50,000,000</u>

In 1996, the Corporation entered into an agreement with Permodalan Nasional Berhad (PNB) who shall contribute RM200 million to a fund known as Small Entrepreneurs Financing Fund (SEFF) of which RM50 million has been received in 1996. The repayments shall be made by 5 equal annual instalments commencing on the 5th anniversary of the disbursement of each advance.

In addition, the Ministry of Entrepreneur Development (MED) contributed a guarantee fund of RM40 million which had been received in 1996 and included under the Special Program Reserve to absorb possible losses and loans granted under the SEFF (Note 10).

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 10).

**13. TABUNG USAHAWAN KECIL**

	1998 RM	1997 RM
At 1st January	-	-
Drawdown during the year	50,000,000	-
Transferred from Government Funds (Note 7)	40,000,000	-
At 31st December	<u>90,000,000</u>	<u>-</u>

On 10th December, 1998, the Corporation entered into an agreement with the Government who shall contribute RM50 million to a fund known as Tabung Usahawan Kecil (TUK), the entire amount of which had been received during the year. This loanable fund is to be repaid in one lump sum at the end of 10 years when the scheme is wound down.

An additional RM40 million previously allocated for LFHPT 1992 was transferred from Government Funds to be utilised for TUK. The amount is interest free and secured by a promissory note with 10 years maturity date from the date of drawdown on 18th December, 1997.

The scheme is to assist small entrepreneurs to obtain financing of between RM2,000 to RM20,000 for the purposes of working capital and/or asset acquisition with financing for working capital not exceeding RM10,000.

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 10).

**14. FRANCHISE FINANCING SCHEME FUND**

On 27th October, 1997, a Memorandum of Understanding (MoU) was executed between the Corporation, Ministry of Entrepreneur Development (MED) and three participating banks aimed at promoting growth in franchise business under a fund known as Franchise Financing Scheme (FFS).

The Corporation has received RM4.0 million from MED consisting of RM2.0 million guarantee fund and another RM2.0 million subsidy on interest to borrowers. These have been included under the Special Program Reserve (Note 10).

This program will enable entrepreneurs operating viable franchise businesses to have access to credit facilities up to a maximum of RM7.5 million each. The bank may charge the borrower interest, up to a maximum of BLR + 1.5%. However, MED through the Corporation will subsidise the interest payment and reduce the cost of borrowing to the borrower.

The earnings from the unutilised portion of the Fund will be transferred to the Special Program Reserve and be used to absorb possible losses on loans granted under this scheme (Note 10).

**15. YOUTH ECONOMIC DEVELOPMENT PROGRAM (YEDP)**

An MoU had been signed by three parties on 15th July, 1997, whereby the Ministry of Youth and Sports contributed RM7,600,000. This amount has been included in the Special Program Reserve.

This program is a joint effort between the Ministry and Sports, BSN Commercial Bank Berhad and the Corporation, aimed at encouraging the youth in the country to venture into business and other productive economic activities.

This program would enable the youth to obtain small loans ranging from RM5,000 to RM50,000 with interest up to a maximum of BLR + 2%. However, the cost to the borrower is only 2% p.a. The difference between the charges imposed by the bank and the cost to be borne by the borrower shall be subsidized in the form of a Government subsidy.

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 10).

**16. OPERATING REVENUE**

	<b>1998</b>	<b>1997</b>
	<b>RM</b>	<b>RM</b>
Guarantee fees	<b>38,656,392</b>	33,954,152
Interest on term deposits and MGS	<b>62,238,647</b>	19,485,428
	<b><u>100,895,039</u></b>	<u>53,439,580</u>

**17. OPERATING PROFIT FOR THE YEAR**

	1998 RM	1997 RM
This is arrived at after charging/(crediting).-		
Provision for Claims (Note 8)	<b>88,711,711</b>	-
Directors' Fees	<b>39,133</b>	39,750
Rental of premises	<b>68,273</b>	209,593
Depreciation of fixed assets (Note 3)	<b>2,495,335</b>	2,527,148
Auditors' remuneration	<b>15,000</b>	15,000
(Write back)/ provision for diminution in value of Malaysian Government Securities	<b>(766,072)</b>	1,203,531
Gain on disposal of fixed assets	-	(102,244)
Rental income	<b>(3,204,528)</b>	<b>(1,948,910)</b>

