

Helping Your Business Grow

**Credit
Guarantee
Corporation**

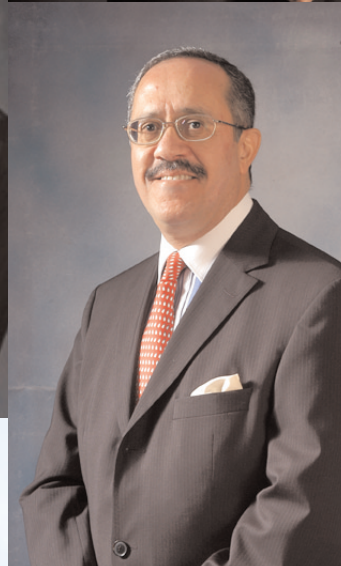


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Board of Directors Lembaga Pengarah



**From left to right
Dari kiri ke kanan**

**Datuk Zamani Abdul Ghani
Chairman/Pengerusi**

**Datuk Wan Azhar Wan Ahmad
Managing Director/Pengarah Urusan**

Datuk Amirsham A. Aziz

Encik Mohamed Azmi Mahmood

Encik Zarir J. Cama

Encik Chung Chee Leong

Corporate Information **Maklumat Korporat**

REGISTERED OFFICE

PEJABAT BERDAFTAR

Level 13-16, Bangunan CGC
Kelana Business Centre
No. 97, Jalan SS 7/2, 47301 Petaling Jaya
Selangor Darul Ehsan

ADMINISTRATIVE & CORRESPONDENCE ADDRESS

ALAMAT PENTADBIRAN & SURAT MENYURAT

Level 13-16, Bangunan CGC
Kelana Business Centre
No. 97, Jalan SS 7/2, 47301 Petaling Jaya
Selangor Darul Ehsan

COMPANY SECRETARY

SETIAUSAHA SYARIKAT

Cik Gayah Hj Mohd Nordin

AUDITOR

JURUAUDIT

Salleh, Leong, Azlan & Co.,
Public Accountants/Akauntan Awam

NUMBER OF EMPLOYEES

BILANGAN PEKERJA

337

CURRENCY

MATAWANG

Ringgit Malaysia (RM)

Management Team

Ahli Pengurusan



Front From Left to Right/Hadapan Dari Kiri ke Kanan:

Encik Khoo Kim Ho (Head of Operations/*Ketua Operasi*),

Datuk Wan Azhar Wan Ahmad (Chief Executive Officer/*Ketua Eksekutif*)

Puan Nazleena Nordin (Head of Organisation & Methods/*Ketua Organisasi & Kaedah*)

Back From Left to Right/Belakang Dari Kiri ke Kanan:

Encik Ismail Yunus (Senior Manager, Operations/*Pengurus Kanan Operasi*)

Cik Gayah Hj Mohd Nordin (Company Secretary cum Senior Manager, Corporate Services/*Setiausaha Syarikat dan Pengurus Kanan Perkhidmatan Korporat*)

Encik Shazwan Mohan Abdullah (Senior Manager, Credit/*Pengurus Kanan Kredit*)

Committee on Claims **Jawatankuasa Tuntutan**

CHAIRMAN

PENGERUSI

DATUK WAN AZHAR WAN AHMAD

Managing Director

Pengarah Urusan

Credit Guarantee Corporation Malaysia Berhad

MEMBERS

AHLI-AHLI

ENCIK KHOO KIM HO

Assistant General Manager, Operations

Penolong Pengurus Besar, Operasi

Credit Guarantee Corporation Malaysia Berhad

ENCIK ISMAIL YUNUS

Senior Manager, Operations

Pengurus Kanan, Operasi

Credit Guarantee Corporation Malaysia Berhad

ENCIK ARSHAD BANI

Deputy Director, Banking Supervision II

Timbalan Pengarah, Jabatan Penyeliaan Perbankan II

Bank Negara Malaysia

ENCIK SUHARDI BUYONG

General Manager, Consumer Banking Operation

Pengurus Besar, Operasi Perbankan Konsumer

AmBank Group

ENCIK ABU BAKAR BUYONG

Executive Vice President, Business Banking

Naib Presiden Eksekutif, Perbankan Perniagaan

Bumiputra-Commerce Bank Berhad

ENCIK AMIN SIRU ABDUL RAHMAN

Senior Special Asset Manager

Pengurus Kanan Aset Khas

HSBC Bank

SECRETARY

SETIAUSAHA

ENCIK AHMAD ZAIDI ABDUL SAMAD

Assistant Manager, Claims

Penolong Pengurus, Tuntutan

Credit Guarantee Corporation Malaysia Berhad

“ To Help Small And Medium Scale Enterprises Achieve Their Objectives Through The Provision Of Financial And Other Services With The Highest Degree Of Commitment, Professionalism, Efficiency And Effectiveness And With All Human Consideration With The Full Awareness That The Mission Will Be Achieved With The Blessing Of God. ”

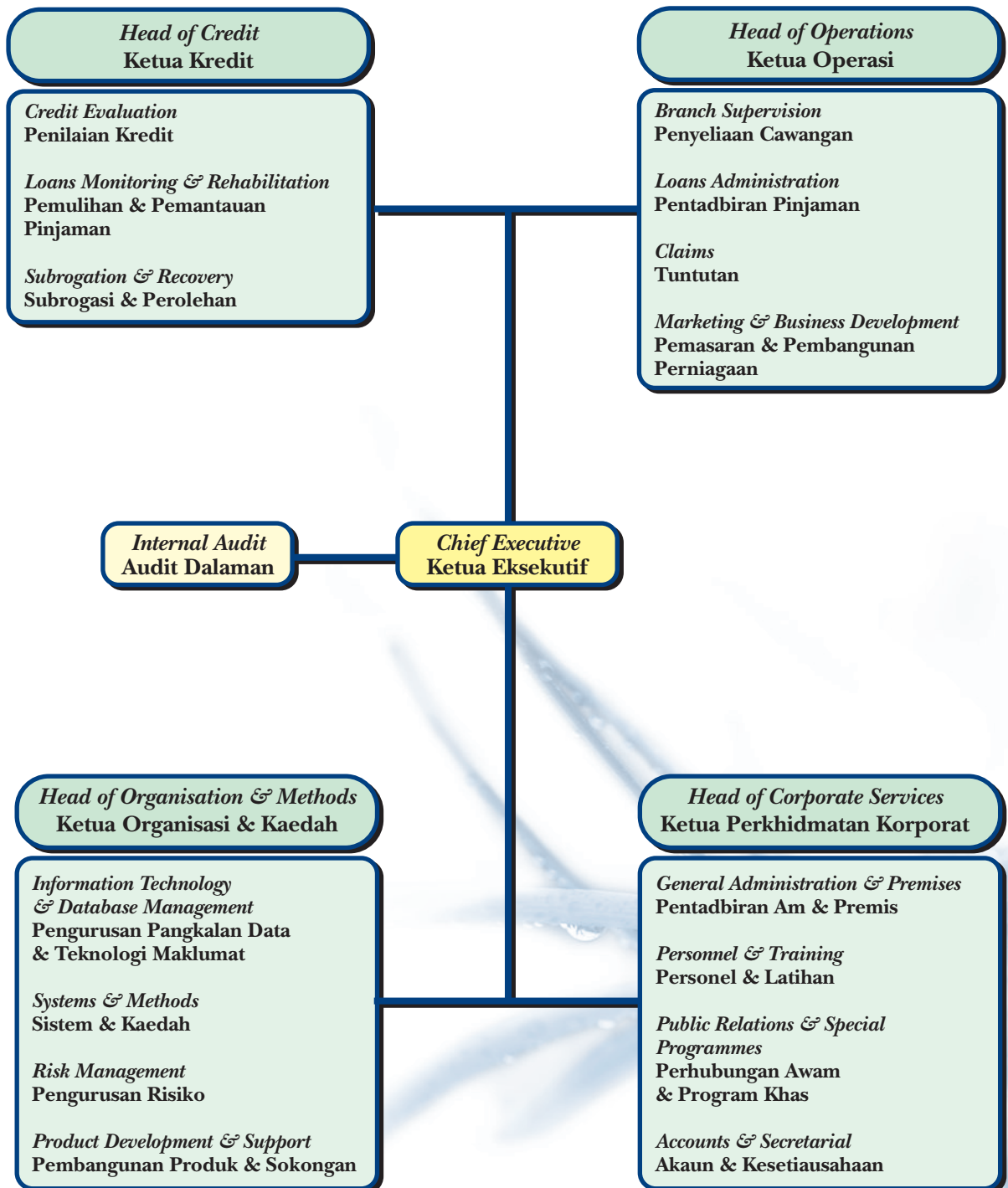
Corporate Mission

Misi Korporat

“ Membantu Perusahaan Kecil dan Sederhana mencapai objektif mereka melalui penyediaan pembiayaan dan lain-lain perkhidmatan dengan tahap komitmen, profesionalisme, kecekapan dan keberkesanan yang tinggi dengan mengambil kira pertimbangan kemanusiaan serta kesedaran bahawa misi ini akan tercapai dengan izin Tuhan. ”

Organisation Chart

Carta Organisasi



Statement of Corporate Governance

The Corporation has consistently nurtured a corporate culture that emphasizes upholding and maintaining the highest standard of corporate governance. In general, the Corporation has proactively sought to promote its adherence to globally recognised best practices in corporate governance as a distinguishing competitive feature. Towards this end, many of the mechanisms, policies and measures have been put in place to ensure greater transparency. The Board of Directors is committed to ensuring that the principles and best practices of corporate governance as set out in the Malaysian Code on Corporate Governance are adopted in the Corporation. The Board is pleased to report on how these principles and best practices have been applied in the Corporation in the following Statement of Corporate Governance.

Directors

The more specific responsibilities of the Board as spelt out in its Terms of Reference include the following:-

- Reviewing and approving the strategic business plan of the Corporation.
- Overseeing the conduct of the business to ascertain its proper management including setting clear objectives and policies within which senior executives are to operate.
- Reviewing all material credit approvals made by Management, which are deemed to have material impact on the risk profile of the Corporation.
- Reviewing the adequacy and the integrity of internal controls and management information systems, including systems for compliance with applicable laws, rules, regulations, directives and guidelines.
- Serves as the ultimate approving authority for financial expenditure that exceeds the authorised limits of Management.

Composition and Balance

The Board of Directors of Credit Guarantee Corporation Malaysia Berhad (CGC) consists of independent non-executive directors (including Chairman) and the Managing Director. The roles of the Chairman and the Managing Director/Chief Executive Officer (MD/CEO) are separate, both with clearly defined responsibilities. All the non-executives directors are independent of Management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The directors are competent individuals with appropriate skills and knowledge. Together, they bring with them a wide range of experience relevant to the Corporation.

Meetings and Information

The Board met a total of six times during the period under review. At its meetings, the Board deliberated on key issues, which included reviewing the financial performance of the Corporation and matters reserved for the Board's decision. In order to be briefed adequately, the senior management team was invited to attend Board Meetings to provide the Board with presentations, detailed explanations and clarification on matters that have been tabled. The record of attendance by directors at the Board meetings for 2004 is as follows:-

Directors	Total Attendance	Remarks
Dato' Mohd Salleh Hj. Harun (Chairman)	6/6	Resigned on March 4, 2005
Datuk Amirsham A.Aziz	3/6	
Datuk Wan Azhar Wan Ahmad	6/6	
Encik Mohamed Azmi Mahmood	5/6	
Encik Mohd Shah Dato' Abu Bakar	1/6	Resigned on April 5, 2004
Encik Wong Yew Sen	1/6	Resigned on April 5, 2004
Dr. Rozali Mohamed Ali	2/6	Resigned on March 4, 2005
Encik Chung Chee Leong	3/6	Appointed on May 17, 2004
Encik Zarir J. Cama	3/6	Appointed on May 17, 2004

All directors have access to independent professional advice as well as access to the advice and services of the Company Secretary. Prior to each Board meeting, the members of the Board were each provided with relevant documents and Board papers to enable them to discharge their responsibilities efficiently.

Statement of Corporate Governance



Appointment

The directors are drawn from diverse backgrounds and with various skills so as to facilitate content input from a wider perspective given the evolving nature of the operating environment.

