



2006 ANNUAL REPORT **LAPORAN TAHUNAN 2006**

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NOTICE IS HEREBY GIVEN that the **Thirty Fourth (34th) Annual General Meeting of Credit Guarantee Corporation Malaysia Berhad** will be held at **Level 11, Bangunan CGC, Kelana Business Centre, 97, Jalan SS 7/2, 47301 Petaling Jaya, Selangor Darul Ehsan** on **May 21, 2007** at **12.30 p.m.** for the following purposes:

AGENDA

1. To receive and adopt the Audited Financial Statements for the year ended December 31, 2006 together with the reports of the Directors and Auditors. **(Resolution 1)**
2. To re-elect Directors who are retiring pursuant to Articles 76A and 76B of the Corporation's Articles of Association and, being eligible, offer themselves for re-election. **(Resolution 2)**
3. To approve payment of Directors' fees. **(Resolution 3)**
4. To appoint Auditors and to authorise the Board of Directors to fix the Auditors' remuneration. **(Resolution 4)**
5. To transact any other business for which the notice shall have been given.

NOTICE OF ANNUAL GENERAL MEETING NOTIS MESYUARAT AGUNG

DENGAN INI DIBERITAHU bahawa **Mesyuarat Agung Tahunan yang ke Tiga Puluh Empat (ke-34)** bagi **Credit Guarantee Corporation Malaysia Berhad** akan diadakan di **Aras 11, Bangunan CGC, Kelana Business Centre, 97, Jalan SS 7/2, 47301 Petaling Jaya, Selangor Darul Ehsan** pada **21 Mei, 2007** jam **12.30** tengahari untuk tujuan berikut:

AGENDA

1. Menerima dan meluluskan Penyata Kewangan Syarikat yang telah diaudit bagi tahun berakhir 31 Disember, 2006 serta Laporan Pengarah dan Laporan Juruaudit. **(Resolusi 1)**
2. Melantik semula Pengarah-pengarah yang bersara mengikut Fasal 76A dan 76B Tataurusuan Syarikat, dan oleh kerana layak, mereka menawarkan diri untuk dilantik semula. **(Resolusi 2)**
3. Meluluskan pembayaran yuran kepada Pengarah-pengarah. **(Resolusi 3)**
4. Melantik Juruaudit dan memberi kuasa kepada Lembaga Pengarah untuk menetapkan bayaran Juruaudit. **(Resolusi 4)**
5. Menguruskan sebarang urusan lain di mana notis yang berkenaan telah diterima.

By Order of The Board | Atas Perintah Lembaga Pengarah



GAYAH HJ MOHD NORDIN

Company Secretary | Setiausaha Syarikat

Petaling Jaya

3rd May, 2007 | 3hb Mei, 2007

Year One Plan

The strategic focus of the Business Transformation Plan in the first year (2006) was **Organisational Reorientation and Capacity Building** to ensure that the necessary institutional capacity is in place to enable the Corporation to effectively perform its enhanced role. The areas of human capital management, IT infrastructure and

corporate governance were strengthened. Initiatives to offer a broader spectrum of innovative and diverse products and services were also undertaken.

ORGANISATIONAL REORIENTATION AND CAPACITY BUILDING PENGURUSAN SEMULA ORGANISASI DAN PENINGKATAN DAYA KEMAMPUAN

Pelan Tahun Pertama

Tumpuan yang strategik dalam Rancangan Pembaharuan Perniagaan pada tahun pertama (2006) adalah **Pengurusan Semula Organisasi dan Peningkatan Daya Kemampuan** bagi memastikan kemampuan institusi yang diperlukan tersedia bagi membolehkan CGC melaksanakan peranan yang telah dipertingkatkan dengan lebih berkesan. Bidang-bidang seperti pengurusan modal insan, infrastruktur teknologi maklumat dan tadbir urus korporat telah diperkukuhkan. Pelbagai inisiatif juga telah dijalankan dengan menawarkan lebih banyak produk dan perkhidmatan yang berinovatif.

Dato' Zamani Abdul Ghani

Chairman | Pengerusi

"The Business Transformation Plan embarked on by the Corporation in 2006 marks a major milestone in its 34 years of existence. It is a logical move set in motion by the Corporation as its role as a SME-support institution has increased in importance in recent years, attributed largely by the government's economic policies that encourage greater private sector participation in the national economy."



"Rancangan Pembaharuan Perniagaan yang dimulakan oleh CGC pada tahun 2006 merupakan detik penting dalam masa 34 tahun penubuhannya. Ianya merupakan langkah wajar yang diambil oleh CGC sejajar dengan peranannya sebagai institusi pendukung PKS yang semakin meningkat kepentingannya sejak kebelakangan ini. Ini adalah lanjutan daripada polisi-polisi kerajaan yang menggalakkan peningkatan penyertaan sektor swasta di dalam ekonomi negara."

BOARD OF DIRECTORS LEMBAGA PENGARAH

Datuk Wan Azhar Wan Ahmad

Managing Director | Pengarah Urusan

"With increased focus and attention on promoting the development of the SME sector, there is greater attention on CGC as it is the leading credit enhancer in the country with vast experience and involvement in SME development. This is quite understandable too considering its significant contribution to the development of more than 360,000 SME establishments in the country, having guaranteed loans valued at about RM35 billion."