**18. INTEREST ARBITRAGE EARNED**

	1998 RM	1997 RM
Interest earned on term deposits and Malaysian Government Securities	<b>45,160,782</b>	38,178,667
Interest on loans and advances	<b>7,956</b>	141,219
	<b>45,168,738</b>	38,319,886
Less: Interest payable on Government Funds	<b>2,000,000</b>	2,000,000
(Write back)/ provision for diminution in value of Malaysian Government Securities	<b>(371,829)</b>	1,725,149
	<b>1,628,171</b>	3,725,149
	<b>43,540,567</b>	<b>34,594,737</b>

**19. 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.

**20. 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.

**21. CONTINGENCIES (CONTD)**

	<b>1998</b>	1997
	<b>RM</b>	RM
Total credit facilities guaranteed by the Corporation under the Schemes	<b>5,673,370,034</b>	5,935,667,300
Contingencies arising thereon	<b><u>4,547,595,586</u></b>	<u>4,750,912,561</u>
Less: Amount deemed to be bad and doubtful for which provisions have been made	<b>441,877,766</b>	284,998,090
Amount set aside in the Reserves to meet future claims	<b><u>79,136,425</u></b>	<u>65,318,457</u>
	<b>521,014,191</b>	350,316,547
Net contingencies	<b><u>4,026,581,395</u></b>	<u>4,400,596,014</u>

**21. CAPITAL COMMITMENTS**

	<b>1998</b>	1997
	<b>RM</b>	RM
Authorised and contracted for	<b><u>-</u></b>	<u>105,000</u>

**22. COMPARATIVE FIGURES**

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





We, **TAN SRI DATO' SERI ALI ABUL HASSAN BIN SULAIMAN** and **DATO' 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 25 to 40 are drawn up so as to give a true and fair view of the state of affairs of the Corporation as at 31st December, 1998 and of its results and cash flows position for the year ended on that date.

On behalf of the Board,

**TAN SRI DATO' SERI ALI ABUL HASSAN BIN SUKAIMAN**

**DATO' ABDUL AZIZ BIN HAJI OTHMAN**

Kuala Lumpur,  
Date: April 26, 1999

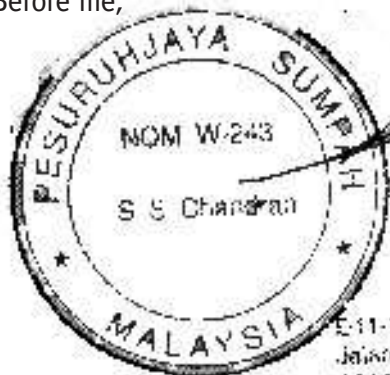
**STATUTORY DECLARATION**

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 25 to 40 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 **WAN AZHAR** )  
**BIN WAN AHMAD** at Kuala Lumpur )  
in the Federal Territory on )  
April 26, 1999 )

**WAN AZHAR BIN WAN AHMAD**

Before me,



E-11-1 Block 2, Plaza Finkelling  
Jalan Tun Razak  
50400 Kuala Lumpur



CREDIT GUARANTEE CORPORATION

# Report of the Auditors To The Members of Credit Guarantee Corporation Malaysia Berhad

We have audited the accounts set out on pages 25 to 40. These accounts are the responsibility of the directors. Our responsibility is to express an opinion on these accounts based on our audit.

We conducted our audit in accordance with approved standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounts are free of material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the accounts have been properly drawn up in accordance with the applicable approved accounting standards and the Companies Act, 1965 so as to give a true and fair view of the state of affair of the Corporation as at 31st December, 1998 and of its results and cash flows for the year the ended 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

1420/12/99(J)

Partner of the Firm

Kuala Lumpur,

Date: April 26, 1999