Appointments are based on the recommendation with a definitive set of selection criteria encompassing the minimum qualifications specified by the regulatory authorities and the required skills as dictated by the business environment and the long term direction of the Corporation.

Directors, appointed by the Board, are subject to re-election by the shareholders at the next Annual General Meeting (AGM) of the Corporation.

The year under review had welcomed two new faces, namely Encik Chung Chee Leong and Encik Zarir J. Cama into the Board, replacing Encik Mohd Shah Dato' Abu Bakar and Encik Wong Yew Sen, who both resigned on April 5, 2004.

Dato' Mohd Salleh Hj. Harun, the Chairman of the Corporation had completed his term and resigned on March 4, 2005 and with immediate effect, Datuk Zamani Abdul Ghani, Deputy Governor of Bank Negara Malaysia (BNM) has been appointed as the new Chairman of the Corporation.

The Board/Management Committee

The Board has established committees to assist the Board in the discharge of its duties. Each committee operates under approved terms of reference. Names of the Committees are as follows:-

No.	Committee
1	Audit Committee
2	Management Committee
3	Credit and Business Committee
4	Administrative and Operational Committee
5	Loans Committee
6	Committee on Claims
7	Manpower Committee
8	Risk Management Committee
9	IT Committee
10	Product Review Committee
11	Marketing and Business Development Committee
12	Cost Control Committee
13	IT Steering Committee
14	Loans Recovery Sub-Committee

Shareholders Dialogue between Corporation and Shareholders

The Corporation recognises the importance of accountability to its shareholders through proper communication with them. The Corporation reaches out to its shareholders through its comprehensive annual reports, which are printed in Bahasa Malaysia and English. The Corporation has established a website (www.iGuarantee.com.my) that can be accessed by the shareholders and others for information. The Corporation also makes announcements and provides press releases of its performances and developments.

Statement of Corporate Governance

Annual General Meeting (AGM)

The Annual Report and financial statements for the year ending December 2004 will be tabled at the 32nd AGM on May 9, 2005. The Managing Director/Chief Executive Officer of the Corporation presents a report of the Corporation's financial performance for the year at every AGM of CGC.

Statement of Directors' Responsibility

The Directors are required by the Companies Act 1965 to prepare financial statements for each financial year, which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Corporation at the end of the financial year and of the results and cash flows of the Corporation for the financial year. In preparing the financial statements, the directors have:

- Selected suitable accounting policies and applies them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Ensured that all applicable accounting standards have been followed; and
- Prepared financial statements on the going concern basis as the directors have a reasonable expectation, having made enquiries, that the Corporation has adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that the Corporation keeps accounting records that disclose with reasonable accuracy the financial position of the Corporation and enable them to ensure that the financial statements comply with the Companies Act 1965.

The Directors have overall responsibility for taking such steps as is reasonably open to them to safeguard the assets of the Corporation to prevent and detect fraud and other irregularities.

Board's Responsibility for Internal Control

The Board of Directors affirms its overall responsibility for the system of internal control and for reviewing its effectiveness to the Corporation. Its main priority is to establish the strategies and direction for policies on risk and control. The Management then executes and monitors the various policies on risk and control with the ultimate objective of effective implementation of the Board's policies.



It is acknowledged that internal control systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material control to enable the Corporation to achieve its corporate objectives within a managed risk profile.

Internal Audit

Internal audit is an independent, objective assurance and consulting activity that is independently managed within the Corporation and guided by a philosophy of adding value to improve the operations and performance of the Corporation.

The Internal Audit Department assists the Corporation in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Corporation's risk management, control and governance processes. In addition, the Internal Auditor assists the Management in the prevention and detection of fraud.

Financial Reporting

The Board aims to present a balanced, clear and meaningful assessment of the Corporation's financial positions and prospects in all its reports to the shareholders and regulatory authorities. This assessment is primarily provided in the Annual Report.

Risk Management

Risk Management ensures that core risk policies of the Corporation are consistent, sets the risk tolerance level that fully complies with the applicable laws, regulations and guidelines.

The Board of Directors is responsible for ensuring the risk management policies are established for the various categories of risk and is also accountable for ensuring effective functioning of internal control mechanisms.

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the 32nd Annual Report of the Credit Guarantee Corporation (CGC) for the financial year ended December 31, 2004.



PREAMBLE

The operating environment for the year under review was indeed challenging, but with clear strategies in place, our strategies and plans were executed accordingly. As a result, the Corporation experienced continued demand for its various guarantee schemes enabling greater access to financing for the Small and Medium Enterprises (SMEs) - thereby enhancing their capacity to expand and grow.

The Corporation registered a commendable performance for the year under review. The Corporation guaranteed 8,452 loans valued at RM3.01 billion for all schemes compared with 8,090 loans valued at RM2.68 billion registered in the previous year. The Corporation's operating revenue increased by 9.8% to RM148.14 million, against RM134.92 million achieved in 2003, due to higher earnings from both guarantee fees and investment. Meanwhile, operating expenses saw a decrease to RM142.79 million compared with RM187.25 million in 2003 due to lower provision for delinquent loans.

The Corporation's overall reserves grew by 4% in 2004. As at December 31, 2004, the Corporation's shareholder's fund increased to RM2.60 billion from RM2.51 billion at the end of the previous year.

HIGHLIGHTS

As the only Credit Guarantee institution for SMEs, the Corporation continues to work on various programmes to assist the SMEs. Significant progress was made in 2004 towards improving the delivery system whereby the Client Service Centre (CSC) was launched in August 2004 to provide a 'One Stop Communication Center' to the SMEs and the financial institutions. By setting and meeting the benchmark for quality service, CSC has helped CGC in attaining a higher level of customer satisfaction.

The official appointment of the Business Advisory Services Entity (BASE) was held in October 2004, which saw six consultants being appointed. BASE plays an important role by helping the SMEs to prepare loan applications for submission to CGC or the financial institutions. BASE has provided value-added services in terms of preparing comprehensive business plans for SMEs as well as assisting them in their periodic analysis of the health of their businesses.

CGC's newly enhanced website has several new features, such as interactive tools which enables existing and potential clients to obtain the latest news relating to SMEs and updates on the Corporation. Meanwhile, the 'iGuarantee' website on the other hand is an innovative online loan application portal; a convenient way of applying for a loan.

Chairman's Statement

There has been continuing demand for the Corporation's guarantees, especially the Direct Access Guarantee Scheme (DAGS) which has played an effective role in enhancing the SME's bankability and access to financing. A positive growth and commendable loan quality for DAGS is a result of adequate branch network and loan monitoring. A total of 2,076 loans valued at RM962.88 million were approved in 2004 compared with 1,904 loans valued at RM932.79 million in 2003. The New Principal Guarantee Scheme (NPGS) saw a slight decrease with 3,340 approved loans valued at RM1,061.68 million in 2004 as compared with 3,657 loans valued at RM1,144.45 million in 2003.

Generally, the two main schemes, namely NPGS and DAGS, contributed significantly towards growth in loan guarantees, representing about 35.3% (RM1.06 billion) and 32% (RM962.88 million) respectively of the total value of loans guaranteed in 2004. In terms of sectoral distribution, 73.5% (RM2,210.88 million) of total loans were to the General Business sector.

The revised Islamic Banking Guarantee Scheme (IBGS) enabled viable businesses to obtain maximum financing of up to RM10 million at a reasonable profit rate. Under the scheme, the Corporation had approved 105 loans valued at RM104.05 million compared with 87 loans valued at RM46.48 million in 2003.

OUTLOOK

The government continues to be supportive of entrepreneurship and in nurturing entrepreneurs as means to facilitate and upgrade the industrial structures for the next generation. The Corporation's strategy in 2005 focusses towards enhancing the SME's access to financing as an enabler towards economic growth and transformation. In order to provide excellent service to the SMEs and FIs, CGC will continue to elevate its role as a One-Stop-Centre for SMEs to gain access to financing via CSC and its branch network. At the same time, BASE will continue to provide assistance to SMEs in preparing the necessary paper work in obtaining financing.

In line with CGC's effort to maximize its reach to more SMEs, the Corporation continues with its plan of expanding the existing branches by setting up representative offices in selected locations. In the meantime, the Public Relations & Special Programmes Department has been working closely with the Marketing & Business Development Department towards brand building. This move is to further enhance CGC's image as a premier guarantee provider and its role as a credit enhancer.



ACKNOWLEDGEMENTS

The Corporation wishes to acknowledge and thank all participating financial institutions for their continuing support of the various guarantee schemes. Several financial institutions have been selected to receive the TOP SMI SUPPORTER AWARD 2004 in conjunction with CGC's 32nd Annual General Meeting. I wish to take this opportunity to congratulate the recipients and look forward to their continued support.

On behalf of the Board of Directors, I would like to thank the Ministry of Entrepreneur and Cooperative Development, the Ministry of Finance, Bank Negara Malaysia, other ministries and agencies, as well as various chambers of commerce and trade associations for their support and confidence in CGC.

I wish to thank my fellow colleagues in the Board for their invaluable contribution and support throughout the year. I would like to specifically thank the directors who had resigned namely Y.Bhg. Dato' Mohd Salleh Hj. Harun, Dr. Rozali Mohamed Ali, Encik Wong Yew Sen and Encik Mohd Shah Dato' Abu Bakar for their guidance and services to the Corporation. I wish to also extend our appreciation to the management team and all employees for their continuous efforts and contribution during the financial year. The success of the organization depends ultimately on their dedication, commitment and hard work towards the shared mission and objectives.

Datuk Zamani Abdul Ghani
Chairman
Board of Directors

Chief Executive's Report

“Achieving competitiveness requires knowledge of the target market, whilst adapting business models to serve an expanded customer base and focusing on service delivery.”

Datuk Wan Azhar Wan Ahmad
Chief Executive Officer

OVERVIEW

The Malaysian economy rebounded strongly in 2004, where higher growth in 2003 bolstered a stronger economic performance in 2004 - in tandem with an improved world economic performance.

In cognizance of the importance role of Small and Medium Scale Enterprises' (SMEs) contributions to the country's economic growth as well as to promote private sectors activity, the Government continued to focus on areas to assist SMEs, where providing financing accessibility to complement the existing facilities provided by commercial banks continue to be a major agenda.

Alternative areas of financing, incentives and various forms of assistance were given to SMEs, in areas of support towards technical, marketing and promotion needs. The National SME Development Council was formalized sometime in mid-2004, with the objective of implementing the earlier strategies for a more coordinated and comprehensive effort to strengthen SMEs and their role in the nation's economy.

The Corporation has always been supportive and participates actively in these key strategic initiatives.

OVERALL BUSINESS ENVIRONMENT

In tandem with the Corporation's mission and objective and the necessity to continue to play a pivotal role in assisting the SMEs, the year under review had seen a consistent effort by the Corporation in positioning itself to support key government policies and programmes for the nation's betterment.

The year under review, had witnessed the Corporation continuing to manage seven (7) guarantee schemes, broadly categorized as the Main Schemes and the Programmed Lending Schemes as follows:-

Main Schemes

1. New Principal Guarantee Scheme (NPGS)
2. Islamic Banking Guarantee Scheme (IBGS)
3. Direct Access Guarantee Scheme (DAGS)
4. Small Entrepreneur Guarantee Scheme (SEGS)

Programmed Lending Schemes

1. Flexi Guarantee Scheme (FGS)
2. Franchise Financing Scheme (FFS)
3. Special Relief Guarantee Fund (SRGF)



The Special Relief Guarantee Fund (SRGF), which was introduced in June 2003 to provide temporary relief to SARS-affected industries, had been discontinued since July 2004.

The Corporation continued to support key Government policies and programmes put in place via the Ministry of Entrepreneur and

Cooperative Development (MECD) to assist Bumiputera entrepreneurs. In year 2004, 'Program Francais Siswazah' was introduced to provide graduates with an opportunity to set up their own franchise business.

In its continuous effort to improve the services for the SMEs, the Corporation embarked on a joint programme with Maybank and IBM to provide an IT Financing package for SMEs in August 2004, namely the 'Maybank IT Plus'. CGC's role is mainly to provide guarantee to the SMEs who purchase software or hardware from the panel of Independent Solution Vendors (ISVs), appointed by both Maybank and IBM. This package is made available under the New Principal Guarantee Scheme (NPGS), with a maximum guarantee cover of 60 per cent.