With the successful implementation of its comprehensive three-year Business Transformation Plan, the Corporation will be in a better position to address one of the major challenges faced by SMEs, that is, access to financing."



"Dengan meningkatnya tumpuan dan perhatian terhadap promosi pembangunan sektor PKS, terdapat peningkatan perhatian kepada CGC kerana ia merupakan peneraju pemangkin kredit di negara ini yang mempunyai pengalaman serta pembabitan yang luas di dalam pembangunan PKS. Perkara ini memang dijangkakan berdasarkan sumbangannya yang besar merangkumi lebih daripada 360,000 PKS yang diwujudkan di seluruh negara dengan nilai jaminan sebanyak RM35 bilion."

Dengan kejayaan pelaksanaan Rancangan Pembaharuan Perniagaan tiga tahun yang komprehensif, CGC akan berada pada kedudukan yang lebih baik untuk membantu PKS menghadapi cabaran, iaitu mendapatkan akses kepada pembiayaan."



• Dato' Mohd Rosli Abdul Aziz



• Dato' Tan Yew Thong



• Dato' Mohd Hanif Sher Mohamed



• Dato' Sri Abdul Hamidy Abdul Hafiz



• Encik Md. Yusof Hussin



• Datuk P. Kasi



• Puan Zaiton Mohd Hassan

The composition of the Corporation's Board of Directors truly reflects the objectives and principles of the three-year Business Transformation Plan. The Board's membership was broadened to include new members with diverse business experience and expertise that are essential to steer the Corporation successfully through its most challenging stage of development, set the pace for its current operations as well as to provide strategic business directions.

Komposisi Ahli-ahli Lembaga Pengarah CGC menggambarkan objektif-objektif dan prinsip-prinsip Rancangan Pembaharuan Perniagaan. Keahlian Lembaga Pengarah telah diperluaskan dengan kemasukan ahli-ahli baru yang mempunyai pelbagai pengalaman perniagaan dan kepakaran. Ini adalah penting di dalam mengendalikan CGC melalui tahap pembangunan yang amat mencabar. Ianya juga menetapkan tahap operasi semasa dan juga memacu halatuju perniagaan yang strategik.



CORPORATE INFORMATION MAKLUMAT KORPORAT

Board of Directors Lembaga Pengarah

Dato' Zamani Abdul Ghani
Chairman | Pengerusi

Datuk Wan Azhar Wan Ahmad
Managing Director | Pengarah Urusan

Encik Md. Yusof Hussin
Dato' Mohd Hanif Sher Mohamed
Datuk P. Kasi
Dato' Tan Yew Thong
Dato' Mohd Rosli Abdul Aziz
Puan Zaiton Mohd Hassan
Dato' Sri Abdul Hamidy Abdul Hafiz

Audit Committee Jawatankuasa Audit

Encik Md. Yusof Hussin
Chairman | Pengerusi

Dato' Mohd Rosli Abdul Aziz
Puan Zaiton Mohd Hassan

Registered Office Pejabat Berdaftar

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

Administrative and Correspondence Address Alamat Pentadbiran dan 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. [AF:0010]
Chartered Accountants | Akauntan Bertauliah

Functional and Presentation Currency Matawang Fungsi dan Penyataan

Ringgit Malaysia (RM)



MANAGEMENT TEAM AHLI PENGURUSAN

From Left:
Dari Kiri:

Encik Khoo Kim Ho
General Manager, Operations
Pengurus Besar, Operasi

Puan Nazleena Nordin
Assistant General Manager, Organisation & Methods
Penolong Pengurus Besar, Organisasi & Kaedah

Encik Shazwan Mohan Abdullah
Assistant General Manager, Credit
Penolong Pengurus Besar, Kredit

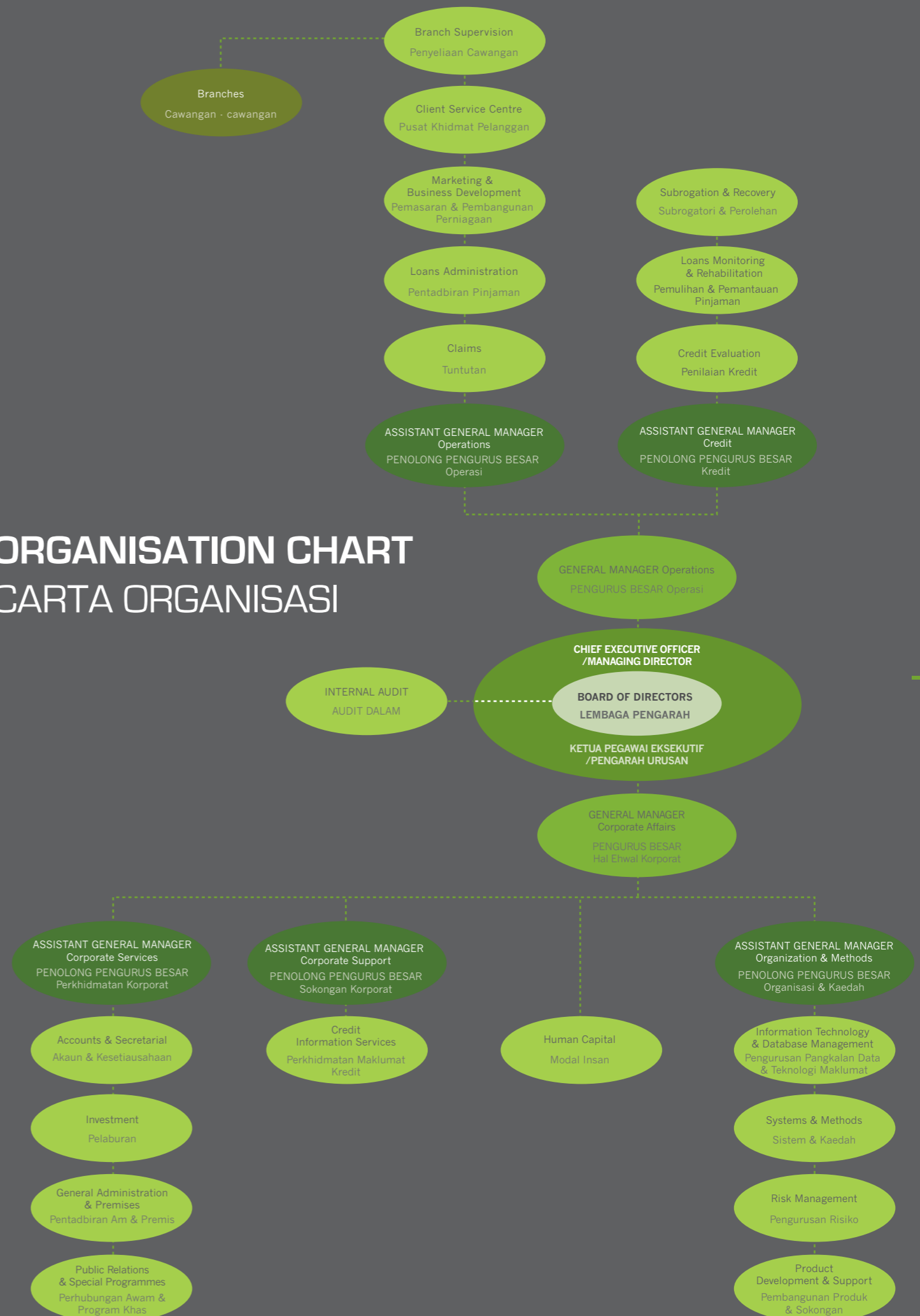
Datuk Wan Azhar Wan Ahmad
Managing Director
Pengarah Urusan

Encik Sathasivan Kunchambo
General Manager, Corporate Affairs
Pengurus Besar, Hal Ehwal Korporat

Cik Gayah Hj Mohd Nordin
Senior Manager, Corporate Services/
Company Secretary
Pengurus Kanan, Perkhidmatan Korporat/
Setiausaha Syarikat

Encik Chan Yan Kit
Assistant General Manager, Corporate Support
Penolong Pengurus Besar, Sokongan Korporat

ORGANISATION CHART CARTA ORGANISASI



CORPORATE MISSION MISI KORPORAT



To enhance the viability of small and medium enterprises through the provision of products and services at competitive terms and, with the highest degree of professionalism, efficiency and effectiveness.

Membantu perusahaan kecil dan sederhana dengan menyediakan produk dan perkhidmatan yang kompetitif dengan tahap profesionalisme, kecekapan dan keberkesanan yang tinggi.

Year Two Plan

The second year of the Business Transformation Plan (2007) is the year of the **Expansion Of Products And Services**. More new and innovative guarantee products and services such as the expansion of the scope of guarantee beneficiaries to Islamic banking and development financial institutions, equity funding, securitisation of SME loans, portfolio guarantee and credit information services will be introduced for SMEs.

EXPANSION OF PRODUCTS AND SERVICES

PENGEMBANGAN PELBAGAI PRODUK DAN PERKHIDMATAN

Rancangan Tahun Kedua

Tahun kedua bagi Rancangan Pembaharuan Perniagaan (2007) merupakan tahun bagi **Pengembangan Pelbagai Produk Dan Perkhidmatan**. Lebih banyak produk-produk jaminan baru yang berinovatif dan perkhidmatan-perkhidmatan seperti pengembangan skop jaminan kepada institusi-institusi perbankan Islam dan kewangan pembangunan, pembiayaan ekuiti, 'securitisation' bagi pinjaman-pinjaman PKS, jaminan portfolio serta perkhidmatan maklumat kewangan akan diperkenalkan kepada PKS.

STATEMENT ON CORPORATE GOVERNANCE

INTRODUCTION

The Board of Directors ("Board") of the Corporation recognizes that adherence to the Principles and Best Practices of the Malaysian Code on Corporate Governance ("Code") is crucial for the Corporation's continuous growth and success. The Board is committed to ensure that a high standard of corporate governance is being practised throughout the Corporation as a fundamental responsibility in protecting and enhancing shareholders' value and in improving the Corporation's financial performance.

This statement describes how the Corporation has applied the principles set out in the Code and save where otherwise identified, its compliance with the best practices of the Code for the year ended 31st December 2006.