Following the overwhelming response from the 'BCB Fastrack Financing' joint product tie-up launched in August 2003, CGC had extended the arrangement for a similar promotion with BCB, known as 'BCB Fast Track Pro Finance'. The new financing package is offered via fastrack mode. It is specially designed to assist Professional Firms to get financing for their working capital and business expansion. 'BCB Fast Track Pro Finance' is made available for private medical and dental clinics, accounting, audit and tax consultants and veterinary clinics with a maximum loan of RM100,000. This joint promotion will continue to utilize the existing NPGS and SEGS.

In aligning itself to support key government policies and programmes and to enhance the delivery systems, alternative delivery channel, namely the 'Client Service Center' (CSC) and 'Business Advisory Services Entity' (BASE) were launched in August and October 2004 respectively. CSC is responsible for providing a comprehensive service for SMEs and the Financial Institutions (FIs) to obtain information on products and services, related procedures or loan application status. The centre serves as a 'One-Stop Communication Center' between clients and respective departments.

With 16 branches operating nationwide, the year under review recorded a strong performance of DAGS, benefiting 2,076 borrowers with a loan value of RM962.88 million as compared to 1,904 loans with a value of RM932.79 million in 2003.

Apart from DAGS, the Corporation continued to provide other viable financial access to the SMEs under NPGS, SEGS, IBGS and FGS.

BUSINESS GROWTH

New Loans Guaranteed

The year under review chalked up another record of performance where 8,452 loans valued at RM3.01 billion were approved compared to 8,090 loans valued at RM2.68 billion in the previous year, an increase of 4.5% in terms of number and 12.1% in terms of value.

Year 2004 saw an evident shift in preference for CGC's products through a slight reduction in the demand for NPGS, both in terms of number and value. The demand for both IBGS and FGS increased tremendously, both in terms of number and value in 2004, surpassing the reduction in NPGS. However, NPGS was still the highest contributor to the overall loan approvals in 2004, both in terms of number and value at 39.5% and 35.3% respectively. NPGS was first implemented in 1994 and revised in 2002. It offers the highest loan limit compared to other schemes. In the year under review, 3,340 loans valued at RM1.06 billion were approved under NPGS.

Table 1: Loans Approved in 2003 and 2004

Year	2003		2004	
	No.	Value (RM million)	No.	Value (RM million)
Main Schemes	6,936	2,169.06	6,806	2,172.64
Comprising:-				
New Principal Guarantee Scheme	3,657	1,144.45	3,340	1,061.68
Small Entrepreneurs Guarantee Scheme	1,288	45.34	1,285	44.03
Islamic Banking Guarantee Scheme	87	46.48	105	104.05
Direct Access Guarantee Scheme	1,904	932.79	2,076	962.88
Programmed Lending Schemes	1,154	514.52	1,646	834.96
Comprising:-				
Flexi Guarantee Scheme	1,077	476.19	1,620	816.21
Franchise Financing Scheme	4	1.44	13	1.97
Special Relief Guarantee Fund	73	36.89	13	16.78
TOTAL	8,090	2,683.58	8,452	3,007.60

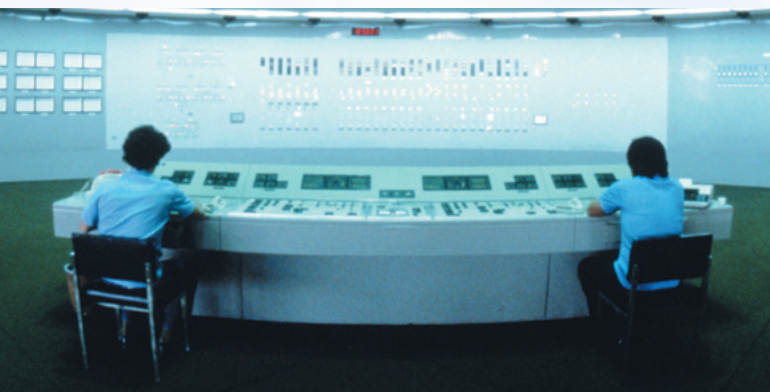
Chief Executive's Report

During year 2004, a total of 14,721 loans valued at RM1,830.79 million were repaid and cancelled (2003: 15,544 loans; RM2,157.36 million). The number of loan accounts that are still subject to CGC guarantee as at December 31, 2004 are 88,939 loans with total approved limit of RM10,479.41 million and guarantee cover value of RM8,359.75 million (2003: 69,316 loans; RM9.24 billion).

Since its establishment, the Corporation has cumulatively guaranteed 344,567 loans valued at RM28.81 billion.

3. RACIAL COMPOSITION OF LOANS

The Corporation has guaranteed 2,120 loans valued at RM615.86 million to Bumiputera entrepreneurs under all schemes, representing 25.1% and 20.5% of the overall loans approved in terms of number and value. Chinese entrepreneurs made up 68.5% (5,792 applicants) and 73.8% (RM2,218.38 million) of the overall loans approved in terms of number and value, while Indian entrepreneurs accounted for 5.2% (441 applicants) in terms of number and 4.4% (RM130.88 million) in terms of value.



OPERATIONAL REVIEW

1. DIRECTION OF LENDING

Loans guaranteed under the various guarantee schemes in 2004 benefited three broad sectors namely, general business, manufacturing and agriculture. The general business sector accounted for 6,824 loans (2003: 6,710 loans) valued at RM2,210.88 million (2003: RM2,015.66 million), followed by the manufacturing sector with a total of 1,532 loans (2003: 1,253 loans) valued at RM766.11 million (2003: RM632.79 million) and the agriculture sector with a total of 91 loans (2003: 121 loans) valued at RM28.81 million (2003: RM33.35 million).

2. DISTRIBUTION BY STATES

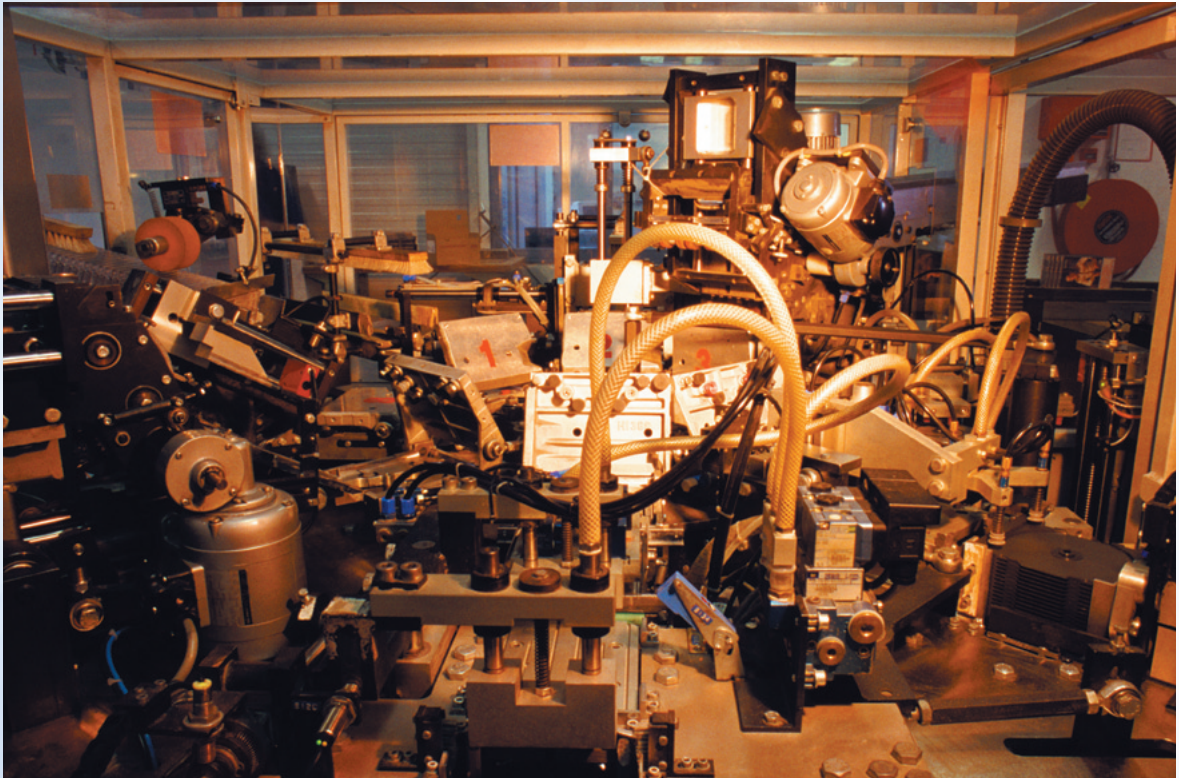
In year 2004, Selangor recorded the highest number of loans guaranteed under all schemes at 23.8% with 2,013 loans amounting to RM880.51 million whilst the Federal Territory of Kuala Lumpur recorded 1,167 loans valued at RM542.57 million, which represent 13.8% of the total number of loans guaranteed under the main scheme during the year.

CGC's Main Branch in Kelana Jaya contributed to the high number of loans approved in Selangor. During the year under review, 657 loans were approved under the Main Branch, which represents 31.7% of loans approved under DAGS.

Under the programme lending schemes, Bumiputera entrepreneurs accounted for 26% (428 applicants) of the total loans approved under this category in terms of number, and 26.6% (RM222.48 million) in terms of value; whilst the Chinese borrowers accounted for 71% (1,169 applicants) and 69.9% (RM584.04 million) respectively both in terms of number and value. The Indian enterprises accounted for 2.5% (41 applicants) and 2.3% (RM19.46 million) respectively both in terms of number and value.

4. RANGE OF LOAN SIZE

NPGS contributed 3,340 loan applications guaranteed in year 2004 with the value of RM1,061.68 million. Under the NPGS, 2,069 loans which accounted for 24.5% of the total number of loans guaranteed in 2004, was below RM250,000 whilst 1,271 (15%) loans with a total value of RM821.89 million (27.3%) were approved for loans above RM250,000. Out of 3,340 loans guaranteed under this scheme, 1,182 loans or 35.4% of the loans guaranteed are in the range of RM100,000 to RM250,000. Meanwhile, 655 loans which represent 19.6% of the loans guaranteed under NPGS are loans in the range of RM250,000 to RM500,000. For loans above RM500,000 a total of 616 loans were guaranteed by CGC, contributing to 7.3% of total new loans with a total value of RM600.80 million, representing 20% of the overall loans guaranteed by CGC in 2004.



Under the Direct Access Guarantee Scheme, loans below RM250,000 registered 71% (604 loans) in terms of number with a value of 2.9% of total loans guaranteed in 2004. Loans between RM250,000 to RM500,000 accounted for 6.2% (527 loans) with a value of 5.8% out of total loans guaranteed in 2004, while loans in the range of RM500,000 to RM1,000,000 accounted for 11.2% (945 loans) with value of 23.3% of the overall loans guaranteed in 2004.

Under the Flexi Guarantee Scheme, loans below RM250,000 registered only 7.5% (635 loans) in terms of number while loans in excess of RM250,000 accounted for 11.7% out of the total loans guaranteed in 2004. The majority of loans under the Small Entrepreneurs Guarantee Scheme were those between the range of RM40,001 to RM50,000, contributing 4.5% and 0.6% respectively in terms of number and value to the overall loans approved in 2004.

As in previous years, the overall majority of loans guaranteed by the Corporation in 2004 were those below RM250,000, benefiting mainly the smaller enterprises.

FINANCIAL HIGHLIGHTS

The Corporation's operating revenue comprised mainly of guarantee fees and investment income. Income from guarantee fees for the year increased by RM9.66 million or 17.2% to RM65.74 million compared with RM56.08 million in 2003. Interest income increased from RM78.84 million in 2003 to RM82.40 million in 2004.

A prior year adjustment has been made on provision for claims under guarantee schemes for the year 2003, which was overprovided by RM21.53 million in respect of conditionally approved claim accounts. The operating expenses for the year decreased to RM142.79 million compared to RM187.25 million in 2003, mainly due to the lower provision for delinquent loans by RM44.39 million. With interest arbitrage increased to RM33.70 million (2003: RM26.37 million), the net profit for the year before appropriation to reserves is RM73.76 million compared to RM15.83 million in 2003.