THE BOARD OF DIRECTORS

The Role and Principal Duties:

The Board takes full responsibility for the overall performance of the Corporation. The Board establishes the vision and strategic objectives of the Corporation, directing policies, strategic action plans and stewardship of the Corporation's resources toward achieving the Corporation's annual budget as well as ensuring a continuous and sustainable growth not only to protect the interest but also enhance its value for the stakeholders - shareholders, customers, business associates and the society in which the



Corporation operates. It focuses on strategies, financial performance, critical and material business issues and specific areas as principal risks and their management, internal control system and succession planning for senior management. The Managing Director takes on the primary responsibility of day-to-day management of the Corporation's business and resources.

The independent non-executive directors are actively involved in various Board-level meetings and decision-making that contributes significantly to areas such as performance monitoring and enhancement of corporate governance and controls. They provide a broader view, independent assessment and opinion

as well as serve as an effective check and balance on Management's proposals and operations.

The Corporation is led by a Board consisting of members with diverse business, financial and corporate background, lending great depth in terms of expertise and knowledge to the overall management of the Corporation, which is an important SME support institution in the country. Collectively, they provide the leadership and support to the Management team led by the Managing Director.

COMPOSITION AND BALANCE

The Board of Directors of the Corporation consists of independent non-executive directors (including the Chairman) and the Managing Director/Chief Executive Officer. The roles of the Chairman and the Managing Director/Chief Executive Officer are separate, both with clearly defined responsibilities. All the non-executive directors are independent of Management and are free from any business or other relationship that could materially interfere in their independent judgement or decision-making exercise.

The Board has a well-defined framework for the various categories of matters that require its approval, endorsement or notations, as the case may be. There is also balance in the Board with the presence of independent directors with distinguished records and credentials and who demonstrate objectivity and robust independence of judgement.

BOARD MEETINGS

The Board meetings are held every month and it met ten times in 2006. At every meeting, the Board deliberated on key issues, which include 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 of the Corporation was invited to join in the Board meetings to provide the Board with detailed explanation and clarification on matters that have been tabled.

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 Board papers and relevant documents to enable them to discharge their responsibilities effectively and efficiently.

The Board of Directors' attendance record in the financial year in reference is as provided in the table below:

No.	Directors	No. of Times Attended	%
1	Dato' Zamani Abdul Ghani, Chairman	9	90
2	Datuk Wan Azhar Wan Ahmad, Managing Director	10	100
3	Encik Md. Yusof Hussin	6	60
4	Dato' Mohd Hanif Sher Mohamed	9	90
5	Datuk P. Kasi	8	80
6	Dato' Tan Yew Thong	9	90
7	Dato' Mohd Rosli Abdul Aziz	10	100
8	Puan Zaiton Mohd Hassan	10	100
9	Dato' Sri Abdul Hamidy Abdul Hafiz*	4	50

* Appointed in April 2006.

ACCESS TO INFORMATION

The Board has unrestricted access to all information pertaining to the Corporation's business and related affairs to enable it to discharge its duties. All directors are provided with the agenda together with the board papers prior to Board meetings. This is to enable them to consider and deliberate knowledgeably on issues and to facilitate informed decision-making.

Management is duty-bound to provide the Board with the necessary quantitative and qualitative information to facilitate the decision-making process. All Directors have the right and duty to make further enquiries where they consider necessary.

APPOINTMENT AND RE-ELECTION TO THE BOARD

The appointment of directors is primarily based on transparent procedures that are instituted to ensure that any nomination takes into account the required mix of expertise, experience and knowledge to facilitate content input from a wider perspective. Appointments are also based on recommendations with a definitive set of selection criteria encompassing the set qualifications specified by the regulatory authorities and the required skills as dictated by the business environment and the long-term direction of the Corporation.

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

BOARD AND MANAGEMENT COMMITTEES

A. BOARD-LEVEL COMMITTEES

No.	COMMITTEES	FREQUENCY OF MEETINGS
1	Board Audit Committee	Bi-monthly
2	Board Investment Committee	Bi-monthly
3	Board Risk Management Committee	Quarterly
4	Board Information Technology Committee	Quarterly
5	Board Remuneration Committee	Semi-annually

The Board delegates certain responsibilities to the Board Committees namely Board Audit Committee, Board Risk Management Committee, Board Information Technology Committee, Board Investment Committee and Board Remuneration Committee. The committees have written terms of reference and operating procedures and the Board receives report of their proceedings and deliberations. The chairmen of various committees report to the Board the outcome of each committee meeting and such reports are incorporated in the minutes of the Board meetings.

In 2006, the Corporation established the Board Risk Management Committee, Board Information Technology Committee, Board Investment Committee and Board Remuneration Committee.

The Board-level committees were established to further uphold the Board's strong belief in the principles and best practices of corporate governance.

1. Board Audit Committee

The Board Audit Committee's principal objective is to assist the Board in discharging the Board's statutory duties and responsibilities relating to accounting and reporting practices of the Corporation. In addition, the Committee assists the Board in its oversight role with respect to:

- (i) The quality and integrity of financial information;
- (ii) The effectiveness of the Corporation's risk management and compliance practices;
- (iii) The external auditor's performance, qualifications and independence;
- (iv) The performance of the Corporation's internal audit function; and
- (v) The Corporation's compliance with legal and regulatory requirements.