The Corporation's liability on guaranteed loans is determined based on a review of all non-performing loans reported by the financial institutions. Therefore, the Corporation has set aside an additional Specific Provision of RM129.42 million (2003: RM173.51 million after RM21.56 million prior year adjustment) and a General Provision of RM4.87 million (2003: additional of RM5.31 million), hence, making a total provision for 2004 of RM134.29 million (2003: RM178.82 million). As at end of 2004, the total provision to meet claims on loans guaranteed by the Corporation increased to RM426.65 million (2003: RM412.03 million).

Chief Executive's Report

The Corporation continued to discharge its liability on delinquent loans claimed by financial institutions. During the year, 7,449 claims were lodged with a value of RM791.95 million. During the same period, a total of 7,956 claims were processed with a value of RM768.85 million and a total of 4,650 claims amounting to RM380.94 million were approved.

For the year under review, the Corporation has recovered RM25.23 million, compared to a total pay out of RM123.14 million. Cumulatively, the Corporation has recovered RM94.94 million compared to a total pay out of RM642.26 million. The rate of total recovery as at the end of 2004 is 14.8% whilst the rate of recovery for year 2004 is 20.5%. Meanwhile, the Corporation had approved a total of 313 accounts for subrogation, valued at RM100.22 million in terms of loan amount under DAGS, 64 accounts (RM9.81 million) for PROSPER and 4 accounts (RM1.81 million) for Non-DAGS.



SUPPORT ACTIVITIES

As part of our continuous effort in promoting our schemes and products in year 2004, the Corporation participated in various activities especially major annual exhibitions and expos throughout the nation. The Corporation had also given full support to the activities organised by the Ministry of Entrepreneur and Cooperative Development (MECD) via participation in exhibitions and briefing sessions organised by MECD and its agencies. During the year 2004, the Corporation had participated in 94 briefing sessions and exhibitions, which benefited a total of 21,437 participants.

Since 2001, the Corporation continued to organize its *'Entrepreneur Dialogue'* on a quarterly basis to equip the public, especially the new and existing entrepreneurs with information about the Corporation. Joint briefings and seminars with other trade associations/chambers/institutions were also conducted nationwide to create greater awareness of CGC amongst the public and bankers.

Realising that the SMEs are having difficulties in producing proper and comprehensive loan applications, the Corporation had appointed six accredited consultants under Business Advisory Services Entity (BASE) which was officiated by the Minister of Entrepreneur and Cooperative Development on 12th October 2004 with the objective of assisting the SMEs towards securing credit facilities by providing assistance in terms of preparing effective business plans, particularly for SMEs lacking in paperwork competency, at a reasonable cost.

In order to generate greater public awareness, CGC had initiated a poster campaign together with all the financial institutions' branches nationwide. The Corporation also embarked on a Print Advertising Campaign, spreading throughout Year 2004 in five major newspapers. The campaign started from May 2004 and the concept of the advertisements focused on 'Growth', i.e. emphasizing the Corporation's tagline of 'Helping Your Business Grow!'. The advertisements were specifically on DAGS and enhancement of CGC website, iGuarantee. The main objective was to create greater awareness among the public on the Corporation's role to assist SMEs in gaining access to financing.

As a caring corporate citizen, the Corporation under its community programme marked its maiden effort in charity by presenting a Syringe Pump to the Paediatric Ward of Hospital Kuala Lumpur on 28th December 2004. This community programme was part of the Corporation's contribution towards the government's caring society initiatives.

CGC, as a member of the Asian Credit Supplementation Institution Confederation (ACSIC) consisting of Credit Guarantee institutions in nine (9) member countries, namely, Japan, Korea, Taiwan, Thailand, Philippines, Indonesia, Nepal, Sri Lanka and Malaysia; one of the staff of the Corporation attended the 15th ACSIC Training Programme in Manila, Philippines.

Chief Executive's Report

The Corporation had initiated the first CGC Top Supporter Award in 1996 to recognize banks and finance companies for their significant contribution in the overall achievement of the Corporation's objectives. Since then, the awards have been presented annually under two categories, one for the commercial banks and the other for the finance companies. In 2003, the award was renamed the Credit Guarantee Corporation's '**Top SMI Supporter Award**' for financial institutions as the Corporation's focus and emphasis are on Small and Medium Scale Industries. The Corporation will be presenting the award to four financial institutions in conjunction with its 32nd Annual General Meeting. This is the 10th consecutive year the Corporation is presenting these awards.

OUTLOOK

Despite the earlier uncertainty, the economy grew above expectation in 2004. The indication is that this trend will prevail in the next few years. As the economic structure becomes more diversified and economic fundamentals continue to strengthen, there will be an increase in demand for financing-related products and access to financing via the guarantee mechanism.

With a strong foundation built to establish itself as the sole guarantee provider in the country, the Corporation is looking forward to improving its performance. Focus shall be given to easier and faster access to financing as well as the post sales service. The Corporation also intends to expand its outreach to SMEs nationwide, to enable more to benefit from the guarantee facilities.

More 'tie-up' programmes with the financial institutions are in the pipeline to help us achieve these strategic goals.

Finally, it is my sincere hope that with the stronger and continuous cooperation provided by the financial institutions and support from the MECD, Bank Negara Malaysia, government agencies and other organisations, the Corporation would be able to play a greater role for the success of SMEs in the country.

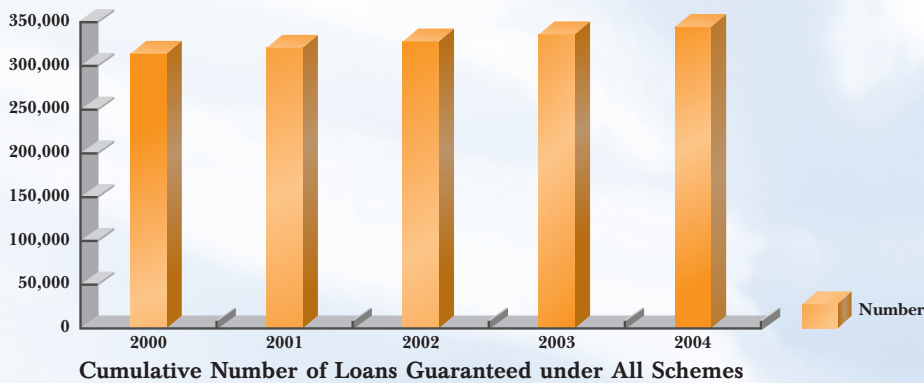
This, of course will not be possible unless we continue to receive contribution of ideas, skills, energy and commitment from each and every staff of the Corporation.



Operational Highlights

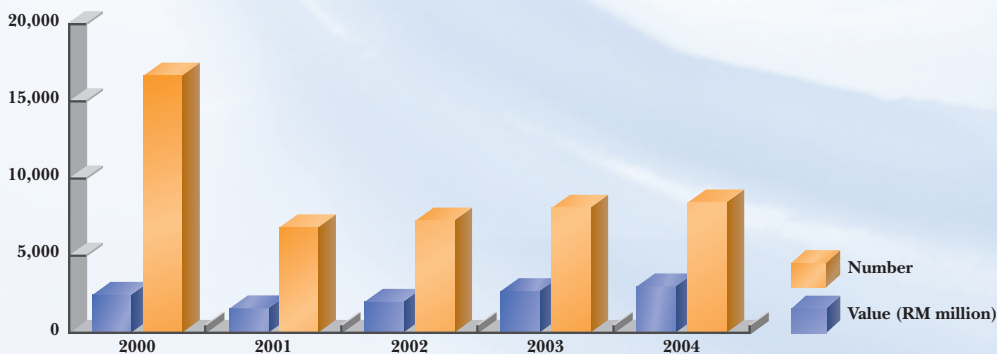
Cumulative Number and Value of Loans Guaranteed under All Schemes

Year	2000	2001	2002	2003	2004
Number	313,911	320,748	328,025	336,115	344,567
Value (RM billion)	19.5	21.1	23.1	25.8	28.8



Loans Guaranteed (By Number and Value)

Year	2000	2001	2002	2003	2004
Number	16,671	6,837	7,277	8,090	8,452
Value (RM million)	2,463.20	1,587.50	2,003.50	2,683.58	3,007.60

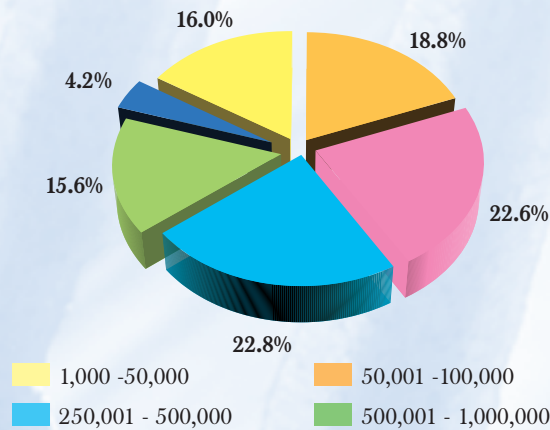


Operational Highlights

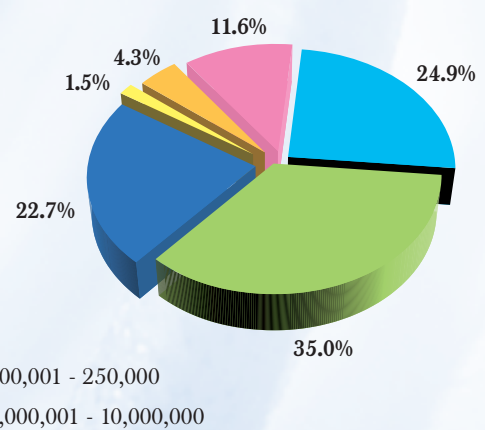
Range of Loans Size Guaranteed under All Schemes

Range of Loan Size	No	No %	Value	Value %
1,000 -50,000	1,356	16.0	47.16	1.5
50,001 -100,000	1,591	18.8	129.98	4.3
100,001 - 250,000	1,912	22.6	348.30	11.6
250,001 - 500,000	1,925	22.8	748.03	24.9
500,001 - 1,000,000	1,316	15.6	1,052.18	35.0
1,000,001 - 10,000,000	352	4.2	681.95	22.7
Total	8,452	100.0	3,007.60	100.0

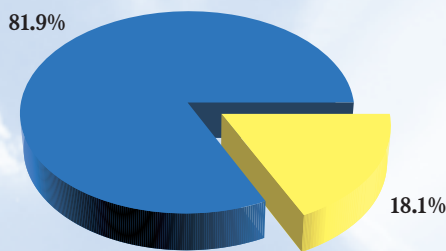
Loan Size by Number



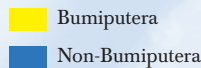
Loan Size by Value



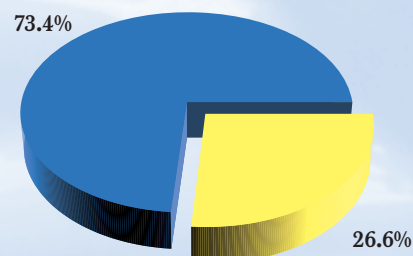
Main Schemes	Value %	Value (RM million)
Bumiputera	18.1	393.38
Non-Bumiputera	81.9	1,779.26
Total	100.0	2,172.64



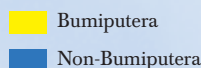
Racial Composition of Loans for Main Schemes (by Loans Value)



Programmed Lending Schemes	Value %	Value (RM million)
Bumiputera	26.6	222.48
Non-Bumiputera	73.4	612.48
Total	100.0	834.96



Racial Composition of Loans for Programmed Lending Schemes (by Loans Value)



Directors' Report

The directors have pleasure in submitting their annual report and the audited financial statements of the Corporation for the year ended 31st December, 2004.