2. Board Risk Management Committee

The primary objective of the Board Risk Management Committee is to assist the Board to deliberate on the Corporation's risk management practices, to ensure the effectiveness of identification, measurement, monitoring and control of risks, as well as compliance with applicable laws, regulations and guidelines for good corporate governance. The primary responsibilities of the Committee are as follows:

- (i) To provide direction on the overall risk management strategy of the Corporation;
- (ii) To review policies and procedures for the effective identification, measurement, monitoring and control of the Corporation's risk exposures;
- (iii) To review Management's compliance with established policies and procedures in relation to risk management;
- (iv) To review credit authorization limits for certain employees of the Corporation in accordance with policies and procedures approved by the Board;
- (v) To review Management's assessment of compliance with applicable laws and regulations; and
- (vi) To examine any other matters related to risk management referred to it by the Board.

3. Board Information Technology Committee

The primary objective of the Board Information Technology Committee is to assist the Board to deliberate on matters related to the Corporation's information technology. The role of the Committee is to:

- (i) Provide direction on the overall IT strategy;
- (ii) Review all matters related to policies affecting the Corporation's IT infrastructure;
- (iii) Review and provide recommendations to the Board on IT budget;
- (iv) Review the results of analysis of potential projects and progress of IT project implementation; and
- (v) To keep the Corporation abreast with new developments in IT.

4. Board Investment Committee

The primary objective of the Committee is to review investment objectives, strategies, policies and guidelines and provide strategic directions governing the investment activities of the Corporation. The key duties and responsibilities of the Committee as specified in its terms of reference are:

- (i) Review the performance of the investment portfolio;
- (ii) Review limits/targets, tenor and term structure as well as market concentration limits for each asset class;

(iii) Ensure that regular and adequate reporting and internal control systems are in place; and

(iv) Deliberate on investment recommendations made by Management of the Corporation.

5. Board Remuneration Committee

The primary objective of the Board Remuneration Committee is to assist the Board to deliberate on the Corporation's policies and practices relating to staff remuneration. The primary responsibilities of the Committee are as follows:

- (i) To provide directions on the overall staff remuneration strategy of the Corporation;
- (ii) To review the broad policy and framework for remuneration of the staff;
- (iii) To review the performance and reward system of the staff, including ensuring performance targets are established to achieve consistency with the interests of stakeholders of the Corporation are taken care of with an appropriate balance between long and short term goals;
- (iv) To advise any performance related scheme for the Corporation;
- (v) To recommend to the Board the services of such advisers or consultants as it deems necessary to fulfill its responsibilities; and
- (vi) To examine any other matters related to the staff remuneration referred to it by the Board.

B. MANAGEMENT COMMITTEES

The Corporation has also established various Management-level committees that serve as avenues for making collective decisions involving cross-functional memberships.

In relation to the implementation of the three-year Business Transformation Plan, the Management reviewed the role and functions of the committees with a view to further enhance the overall efficiency and effectiveness in the management of the Corporation. Following the rationalization exercise, there are a total of 10 main committees and 2 sub-committees in the Corporation:

No.	MANAGEMENT COMMITTEES
1	Management Committee
2	Credit and Business Committee
3	Administrative and Operational Committee
4	Loans Committee
5	Management Claims Committee
6	IT Committee
7	IT Steering Committee
8	Business Transformation Plan Steering Committee
9	Audit Compliance Committee
10	Risk Management Committee
11	Loans Recovery Sub-Committee
12	Branch Development Sub-Committee

SHAREHOLDERS

The Corporation always strives to maintain an open and transparent channel of communication with its shareholders by providing clear and precise information on the Corporation's performance and position.

The Corporation believes that the Corporation's comprehensive Annual Report is a vital and convenient source of information for the existing shareholders. The Annual Report is in line with corporate governance practices and provides details of the business and financial performances as well as other related activities of the Corporation.

In addition, the Corporation also makes available its latest information on its comprehensive and user-friendly website (www.iGuarantee.com.my) on a regular basis. It allows stakeholders to avail themselves of information posted on the website, at their convenience. The Corporation also makes public announcements through press statements/press releases on the latest developments and performances of the Corporation.

The Annual General Meeting (AGM), another key channel of communication of the Corporation, is where the shareholders are informed of the latest developments and given the opportunity to raise or address any issues with the Board. The Chairman of the Corporation presents a report on the Corporation's financial performance for the year at every AGM of the Corporation.

BOARD'S RESPONSIBILITY ON INTERNAL CONTROL

The Board affirms its overall responsibility for the system of internal controls 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 Management in the prevention and detection of fraud.

CHAIRMAN'S STATEMENT

It gives me great pleasure to present to you the Credit Guarantee Corporation Malaysia Berhad's annual report for the financial year ended 31st December 2006.

“The year 2006 marked the 34th year of operation for Credit Guarantee Corporation Malaysia Berhad. I am indeed pleased to note that the Corporation continues to enjoy the position as the leading credit enhancer for the small and medium enterprises (SMEs) in the country.”



The role of the Corporation has never been any stronger considering the continuous demand for its credit guarantee schemes.

The increasing importance of the Corporation as a SME support institution has been attributed, amongst others, to the steady growth of the Malaysian economy. This was evident in 2006 when the economy grew stronger and more resilient; the domestic private sector activities saw a surge especially in the manufacturing, services and agricultural sectors. These sectors continued to remain the main engine of economic growth with real gross domestic product (GDP) expanding by 5.9%.

Under this favourable economic condition, the Corporation sustained its loans growth at a respectable level of 7,523 accounts valued at RM3.02 billion during the year under review. The New Principal Guarantee Scheme (NPGS) and Direct Access Guarantee Scheme (DAGS) remained as the top two guarantee schemes, contributing 72.2% (5,432 loans) and 80.1% (RM2.42 billion) respectively in terms of total number of loans guaranteed and value. As in the previous years, lending to the SMEs was broad based, with almost 99.9% of the lending extended to the general business, manufacturing, services and agriculture sectors. The banking and development financial institutions on the other hand, extended a total of RM46.5 billion loans to more than 102,000 SME accounts, with the banking institutions alone accounting for 80% of the loans. In 2006, the banking institutions approved RM39.6 billion of financing to more than 84,000 SME accounts.

Against the backdrop of the relatively stronger economic environment, the Corporation reported a 21.2% increase in revenue from RM200.9 million in 2005 to RM243.6 million in 2006. Though the number of

loans guaranteed was slightly lower, the guarantee fee income increased by 32% from RM73.4 million to RM96.7 million in 2006. Investment income also saw an increase, registering 15.2% growth from RM127.5 million to RM146.9 million in 2006. In addition to the improved revenue performance during the year, the Corporation had also implemented measures in streamlining its accounting policy to be at par with the practices of the banking community. The reserves and provisioning policy was further attuned, which had seen a significant increase in net profit to RM119.2 million.

With the increase in the Corporation's reserves by 2.8% in 2006, the shareholder's fund rose to RM2.69 billion from RM2.62 billion as at 31st December 2006.

INITIATIVES AND ACHIEVEMENTS

The year 2006 was a new beginning for the Corporation as it embarked on the implementation of the three-year Business Transformation Plan announced in 2005. The Corporation's unwavering commitment to the transformation plan is clearly visible in many of the initiatives that have been implemented, which are aimed at transforming the Corporation from a traditional credit guarantee provider into a financial institution that offers a broader range of products and services that meet the financing needs of the SME community.

In the first year of the transformation plan, strategic focus was accorded to **Organisational Reorientation and Capacity Building** to ensure that the necessary institutional capacity is in place to enable the Corporation to effectively perform its enhanced role. To ensure a more supportive structure is in place to further facilitate the transformation efforts, changes to the organisational and functional structure of the Corporation were instituted. To promote and enhance corporate governance and best practices, Board-level committees were established in the areas of audit, IT, risk management, investment and remuneration.

One of the keys to achieving the Corporation's performance goals is to build the skills and capacity of its human capital.

Accordingly, the management and development of human capital was given greater emphasis. A comprehensive performance management system in support of a performance-based reward culture was also initiated to motivate employees to enhance their performances and achieve better results.

As part of institutional capacity building initiatives, the Corporation has successfully established strategic collaborations with benchmarked foreign financial institutions, the prominent ones being KfW Bankengruppe, an established development financial institution in Germany, and Korea Credit Guarantee Fund (KODIT), Korea.

To better serve the SMEs, the commercially-driven CGC also undertook initiatives to offer a broader spectrum of innovative and diverse products and services that are complementary to those provided by

banking institutions, at competitive terms. For the first time, the Corporation introduced a risk-adjusted pricing structure in a credit guarantee scheme called the ENHANCER that is aimed at enhancing the credibility of SME loan applications. Under the risk-adjusted pricing structure, the guarantee fee is charged according to the risk profile of the SME borrower. This customer-centric scheme helps SMEs to strengthen their credit standing and business viability by adding more value to their loan applications. Essentially, the ENHANCER makes the SMEs more 'bankable'.



PROSPECTS FOR 2007

In 2007, stakeholders can look forward to seeing the Corporation intensifying its efforts on all fronts to further consolidate its position as a credit enhancer of choice amongst the SME community. Institutional capability building initiatives will continue to be pursued as an on-going process.

Greater efforts will be given to implement the initiatives under the second phase of the three-year business transformation plan, which is expansion of the range of products and services.

The ability to develop innovative products and services will be the defining factor for the Corporation to remain relevant moving forward.

This initiative is critical to propel the Corporation forward and meet the increasingly varied financing needs of the discerning SMEs. The enhanced CGC will be offering credit enhancement services that include securitization, equity funding, direct financing and portfolio guarantee as well as credit information services and other services to strengthen the capacity and capabilities of SMEs.

I am pleased to note that CGC has identified Aureos Capital, a leading global manager of SME private equity funds in Africa, Central America and the Asia/Pacific region, as one of the institutions for strategic partnership to assist CGC in equity funding. This will provide a new financing avenue for SMEs to grow and expand their businesses domestically, regionally or penetrate newer markets by leveraging on the wide global network and presence of Aureos. The securitisation exercise involving the SME loans portfolio of a domestic bank will also signify the Corporation's entry into capital market activities for SME sector development.