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:-

- New Principal Guarantee Scheme (NPGS);
- Small Entrepreneurs Financing Fund (SEFF) (ceased operations with effect from May 1999);
- New Entrepreneurs Fund (NEF);
- Amanah Ikhtiar Malaysia (AIM) (ceased operations with effect from August 1998);
- Franchise Financing Scheme (FFS);
- Flexi-Guarantee Scheme (FGS);
- Tabung Usahawan Kecil (TUK) (ceased operations with effect from January 2000);
- Youth Economic Development Program (YEDP) (ceased operations with effect from July 1998);
- Direct Access Guarantee Scheme (DAGS);
- Enterprise Program Guarantee Scheme (EPGS) (ceased operations with effect from November 2000);
- Small Entrepreneurs Guarantee Scheme (SEGS);
- Islamic Banking Scheme (IBS); and
- Special Relief Guarantee Facility (SRGF) (ceased operations with effect from July 2004).

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

The following scheme has been wound down during the year.

- Loan Fund for Hawkers and Petty Traders Scheme (ceased operations in June 1998).

2. RESULTS

	RM
Operating profit for the year	40,057,743
Add: Interest arbitrage earned	33,697,713
Net profit for the year	<u>73,755,456</u>
Retained profits brought forward	
- as previously reported	369,420,812
- prior year adjustment (Note 25)	20,559,016
- as restated	<u>389,979,828</u>
Profits available for appropriation	463,735,284
Transfer to reserves	(33,697,713)
Transfer to SPI Reserves during the year	<u>(40,000,000)</u>
Retained profits carried forward	<u>390,037,571</u>

3. DIVIDENDS

Since the end of the last financial year, the Corporation has not declared or paid any dividends.

The directors do not recommend any dividends in respect of the year ended 31st December, 2004.

Directors' Report

4. RESERVES AND PROVISIONS

(a) Reserves

The directors are recommending the transfer of RM33,697,713 from the profit for the year to the following reserves:-

	RM
Special Reserve	17,595,104
Special Program Reserve	16,082,910
SPI Reserve	19,699
	<hr/>
	33,697,713

In addition, the Corporation has transferred RM40 million from retained profits to SPI Reserve to meet claim contingencies on Islamic facilities for the next 5 years.

(b) Provisions

During the year, a provision of RM134,289,267 representing possible claims against the Corporation was made by way of a charge against the income statement, Special Reserve, SPI Reserve and Special Program Reserve.

5. BAD AND DOUBTFUL DEBTS

Before the financial statements of the Corporation was made up, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and have satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would render the amount written off as bad debts or the amount allowed for doubtful debts in the financial statements of the Corporation inadequate to any substantial extent.

6. CURRENT ASSETS

Before the financial statements of the Corporation was made up, the directors took reasonable steps to ensure that any current assets which were unlikely to realise, in the ordinary course of business, their value as stated in the accounting records of the Corporation have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Corporation misleading.

7. VALUATION METHODS

At the date of this report, 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.

8. CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:-

- (a) any charge on the assets of the Corporation that has arisen since 31st December, 2004 which secures the liabilities of any other person; and
- (b) any contingent liability in respect of the Corporation that has arisen since 31st December, 2004.

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, 2004 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.

9. CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances that would render any amount stated in the financial statements of the Corporation misleading.

10. ITEMS OF AN UNUSUAL NATURE

In the opinion of the directors:-

- (a) the results of the operations of the Corporation for the year ended 31st December, 2004 were not substantially affected by any item, transaction or event of a material and unusual nature except for the prior year adjustment disclosed in Note 25; and
- (b) there has not arisen in the interval between 31st December, 2004 and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Corporation for the financial year in which this report is made.

11. DIRECTORS

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

Datuk Zamani Abdul Ghani - Chairman (appointed on 4.3.2005)

Datuk Wan Azhar Wan Ahmad - Managing Director

Datuk Amirsham A. Aziz

Encik Mohamed Azmi Mahmood

Encik Zarir J. Cama (appointed on 17.5.2004)

Encik Chung Chee Leong (appointed on 17.5.2004)

Encik Mohd Shah Dato' Abu Bakar (resigned on 5.4.2004)

Encik Wong Yew Sen (resigned on 5.4.2004)

Dato' Mohd Salleh Hj Harun (resigned on 4.3.2005)

Dr. Rozali Mohamed Ali (resigned on 4.3.2005)

None of the directors have any interest in the shares of the Corporation during the year covered by the income statement.

Encik Mohamed Azmi Mahmood and Datuk Amirsham 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.

Encik Chung Chee Leong and Encik Zarir J. Cama retire in accordance with Article 77 of the Corporation's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

12. DIRECTORS' BENEFIT

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 as shown in the financial statements or the fixed salary of a full-time employee of the Corporation) by reason of a contract made by the Corporation with the director or with a firm of 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 arrangement 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.

Directors' Report

13. AUDITORS

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

Signed in accordance with a resolution of the Board of Directors,



DATUK ZAMANI ABDUL GHANI



DATUK AMIRSHAM A. AZIZ

Kuala Lumpur,

Date: 21st March, 2005

Balance Sheet

As At 31st December, 2004

	Note	2004 RM	2003 RM
PROPERTY, PLANT AND EQUIPMENT	5	40,246,190	44,244,846
CURRENT ASSETS			
Fees receivable		26,039,077	29,669,015
Other receivables		7,985,715	10,068,765
Loans and advances	6	590,499,320	915,844,520
Investment securities	7	157,985,078	373,623,148
Term deposits and interest receivable	8	3,773,910,300	3,210,393,228
Cash and bank balances		19,186,058	7,189,941
		<u>4,575,605,548</u>	<u>4,546,788,617</u>
DEDUCT: CURRENT LIABILITIES			
Claims payable		74,291,915	96,296,165
Other payables		48,603,712	41,487,905
Government Funds	9	300,000,000	160,000,000
Amount due to Bank Negara Malaysia	10	300,000,000	400,000,000
Tabung Usahawan Kecil	11	490,000,000	400,000,000
Penalty Fund	12	50,000,000	-
Provision for claims under the Guarantee Schemes	13	426,646,844	412,029,876
		<u>1,689,542,471</u>	<u>1,509,813,946</u>
NET CURRENT ASSETS		2,886,063,077	3,036,974,671
		<u>2,926,309,267</u>	<u>3,081,219,517</u>
FINANCED BY:			
SHARE CAPITAL	14	1,635,600,000	1,635,600,000
RESERVES	15	540,709,267	465,619,517
SHAREHOLDERS' FUNDS		2,176,309,267	2,101,219,517
LONG TERM LIABILITIES			
Government Funds	9	-	140,000,000
Amount due to Bank Negara Malaysia	10	650,000,000	650,000,000
Small Entrepreneurs Financing Fund	16	50,000,000	50,000,000
Tabung Usahawan Kecil	11	-	90,000,000
Small Entrepreneurs Guarantee Scheme	20	50,000,000	50,000,000
		750,000,000	980,000,000
		<u>2,926,309,267</u>	<u>3,081,219,517</u>

The notes on pages 35 to 50 form part of these financial statements

Income Statement

Year Ended 31st December, 2004

	Note	2004 RM	2003 RM
OPERATING REVENUE	21	148,144,810	134,923,491
OTHER OPERATING INCOME		34,704,684	41,788,128
		<u>182,849,494</u>	<u>176,711,619</u>
STAFF COSTS		(14,985,002)	(12,745,846)
DEPRECIATION	5	(6,091,196)	(5,729,446)
PROVISION FOR CLAIMS		(115,671,783)	(160,063,432)
OTHER OPERATING EXPENSES		(6,043,770)	(8,714,619)
TOTAL OPERATING EXPENSES		<u>(142,791,751)</u>	<u>(187,253,343)</u>
OPERATING PROFIT/(LOSS) FOR THE YEAR	22	40,057,743	(10,541,724)
INTEREST ARBITRAGE EARNED	23	33,697,713	26,375,474
NET PROFIT FOR THE YEAR		<u>73,755,456</u>	<u>15,833,750</u>

The notes on pages 35 to 50 form part of these financial statements

Statement Of Changes In Equity For The Year Ended 31st December, 2004

	Ordinary Share Capital RM	Preference Share Capital RM	Special Reserve RM	Special Program Reserve RM	SPI Reserve RM	Retained Profits RM	Total RM
Balance at 1st January, 2004							
- as previously reported	1,435,600,000	200,000,000	379,575	73,745,091	539,470	369,420,812	2,079,684,948
- prior year adjustment (Note 25)	-	-	-	975,553	-	20,559,016	21,534,569
- as restated	1,435,600,000	200,000,000	379,575	74,720,644	539,470	389,979,828	2,101,219,517
Operating profit for the year	-	-	-	-	-	40,057,743	40,057,743
Interest arbitrage earned	-	-	-	-	-	33,697,713	33,697,713
Transfer from income statement to reserves	-	-	17,595,104	16,082,910	19,699	(33,697,713)	-
Transfer from income statement to SPI reserves	-	-	-	-	40,000,000	(40,000,000)	-
Write back/ (provision) for claims	-	-	-	1,136,557	(1,223,264)	-	(86,707)
Administrative expenses - TUK	-	-	-	(34,852)	-	-	(34,852)
Interest subsidy - FFS	-	-	-	(297,132)	-	-	(297,132)
Interest on SEFF	-	-	-	72,909	-	-	72,909
Claims recovery under							
- LFHPT 1992	-	-	115,098	-	-	-	115,098
- TUK	-	-	-	1,751,270	-	-	1,751,270
- AIM	-	-	33,280	-	-	-	33,280
Refund of settlement	-	-	(219,572)	-	-	-	(219,572)
Balance at 31st December, 2004	<u>1,435,600,000</u>	<u>200,000,000</u>	<u>17,903,485</u>	<u>93,432,306</u>	<u>39,335,905</u>	<u>390,037,571</u>	<u>2,176,309,267</u>

The notes on pages 35 to 50 form part of these financial statements

Statement Of Changes In Equity

For The Year Ended 31st December, 2003

	Ordinary Share Capital RM	Preference Share Capital RM	Special Reserve RM	Special Program Reserve RM	SPI Reserve RM	Retained Profits RM	Total RM
Balance at 1st January, 2003	1,435,600,000	200,000,000	17,736,585	53,652,076	4,768,235	400,521,552	2,112,278,448
Operating loss for the year	-	-	-	-	-	(10,541,724)	(10,541,724)
Interest arbitrage earned	-	-	-	-	-	26,375,474	26,375,474
Transfer from income statement to reserves	-	-	14,733,046	11,472,373	170,055	(26,375,474)	-
Funds received during the year							
- FFS							
- guarantee fund	-	-	-	15,000,000	-	-	15,000,000
Provision for claims	-	-	-	(6,805,899)	(4,398,820)	-	(11,204,719)
Allowance for doubtful debts							
- LPHPT 1992	-	-	(32,438,092)	-	-	-	(32,438,092)
Unutilised fund of ASLS written off	-	-	281,385	-	-	-	281,385
Recovery on ASLS	-	-	5,648	-	-	-	5,648
Service charges							
- LFHPT 1992	-	-	(138,834)	-	-	-	(138,834)
Administrative expenses							
- TUK	-	-	-	(177,835)	-	-	(177,835)
Interest subsidy							
- FFS	-	-	-	(524,288)	-	-	(524,288)
Interest on SEFF	-	-	-	89,880	-	-	89,880
Claims recovery under							
- LFHPT 1992	-	-	199,837	-	-	-	199,837
- TUK	-	-	-	2,014,337	-	-	2,014,337
Balance at 31st December, 2003	<u>1,435,600,000</u>	<u>200,000,000</u>	<u>379,575</u>	<u>74,720,644</u>	<u>539,470</u>	<u>389,979,828</u>	<u>2,101,219,517</u>

The notes on pages 35 to 50 form part of these financial statements

Cash Flow Statement

For The Year Ended 31st December, 2004

	2004 RM	2003 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year	73,755,456	15,833,750
Adjustments for:		
Depreciation on property, plant and equipment	6,091,196	5,729,446
Provision for claims	115,671,783	160,063,432
Subrogation accounts written off	-	1,623,378
(Profit)/loss on sales of bonds	(9,261,198)	793,129
Gain on disposal of property, plant and equipment	(58,407)	-
Property, plant and equipment written off	9	-
Interest arbitrage earned	<u>(33,697,713)</u>	<u>(26,375,474)</u>
Operating profit before working capital changes	152,501,126	157,667,661
Decrease/(increase) in fees receivable	3,629,938	(6,713,247)
Increase in interest receivable	(2,303,602)	(117,242)
Decrease/(increase) in other receivables	2,083,050	(2,084,349)
Decrease in loans and advances	325,345,200	40,396,812
Increase in other payables	7,115,807	5,857,502
Decrease in claims payables	<u>(114,138,076)</u>	<u>(20,733,422)</u>
Cash generated from operations	374,233,443	174,273,715
Payment of claims under the Guarantee Schemes	(9,007,696)	(70,800,509)
Interest income under SEFF	72,909	89,880
Interest subsidy paid for FFS	(297,132)	(524,288)
Service charges under LFHPT 1992	-	(138,834)
Administration expenses under TUK	(34,852)	(177,835)
Claims recovery under TUK	1,751,270	2,014,337
Claims recovery under LFHPT 1992	115,098	199,837
Claims recovery under AIM	33,280	-
Unutilised fund of ASLS written off	-	281,385
Recovery on ASLS	-	5,648
Stamp duty under SEGS	<u>(219,572)</u>	<u>-</u>
Net cash generated from operating activities	366,646,748	105,223,336
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investment securities matured	224,899,268	48,392,494
Proceeds from sale of property, plant and equipment	112,249	-
Purchase of property, plant and equipment	(2,146,391)	(1,372,393)
Interest arbitrage earned	33,697,713	26,375,474
Net cash generated from investing activities	256,562,839	73,395,575

The notes on pages 35 to 50 form part of these financial statements

Cash Flow Statement

For The Year Ended 31st December, 2004

	2004	2003
	RM	RM
CASH FLOWS FROM FINANCING ACTIVITIES		
Penalty fund received	50,000,000	-
Funds received under the Franchise Financing Scheme	-	15,000,000
Funds paid to Bank Negara Malaysia	(100,000,000)	-
Net cash (used in)/generated from financing activities	(50,000,000)	15,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	573,209,587	193,618,911
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	3,188,444,578	2,994,825,667
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	3,761,654,165	3,188,444,578
CASH AND CASH EQUIVALENTS COMPRISE:		
Term deposits	3,742,468,107	3,181,254,637
Cash and bank balances	19,186,058	7,189,941
	3,761,654,165	3,188,444,578

The notes on pages 35 to 50 form part of these financial statements

Notes To The Financial Statement

- 31st December, 2004

1. BASIS OF ACCOUNTING

The financial statements of the Corporation have been prepared under the historical cost convention and comply with the applicable approved accounting standards in Malaysia and the provisions of Companies Act, 1965.

The preparation of financial statements in conformity with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act 1965 requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. GENERAL INFORMATION

The financial statements of the Corporation were authorised for issue on 4th March, 2005 by the Board of Directors.

The Corporation is a public limited liability company incorporated and domiciled in Malaysia.

The Corporation has 325 (2003: 272) employees at the end of the financial year.

The address of the registered office of the Corporation is Level 13-16, Bangunan CGC, Kelana Business Centre, No. 97, Jalan SS 7/2, 47301 Petaling Jaya.

The principal place of business of the Corporation is located at Level 13-16, Bangunan CGC, Kelana Business Centre, No. 97, Jalan SS 7/2, 47301 Petaling Jaya.

3. FINANCIAL RISK MANAGEMENT POLICY

In normal course of business the Corporation is subjected to the four main areas of risk, namely Credit risk, Market risk, Liquidity risk and Operational risk.

(a) Credit Risk

Credit risk is the potential loss arising from guaranteed parties or counter-parties failing to meet their financial obligation.

Credit risk arising from Guarantee

The Corporation manages the credit risk by evaluating borrowers based on an In House Credit-scoring model. The Corporation uses this model to measure the viability of loans vis-a-vis established thresholds.

Credit risk arising from financial instruments

Credit risk exposure, which arises from investing in financial instruments, is mitigated by means of placing, mainly in FD with our shareholders. Meanwhile for debt instruments, the Corporation only invests in highly rated instruments.

(b) Market Risk

Market risk is the risk arising from adverse movement in the market prices of investments.

The Corporation invests in debt instruments mainly for interest/dividend income, hence holds them till maturity. Therefore, the Corporation is subjected to minimal market risk.

(c) Liquidity Risk

Liquidity risk is the risk which arises when the Corporation has difficulty in raising funds to meet its financial obligations at a reasonable cost and time. The liquidity risk is managed by diversifying its placements's maturity to various tenor based on maturity gap.

(d) Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal process, people and system, or external events. The Corporation mitigates its operational risk by having comprehensive internal control systems and procedures, which are reviewed regularly and subjected to periodical audits by internal auditors.

Notes To The Financial Statement

- 31st December, 2004

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of property, plant and equipment 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	20%
Computer equipment	20%

(b) Impairment of Assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit.

An impairment loss is charged to the income statement immediately. Any subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately. There is no impairment loss recognised in the income statement of the Corporation during the year.

(c) Loans and Advances

Loans and advances are stated at cost less any allowance for bad and doubtful debts.

Based on management's evaluation of the portfolio of loan, specific allowances for doubtful debts are made when the collectibility of receivables becomes uncertain.

An uncollectible loan or portion of a loan classified as bad is written off when it is deemed that there is no prospect of recovery.

(d) Investment Securities

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

(e) 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, Cagamas Bonds and other Bonds are recognised on the accrual basis.

Notes To The Financial Statement **- 31st December, 2004**

(f) Provision for Claims under the Guarantee Schemes

Specific provision for claims 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 institutions 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% (2003: 1.5%) of the total credit facilities guaranteed by the Corporation net of specific provision for claims is also maintained.

In 2002, the Corporation changed its accounting policy on the treatment of provision for claims in respect of the main schemes. Provision made is charged to the income statement first, and where this is not adequate, the provision will be charged to the special reserves.

For the other schemes, the provision for claims is charged to the relevant reserves. In the event that the reserves are not adequate, the balance of the provision will be charged to the income statement.

(g) Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise; a contractual right to exchange financial instrument with another enterprise under conditions that are potentially favourable; or an equity instrument of another enterprise.

A financial instrument issued by the Corporation is classified as a liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Corporation has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(h) Provision for Liabilities

Provision for liabilities is recognised when the Corporation has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(i) Employee Benefits

Short term benefits

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement for future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the income statement as incurred.

(j) Cash and Cash Equivalents

Cash represents cash and bank balances.

Cash equivalents are short-term, highly liquid assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes To The Financial Statement

- 31st December, 2004

5. PROPERTY, PLANT AND EQUIPMENT

2004	Leasehold Land and Building RM	Motor Vehicles RM	Office Equipment RM	Furniture Fittings & Fixtures RM	Computer Equipment RM	Total RM
Cost:						
At 1st January	44,091,574	987,357	919,488	6,183,397	17,198,890	69,380,706
Additions	-	-	397,251	1,124,457	624,683	2,146,391
Write-off	-	-	-	-	(153,609)	(153,609)
Reclassification	-	-	(3,377)	3,377	-	-
Disposals	-	(305,237)	-	-	(4,500)	(309,737)
At 31st December	<u>44,091,574</u>	<u>682,120</u>	<u>1,313,362</u>	<u>7,311,231</u>	<u>17,665,464</u>	<u>71,063,751</u>
Accumulated depreciation:						
At 1st January	12,345,641	618,573	565,490	3,914,497	7,691,659	25,135,860
Charge for the year	1,763,663	177,122	177,230	1,015,829	2,957,352	6,091,196
Write-off	-	-	-	-	(153,600)	(153,600)
Reclassification	-	-	(56)	56	-	-
Eliminated on disposal	-	(251,396)	-	-	(4,499)	(255,895)
As at 31st December	<u>14,109,304</u>	<u>544,299</u>	<u>742,664</u>	<u>4,930,382</u>	<u>10,490,912</u>	<u>30,817,561</u>
Net book value at 31st December	<u>29,982,270</u>	<u>137,821</u>	<u>570,698</u>	<u>2,380,849</u>	<u>7,174,552</u>	<u>40,246,190</u>
Cost of assets fully depreciated but still in use	<u>-</u>	<u>-</u>	<u>281,099</u>	<u>1,798,113</u>	<u>2,428,128</u>	<u>4,507,340</u>
2003						
Cost:						
At 1st January	44,091,574	987,357	858,683	5,612,295	16,458,404	68,008,313
Additions	-	-	60,805	571,102	740,486	1,372,393
At 31st December	<u>44,091,574</u>	<u>987,357</u>	<u>919,488</u>	<u>6,183,397</u>	<u>17,198,890</u>	<u>69,380,706</u>
Accumulated depreciation:						
At 1st January	10,581,978	421,102	440,611	3,121,671	4,841,052	19,406,414
Charge for the year	1,763,663	197,471	124,879	792,826	2,850,607	5,729,446
As at 31st December	<u>12,345,641</u>	<u>618,573</u>	<u>565,490</u>	<u>3,914,497</u>	<u>7,691,659</u>	<u>25,135,860</u>
Net book value at 31st December	<u>31,745,933</u>	<u>368,784</u>	<u>353,998</u>	<u>2,268,900</u>	<u>9,507,231</u>	<u>44,244,846</u>
Cost of assets fully depreciated but still in use	<u>-</u>	<u>-</u>	<u>259,155</u>	<u>1,770,534</u>	<u>2,276,591</u>	<u>4,306,280</u>

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

Notes To The Financial Statement - 31st December, 2004

6. LOANS AND ADVANCES

	2004 RM	2003 RM
At 1st January	915,844,520	988,679,424
Add: Funds disbursed	<u>1,321,459</u>	<u>171,443,718</u>
	917,165,979	1,160,123,142
Less: Repayments received	(326,666,659)	(211,840,530)
Allowance for doubtful debts - LFHPT 1992	-	(32,438,092)
At 31st December	<u>590,499,320</u>	<u>915,844,520</u>

This represents the balance of the total amount drawdown under the CGC Special Loan Schemes referred to in Note 9 to the financial statements, the Amanah Ikhtiar Malaysia Funding Scheme (AIM), Small Entrepreneurs Financing Fund (SEFF), Tabung Usahawan Kecil (TUK), Tabung Industri Kecil dan Sederhana 2 (TIKS2), Centre For Policy Research (CPR), New Entrepreneur Fund 2 (NEF2) and Loan Fund For Hawkers And Petty Traders 1992 (LFHPT 1992).

7. INVESTMENT SECURITIES

	2004 RM	2003 RM
Malaysian Government Securities	56,919,695	206,342,724
Interest receivable	673,771	922,284
	57,593,466	207,265,008
Cagamas Bonds	-	5,191,500
Interest receivable	-	136,008
	-	5,327,508
Other Bonds	99,087,400	159,418,400
Interest receivable	1,304,212	1,612,232
	100,391,612	161,030,632
	<u>157,985,078</u>	<u>373,623,148</u>
Market value		
- Malaysian Government Securities	59,578,348	216,649,152
- Cagamas Bonds	-	5,084,500
- Other Bonds	<u>98,849,300</u>	<u>160,240,100</u>
	<u>158,427,648</u>	<u>381,973,752</u>

Notes To The Financial Statement

- 31st December, 2004

8. TERM DEPOSITS AND INTEREST RECEIVABLE

	2004 RM	2003 RM
Term deposits		
- with licensed banks	787,002,795	1,255,808,768
- with licensed finance companies	2,686,263,715	1,765,913,645
- other financial institutions	<u>269,201,597</u>	<u>159,532,224</u>
	3,742,468,107	3,181,254,637
Interest receivable		
- from licensed banks	9,332,029	14,297,204
- from licensed finance companies	18,813,881	13,672,709
- other financial institutions	<u>3,296,283</u>	<u>1,168,678</u>
	31,442,193	29,138,591
	<u>3,773,910,300</u>	<u>3,210,393,228</u>

9. GOVERNMENT FUNDS

	2004 RM	2003 RM
At 31st December	<u>300,000,000</u>	<u>300,000,000</u>
Repayable on demand	200,000,000	120,000,000
Repayable within 12 months	<u>100,000,000</u>	<u>40,000,000</u>
	300,000,000	160,000,000
Repayable after 12 months	-	140,000,000
	<u>300,000,000</u>	<u>300,000,000</u>

These comprise various placements from Bank Negara Malaysia (BNM). RM200 million of these funds, intended to enable the Corporation to build up its reserves, is subject to interest at 1% per annum while RM100 million, intended for the loanable funds, is interest free.