Subsequent to the Corporation's foray into the world of Islamic financing with the launch of its Islamic scheme, i.e., Direct Access Guarantee Scheme-Islamic (DAGS-i) in 2005, the Corporation held several negotiations with Islamic financial institutions to further improve its outreach to the SME community requiring Syariah compliant financing. I am pleased to inform that the Corporation has made significant progress, forging strategic partnership with eight Islamic financial institutions that were inked through the signing of a Memorandum of Understanding (MoU).

The Corporation had also signed MoUs with selected development financing institutions, in particular MIDF, Bank Rakyat and Bank Pertanian Malaysia. The strategic alliance with Bank Pertanian Malaysia would create more opportunities for CGC to play a bigger role in the development of the agriculture sector, which has been identified as the third engine of growth for the Malaysian economy. Additional Islamic banking and development financial institutions will be gradually brought on board later this year as the Corporation continues in its search for new channels to promote its credit guarantee schemes. These collaborations shall pave the way for the participation of non-shareholder financial institutions in the Corporation's guarantee schemes, a logical step forward for the Corporation in accommodating and assisting the least-supported SMEs in the country.

INTERNATIONAL NETWORKING

The Corporation had the honour of being the host of 19th Asian Credit Supplementation Institution Confederation (ACSIC) Conference from 19th-22nd November 2006 in Kuala Lumpur. The four-day conference themed "Credit Guarantee in a Market-Driven Environment: The Challenge of Being Self-Sustainable" brought together more than 100 delegates from 11 member countries in the Asia-Pacific region, and also leading international experts including representatives from the World Bank.

The ACSIC Conference provided a platform for the members of the Confederation to exchange knowledge and share their unique experiences in SME development in their respective countries.

Besides being a host, the Corporation had the opportunity of showcasing Malaysia through various indoor and outdoor events during the four days. The delegates from the Corporation had the opportunity to interact, discuss and also establish networking with members of other more experienced and advanced credit guarantee institutions across Asia. This, we believe will stand in good stead as we leverage on their expertise, knowledge and capabilities to achieve our transformation objectives in particular financial sustainability.

To further establish international networking, especially in the Asia Pacific Region, the Corporation became a member of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) in 2006.

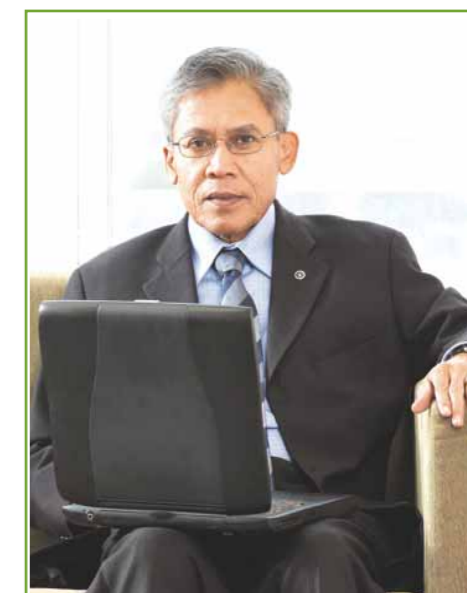
The Philippines-based ADFIAP is a non-governmental organisation in consultative status with the Economic and Social Council (ECOSOC) of the United Nations (UN). As a member, the Corporation will enjoy the privilege of professional affiliation with the World Federation of Development Financial Institutions, access to World Bank, Asian Development Bank and UN agencies. The Corporation will also be able to access professional training and accreditation to the Asia-Pacific Institute of Development Finance as well as business opportunities, information exchange and networking.

ACKNOWLEDGEMENTS

It is pertinent to acknowledge that the Corporation's continued success and importance as a SME support institution can be attributed largely to the trust and commitment of the government especially Bank Negara Malaysia, the Ministry of Finance, the Ministry of Entrepreneur and Cooperative Development and other related government agencies.

Also equally important are the banking and development financial institutions who have been our strong co-partners in the development of SMEs in the country. In view of their valuable contributions to SMEs and CGC, the top five financial institutions will be recognised at the forthcoming 34th Annual General Meeting. For the first time, a Top SME Supporter-Foreign-owned Bank category was introduced as we have witnessed increasing support and interest amongst these banks to participate in the CGC credit guarantee schemes. This recognition has to a certain extent increased competition among the financial institutions as they are now more aggressive in terms of their contribution towards our guarantee schemes, a healthy trend that we are more than pleased to encourage. With the Islamic financial institutions coming on board, another new category may be introduced in near future.

I would like to also acknowledge my fellow directors who have given their undivided support to every initiative undertaken by the Corporation and for their valuable contributions through various Board-level committees. Special mention goes to the Managing Director, YBhg. Datuk Wan Azhar Wan Ahmad for his leadership especially in spearheading the business transformation plan initiatives and driving the Corporation to achieve continued success. My heartfelt appreciation also goes to all the employees for their contribution, dedication and commitment to the overall success of the Corporation. I believe that with the current leadership coupled with the strong support of the management team and staff, the Corporation is all set to achieve greater things in the years ahead.