Included in the Government Funds is RM20 million for the implementation of the Association Special Loan Scheme (ASLS) which is repayable on demand, RM80 million for building up its guarantee reserve which is repayable on demand, RM100 million loanable funds which is repayable on demand under LFHPT 1992 and RM100 million for the New Investment Fund (NIF) which is repayable on 14th December, 2005 after approval obtained from Ministry of Finance Malaysia for the extension of repayment for two years.

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 RM80,000,000 respectively.

Interest arbitrage earned from the above placements has been transferred to the Special Reserve, Special Program Reserve and the SPI Reserve (Notes 15 and 23).

Notes To The Financial Statement - 31st December, 2004

10. AMOUNT DUE TO BANK NEGARA MALAYSIA

	2004 RM	2003 RM
Repayable within 12 months	300,000,000	400,000,000
Repayable after 12 months	650,000,000	650,000,000
	950,000,000	1,050,000,000

In 2001, the Corporation received a loan of RM200 million from Bank Negara Malaysia to administer Tabung Industri Kecil dan Sederhana 2 (TIKS2), in addition to an amount of RM200 million received in 2000. The Corporation was also allocated an amount of RM250 million to administer Tabung Usahawan Baru 2 (TUB2) in 2001. The repayment for both TIKS2 and TUB2 shall be made in 10 years from the date of drawdown or when all the funds have been fully repaid by the respective financial institutions, whichever comes first. The loan is secured by promissory notes and is subject to interest at 0.75% per annum.

In 1999, RM100,000,000 was allocated by BNM to enable the Corporation to build up its guarantee reserve. The amount is interest free and secured by a promissory note with 5 years maturity date from the date of drawdown on 8th July, 1999. The Corporation has applied for extension of repayment from Bank Negara Malaysia but approval has yet to be granted.

A bridging loan of RM200 million was extended to the Corporation by BNM in 1999 to bear the operational costs incurred in the Corporation's rights issue exercise.

Upon maturity of the bridging loan, this amount was allocated for TUK to meet loan demands and will be used to build up reserve fund to meet potential claims under the TUK.

The amount is secured by a promissory note issued on 4th January, 2000 with a maturity date of 31st December, 2004 and is subject to interest at 1% per annum. During the year, the Corporation has applied for extension of repayment from Bank Negara Malaysia but the approval has yet to be granted.

11. TABUNG USAHAWAN KECIL

	2004 RM	2003 RM
Repayable within 12 months	490,000,000	400,000,000
Repayable after 12 months	-	90,000,000
	490,000,000	490,000,000

On 10th December, 1998 the Corporation entered into an agreement with the Government who contributed RM50 million to a fund known as Tabung Usahawan Kecil (TUK). This loanable fund is to be repaid in one lump sum at the end of 10 years or 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.

In 1999, BNM allocated RM400,000,000 to the fund whereby RM300,000,000 is secured by a promissory note with 5 years maturity date from the date of drawdown on 8th July, 1999 and RM100,000,000 secured by a promissory note with 5 years maturity date from the date of drawdown on 3rd September, 1999. Both amounts are subject to interest at 1% per annum. During the year, the Corporation has applied for extension of repayment from Bank Negara Malaysia but approval has yet to be granted.

The Corporation had ceased to disburse new loans under the TUK as decided by the Minister of Entrepreneur Development effective from 1st January, 2000. However, the Corporation continues to manage the loans disbursed under this scheme prior to this date.

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 15).

Notes To The Financial Statement

- 31st December, 2004

12. PENALTY FUND

During the year, Bank Negara Malaysia had instructed Hong Leong Bank Bhd to place RM50 million into the Corporation's account for a period of one year. The fund is to be invested and earnings from the investment are treated as reimbursement to the Corporation on the opportunity cost incurred for the use of CGC fund for TIKS2 and TUB2 drawdown.

Interest is derived from this fund at the 3-month Kuala Lumpur Inter-bank Offered Rates (KLIBOR) of 2.98%.

13. PROVISION FOR CLAIMS UNDER THE GUARANTEE SCHEMES

	2004 RM	2003 RM
Specific provision:		
At 1st January		
- as previously reported	393,967,586	279,747,463
- prior year adjustment (Note 25)	<u>(21,534,569)</u>	-
- as restated	372,433,017	279,747,463
Provision made during the year		
- Special Program Reserves	-	8,740,396
- SPI Reserve	1,049,063	4,320,753
- Income statement	129,305,777	181,979,007
Write back of provision		
- Special Program Reserves	(939,594)	(975,553)
- Income statement	-	(20,559,016)
Claims payable	<u>(119,672,299)</u>	<u>(80,820,033)</u>
At 31st December	<u>382,175,964</u>	<u>372,433,017</u>
General provision:		
At 1st January	39,596,859	34,284,617
Provision made during the year		
- SPI Reserve	174,201	78,067
- Income statement	4,896,783	6,193,119
Write back of provision during the year		
- Special Program Reserve	<u>(196,963)</u>	<u>(958,944)</u>
At 31st December	<u>44,470,880</u>	<u>39,596,859</u>
Total	<u>426,646,844</u>	<u>412,029,876</u>

Notes To The Financial Statement - 31st December, 2004

14. SHARE CAPITAL

	2004 RM	2003 RM
AUTHORISED:		
Ordinary shares of RM1 each - At 31st December	2,500,000,000	2,500,000,000
Preference shares of RM1 each - At 31st December	<u>500,000,000</u>	<u>500,000,000</u>
	<u>3,000,000,000</u>	<u>3,000,000,000</u>
The authorised ordinary share capital is made up of:		
Class A	1,500,000,000	1,500,000,000
Class B	750,000,000	750,000,000
Class C	<u>250,000,000</u>	<u>250,000,000</u>
Total authorised ordinary share capital	<u>2,500,000,000</u>	<u>2,500,000,000</u>

Class A shares comprise all the ordinary shares of RM1.00 each registered to Bank Negara Malaysia. Class B shares comprise all the ordinary shares of RM1.00 each registered to shareholders who are carrying on a banking business. All such other shares not classified as Class A or Class B shares are classified as Class C shares. All classes of the ordinary shares rank pari passu with respect to each other.

	2004 RM	2003 RM
ISSUED AND FULLY PAID:		
Ordinary shares of RM1 each - At 31st December	1,435,600,000	1,435,600,000
200,000,000 ten years redeemable 1% rate non-cumulative preference shares of RM1 each - At 31st December	<u>200,000,000</u>	<u>200,000,000</u>
Total	<u>1,635,600,000</u>	<u>1,635,600,000</u>

The preference shares issued confer the right to a preference dividend 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 issued and fully paid ordinary share capital is made up of:

	2004 RM	2003 RM
Class A	1,097,096,000	1,097,096,000
Class B	242,686,000	230,380,000
Class C	<u>95,818,000</u>	<u>108,124,000</u>
Total ordinary share capital	<u>1,435,600,000</u>	<u>1,435,600,000</u>

Notes To The Financial Statement

- 31st December, 2004

15. RESERVES

	2004	2003
	RM	RM
Special Program Reserve	93,432,306	74,720,644
Special Reserve	17,903,485	379,575
SPI Reserve	39,335,905	539,470
Retained Profits	390,037,571	389,979,828
	<u>540,709,267</u>	<u>465,619,517</u>
Special Program Reserve:-		
At 1st January		
- as previously reported	73,745,091	53,652,076
- prior year adjustment (Note 25)	975,553	-
- as restated	<u>74,720,644</u>	<u>53,652,076</u>
Franchise Financing Scheme Fund (FFS) received		
- guarantee fund (Note 17)	-	15,000,000
Administrative expenses under TUK	(34,852)	(177,835)
Claims recovery under TUK	1,751,270	2,014,337
Interest subsidy under FFS	(297,132)	(524,288)
Interest on SEFF	72,909	89,880
Transfer from income statement	16,082,910	11,472,373
Write back/(provision) for claims	1,136,557	(6,805,899)
At 31st December	<u>93,432,306</u>	<u>74,720,644</u>
Special Reserve:-		
At 1st January	379,575	17,736,585
Transfer from income statement	17,595,104	14,733,046
Allowance for doubtful debts LFHPT 1992	-	(32,438,092)
Service charges under LFHPT 1992	-	(138,834)
Claims recovery under LFHPT 1992	115,098	199,837
Reimbursement after wind up process	(219,572)	-
Unutilised fund of ASLS written off	-	281,385
Recovery on ASLS	-	5,648
Recovery on AIM	33,280	-
At 31st December	<u>17,903,485</u>	<u>379,575</u>
SPI Reserve:-		
At 1st January	539,470	4,768,235
Transfer from income statement	19,699	170,055
Transfer from retained profits	40,000,000	-
Provision for claims	(1,223,264)	(4,398,820)
At 31st December	<u>39,335,905</u>	<u>539,470</u>

Notes To The Financial Statement - 31st December, 2004

15. RESERVES (Contd)

The Special Program Reserve was created to meet possible losses arising from the loans granted under the TUK, SEFF, AIM, FFS and YEDP and is not distributable as cash dividends. It includes a guarantee fund of RM40,000,000 granted by the Ministry of Entrepreneur Cooperative Development (MECD) in 1997 in respect of SEFF (Note 16).

In 2000, the Corporation received an amount of RM21.4 million from the MECD to provide guarantees for the financing granted under the various guarantee schemes by financial institutions to approved vendor companies.

During the year, the Corporation has transferred RM40 million from retained profits to SPI (Skim Perbankan Islam) Reserve to meet claim contingencies on Islamic facilities for the next 5 years.

The SPI Reserve was created to meet claim contingencies under Islamic Guarantee for SPI facilities and is not distributable as cash dividends.

The Special Reserve was created to meet claim contingencies arising from loans guaranteed by the Corporation under all the other schemes and is not distributable as cash dividends. Effective from year 2002, the provision in respect of all other schemes is charged to income statement. The Special Reserve may be utilised to meet excess claim contingencies in respect of all other schemes should the need arises.

The amount transferred from the income statement to these reserves comprises interest arbitrage earned from the government funds, TUK Fund, SEFF, FFS, YEDP and SEGS. (Notes 9, 11, 16, 17, 18 and 20).

16. SMALL ENTREPRENEURS FINANCING FUND - SEFF

	2004 RM	2003 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 Entrepreneur Financing Fund (SEFF) of which RM50 million has been received in 1996. Repayment shall be made by 5 equal annual instalments commencing on the 5th anniversary of the disbursement of each advance.

In addition, the MECD contributed a guarantee fund of RM40 million which had been received in 1996 and included under the Special Program Reserve to absorb possible losses on loans granted under the SEFF (Note 15).

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.

With effect from 1st January, 1999 MECD has consolidated the SEFF and TUK. The consolidation of these two schemes known as TUK. Guarantee fund of RM40 million included under the Special Program Reserve can be used to defray expenses related to the Small Loans Unit (SLU) which is set up to monitor the new TUK.

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 15).

Notes To The Financial Statement

- 31st December, 2004

17. FRANCHISE FINANCING SCHEME FUND - FFS

On 27th October, 1997 a Memorandum of Understanding (MoU) was executed between the Corporation, MECD 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 million from MECD in 1998 consisting of RM2 million guarantee fund and another RM2 million subsidy on interest to borrowers. In 1999, the Corporation received RM2 million from MECD for its guarantee fund.

In 2000, the Corporation has received RM14,393,000 from MECD consisting of RM7,196,500 guarantee fund and another RM7,196,500 subsidy on interest to borrowers. In 2002, the Corporation has received RM2,900,000 from MECD consisting of RM1,450,000 guarantee fund and another RM1,450,000 subsidy on interest to borrowers. In 2003, the Corporation has received an additional RM15,000,000 guarantee fund from MECD.

This program will enable entrepreneurs operating viable franchise business to have access to credit facilities of up to a maximum of RM7.5 million each. The bank may charge borrower interest up to a maximum of BLR + 1.5%. However, MECD 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 was transferred to the Special Program Reserve and be used to absorb possible losses on loans granted under this scheme (Note 15).

18. YOUTH ECONOMIC DEVELOPMENT PROGRAM - YEDP

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

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

This program would enable 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 15).

Notes To The Financial Statement - 31st December, 2004

19. TABUNG INDUSTRI KECIL DAN SEDERHANA 2 - TIKS2

With effect from 3rd April, 2000 the government decided to cease the Tabung Industri Kecil dan Sederhana which was managed by BNM as a result of full utilisation of the fund amounting to RM1,850,000,000 in two years since the date of creation on 2nd January, 1998.

In order to meet the demand for loans from Small and Medium Industries (SMIs), the government has agreed to create another fund namely Tabung Industri Kecil dan Sederhana 2 (TIKS2) with RM200,000,000 which the Corporation has been appointed to manage. An additional amount of RM200 million was allocated by the government in 2001. Repayment shall be made in 10 years from the date of drawdown or when all the funds under TIKS2 have been fully repaid by the respective financial institutions, whichever comes first. The loan is subject to interest at 0.75% per annum. With effect from 17th October, 2002 BNM has taken over the administration of fund for TIKS2 as well as TUB2 from the Corporation. However, the Corporation will continue to manage loans for which applications were received prior to 17th October, 2002.

The scheme is to assist SMIs in the selected sectors, namely manufacturing and services, in penetrating the export market or providing linkages to export-oriented industries with financing of up to RM1,000,000 per customer for the purposes of working capital.

20. SMALL ENTREPRENEURS GUARANTEE SCHEME - SEGS

On 15th May, 2002 the Corporation entered into an agreement with the Ministry of Finance (MOF) who contributed RM50 million to generate guarantee fund known as Small Entrepreneurs Guarantee Scheme (SEGS) to meet possible loan losses. This fund is to be repaid in one lump sum at the end of 6 years and is subject to interest at 3% per annum from the date of drawdown on 14th November, 2002.

The scheme is to assist small entrepreneurs to obtain financing of between RM10,000 to RM50,000 for the purposes of working capital and/or asset acquisition.

21. OPERATING REVENUE

	2004	2003
	RM	RM
Guarantee fees	65,742,879	56,078,978
Interest - term deposits	74,837,881	66,424,000
- Malaysian Government Securities	3,023,828	6,461,272
- Cagamas Bonds	113,520	216,072
- Other bonds	4,426,702	5,743,169
	148,144,810	134,923,491

Notes To The Financial Statement

- 31st December, 2004

22. OPERATING PROFIT/(LOSS) FOR THE YEAR

	2004	2003
	RM	RM
This is arrived at after charging/(crediting):-		
Directors' remuneration	489,686	462,240
Directors' fees	69,760	81,754
Directors' meeting allowances	20,500	23,500
Employees Provident Fund contribution	1,593,024	1,373,412
Quit rent and assessment	613,744	545,953
Depreciation on property, plant and equipment (Note 5)	6,091,196	5,729,446
Auditors' remuneration	25,000	20,000
Provision for claims	115,671,783	160,063,432
Subrogation accounts written off	-	1,623,378
Rental income	(535,253)	(934,197)
(Profit)/loss from sales of bonds	(9,261,198)	793,129
Gain on disposal of property, plant and equipment	(58,407)	-
Property, plant and equipment written off	9	-
	<u>27,550</u>	<u>27,550</u>
Director's benefit-in-kind	27,550	27,550
Staff costs	<u>14,985,002</u>	<u>12,745,846</u>

23. INTEREST ARBITRAGE EARNED

	2004	2003
	RM	RM
Interest earned - term deposits	44,646,183	36,020,809
- investment securities	3,542,968	4,979,665
	<u>48,189,151</u>	<u>41,000,474</u>
Less: Interest payable on Government Funds	14,491,438	14,625,000
	<u>33,697,713</u>	<u>26,375,474</u>

24. TAXATION

The Corporation has been granted exemption from income tax from the year of assessment 2002 for another 10 years under Section 127(3)(b) of the Income Tax Act, 1967.

Notes To The Financial Statement - 31st December, 2004

25. PRIOR YEAR ADJUSTMENT

This refers to provision for claims under the Guarantee Schemes for the year 2003 which was overprovided by RM21,534,569 in respect of conditionally approved claim accounts.

The changes arising from the overprovision has been accounted for retrospectively as follows:-

	As previously reported RM	Effect of change RM	As restated RM
Balance sheet			
At 1st January, 2004			
- provision for claims under the Guarantee Schemes	433,564,445	(21,534,569)	412,029,876
- retained profits	369,420,812	20,559,016	389,979,828
- Special Program Reserve	<u>73,745,091</u>	<u>975,553</u>	<u>74,720,644</u>
Income statement for the year ended 31st December, 2003			
- Net (loss)/profit	<u>(4,725,266)</u>	<u>20,559,016</u>	<u>15,833,750</u>

26. 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.

	2004 RM	2003 RM
Total credit facilities guaranteed by the Corporation under the Schemes	<u>3,856,444,078</u>	<u>3,573,955,377</u>
Contingencies arising thereon	3,346,901,304	3,033,758,164
Less: Amount deemed to be bad and doubtful for which provisions have been made	<u>426,646,844</u>	412,029,876
Amount set aside in the Reserves to meet future claims	<u>150,671,696</u>	75,639,689
	577,318,540	487,669,565
Net contingencies	<u>2,769,582,764</u>	<u>2,546,088,599</u>

27. CAPITAL COMMITMENTS

	2004 RM	2003 RM
Capital expenditure not provided for in the financial statements:-		
Authorised and contracted for	1,156,368	266,000
Authorised but not contracted for	<u>2,306,400</u>	<u>8,049,740</u>
	<u>3,462,768</u>	<u>8,315,740</u>

Notes To The Financial Statement

- 31st December, 2004

28. FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of financial assets and liabilities of the Corporation at the balance sheet date are as follows:-

	2004		2003	
	Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
Financial Assets				
Fee receivables	26,039,077	26,039,077	29,669,015	29,669,015
Other receivables	7,985,715	7,985,715	10,068,765	10,068,765
Loan and advances	590,499,320	refer (d)	915,844,520	refer (d)
Investment securities	157,985,078	158,427,648	373,623,148	373,623,148
Deposit, cash and bank balances	3,793,096,358	3,793,096,358	3,217,583,169	3,217,583,169
Financial Liabilities				
Claims payable	74,291,915	74,291,915	96,296,165	96,296,165
Other payables	48,603,712	48,603,712	41,487,905	41,487,905
Penalty Fund	50,000,000	53,500,000	-	-
Government funds	300,000,000	321,000,000	300,000,000	321,000,000
Amount due to Bank Negara Malaysia	950,000,000	1,016,500,000	1,050,000,000	1,123,500,000
Small Entrepreneurs Financing Fund	50,000,000	53,500,000	50,000,000	53,500,000
Tabung Usahawan Kecil	490,000,000	524,300,000	490,000,000	524,300,000
Small Entrepreneurs Guarantee Scheme	50,000,000	53,500,000	50,000,000	53,500,000

The following methods and assumptions are used to estimate the fair value of each class of financial assets and liabilities:-

(a) Investment securities

An estimate of fair value is based on market rates available at balance sheet date.

(b) Fee and other receivable and claims and other payables

The carrying amounts of these receivables and payables are reasonable estimates of fair values because of their short maturity.

(c) Deposits, cash and bank balances

The carrying amount of deposits, cash and bank balances approximates fair values because of their short maturity.

(d) Loans and advances receivables

These are loans and advances drawdown under the specific funds and schemes administered by the Corporation. The carrying amount approximate the fair value since the carrying amount reflect those which are recoverable under the respective schemes.

(e) Government and other funds and amount due to Bank Negara Malaysia

These loans and funds are provided to the Corporation at favourable rates to finance the loan schemes and to build up reserves to meet claims and losses arising from its operations. The fair value is estimated based on the assumption that the loan were obtained at prevailing market rates.

29. COMPARATIVE FIGURES

The comparative figures have been restated to reflect the change in provision for claims under Guarantee Schemes as disclosed in Note 25.

Statement By Directors And Statutory Declaration

- 31st December, 2004

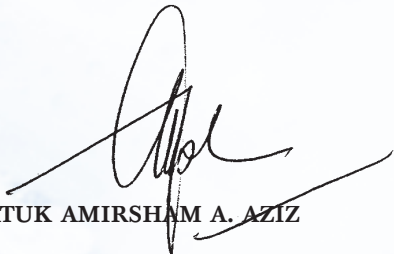
STATEMENT BY DIRECTORS

We, **DATUK ZAMANI ABDUL GHANI** and **DATUK AMIRSHAM A. AZIZ**, being two of the directors of **CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD**, state that in the opinion of the directors, the financial statements set out on pages 29 to 50 are drawn up in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Corporation as at 31st December, 2004 and of its results and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Board of Directors,



DATUK ZAMANI ABDUL GHANI



DATUK AMIRSHAM A. AZIZ

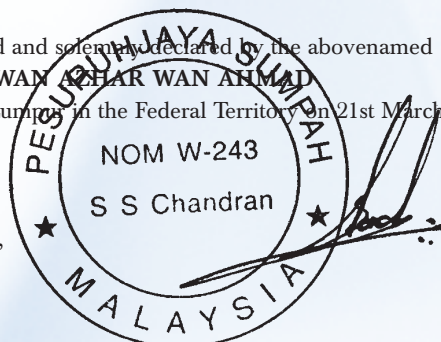
Kuala Lumpur,
Date: 21st March, 2005

STATUTORY DECLARATION

I, **DATUK WAN AZHAR WAN AHMAD**, the director primarily responsible for the financial management of **CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 29 to 50 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
DATUK WAN AZHAR WAN AHMAD
at Kuala Lumpur in the Federal Territory on 21st March, 2005

Before me,



DATUK WAN AZHAR WAN AHMAD

SUITE 1813 18th FLOOR
PLAZA PERMATA (IGB PLAZA)
JALAN KAMPAR, 50400 KUALA LUMPUR.

Report Of The Auditors To The Members Of Credit Guarantee Corporation Malaysia Berhad (Company No: 12441-M)

We have audited the financial statements set out on pages 29 to 50. These financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these financial statements based on our audit.

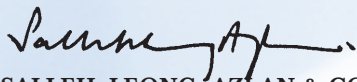
We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. Our audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. Our 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 financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements are properly drawn up in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of:-
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Corporation as at 31st December, 2004 and of its results and cash flows for the year then 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

Chartered Accountants



SIVADASAN A/L NARAYANAN NAIR

1420/12/05(J)

Partner of the Firm

Kuala Lumpur,

Date: 21st March, 2005



CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD (12441-M)
FORM OF PROXY

I/We.....
of
being a member of the abovenamed Company, hereby appoint
of.....or
failing him.....as my proxy/our proxy
to vote for me / us on my / our behalf at the Thirty Second Annual General Meeting of the Company to be held on Monday,
May 9, 2005 at 12.00 p.m. and at any adjournment thereof in the manner indicated below.

Table with 3 columns: Resolution (Resolution 1-4), For, and Against.

(Please indicate with a cross (x) in the spaces provided whether you wish your votes to be cast for or against the Resolutions.
In the absence of specific directions, your proxy will vote or abstain as he thinks fit).

Signed thisday of 2005.

.....
Signature

Note :-

- 1. 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.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a Corporation under the hand of an officer of the Corporation.
3. The instrument appointing a proxy and the power of the attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power of authority shall be deposited at the Registered Office of the Company - Level 13-16, Bangunan CGC, Kelana Business Centre, 97, Jalan SS7/2, 47301 Petaling Jaya, Selangor Darul Ehsan, not less than 48 hours before the time for holding the meeting or any adjournment thereof.



30 Sen
Stamp

COMPANY SECRETARY,

**CREDIT GUARANTEE CORPORATION
MALAYSIA BERHAD**

Level 13-16, Bangunan CGC,
Kelana Business Centre,
No. 97, Jalan SS 7/2,
47301 Petaling Jaya,
Selangor Darul Ehsan.