A handwritten signature in black ink, appearing to read "Zamani Abdul Ghani".

Dato' Zamani Abdul Ghani
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

“Taking cognizance of its strategic role in SME development and the need to serve national interest at all times, the Corporation has taken several initiatives to improve, upgrade and move with the times.”

Datuk Wan Azhar Wan Ahmad

INTROSPECTION

On the back of healthy economic growth that was driven largely by both government spending and private sector activities, there was fairly good demand for the Corporation's credit guarantee schemes in 2006. The Corporation financed 7,523 entrepreneurs, guaranteeing about RM3.02 billion in value that represents 7.4% and 6.5% of the total number of loans (102,000 SME accounts) and amount (RM46.50 billion) respectively extended by the financial institutions during the year under review.

The banking sector, both conventional and Islamic, remained as the mainstay of the intermediation function



within the economy. As at end 2006, total outstanding loans by the conventional banking system expanded by 6.3% to RM593.00 billion. Loans and financing extended to SMEs accounted for 17.6% of the banking system loans. Loans extended to SMEs were primarily concentrated in wholesale and retail trade (25%), manufacturing (25%), finance, real estate and business-related (14%) and construction (13%).

On the other hand, the Islamic banking sector extended RM78.50 billion to support various economic activities as at end 2006. The development financial institutions (DFIs) strengthened further in 2006 as evidenced by

the overall favourable business performance. During the year, the lending by the DFIs to SMEs especially to the services, manufacturing and agriculture sectors expanded by 9.9% to RM13.20 billion, supporting efforts by the government to promote and develop the SME sector. As at end 2006, financing to SMEs by DFIs accounted for 25.9% of their combined loans outstanding.

OVERALL BUSINESS ENVIRONMENT

With the unveiling of the Ninth Malaysia Plan (2006-2010) during the year under review, there was increased focus and attention on the overall development of the SME sector, a vital component of the national economy. Understandably, as a leading credit enhancer, the Corporation attracted greater attention in view of its vast experience and involvement in SME development that spans over three decades. Taking cognizance of its strategic role in SME development and the need to serve national interest at all times, the Corporation has undertaken several initiatives to improve, upgrade and move with the times.

Besides the forging of strategic partnerships with key SME support institutions, product development was given the priority which resulted in the introduction of Credit Enhancer Scheme (ENHANCER), a guarantee scheme with risk-adjusted pricing (RAP) structure, the first for the Corporation. The RAP is the new guarantee fee structure that imposes pricing based on the borrower's risks. Moving forward, all of the Corporation's commercial schemes will incorporate similar pricing structure.

Through the comprehensive three-year Business Transformation Plan, the Corporation has geared itself to address one of SMEs major issues, that is, 'access to financing' by expanding its range of products and services.

In doing so, the Corporation not only was able to achieve a reasonable level of growth but more importantly it was able to reach out to a wider cross-section of the SME community, and in the process stamping its footprint where it matters most in the context of SME development.

Amongst the initiatives to improve its outreach was the forging of strategic alliance with AmBank Group and CIMB Bank Berhad. The first collaboration was with AmBank whereby the AmBiz Cash Plan was introduced, a product that was targeted at new car dealers and subsequently, extended to cater to petrol stations in the month of August. With CIMB Bank, the Corporation signed a Memorandum of Understanding (MoU) to extend the BCB Fast Track Pro-Finance, which was aimed at providing the necessary assistance to legal firms in terms of financing for their working capital and business expansion. This financing package is already being offered via fast track mode to private medical, dental and veterinary clinics, accounting, audit, and tax consultants. This joint promotion will continue to utilize Small Entrepreneur Guarantee Scheme and the newly introduced ENHANCER.

In 2006, the Corporation had the privilege of managing eight (8) credit guarantee schemes, six (6) of which were Main Schemes and two (2) Programmed Lending Schemes. They are:

Main Schemes

1. New Principal Guarantee Scheme (NPGS)
2. Islamic Banking Guarantee Scheme (IBGS)
3. Direct Access Guarantee Scheme (DAGS)
4. Direct Access Guarantee Scheme - Islamic (DAGS-i)

5. Small Entrepreneur Guarantee Scheme (SEGS)
6. Credit Enhancer Scheme (ENHANCER)

Programmed Lending Schemes

1. Flexi Guarantee Scheme (FGS)
2. Franchise Financing Scheme (FFS)

BUSINESS GROWTH

New Loans Guaranteed

In the year under review, the Corporation approved a total of 7,523 loans valued at RM3.02 billion. These figures, both in terms of number of loans and value, are marginally lower by 12.2% and 8.8% respectively compared with the corresponding year which registered 8,567 loans valued at RM3.31 billion.

Once again, DAGS and NPGS continued to be the highest contributors to the overall loans growth in 2006, posting a total of RM2.42 billion in terms of value. DAGS contributed 2,134 loans valued at RM1.22 billion and NPGS contributing 3,298 loans valued at RM1.20 billion. In 2005, DAGS recorded 2,349 loans valued at RM1.39 billion and NPGS, 3,323 loans valued at RM1.03 billion.

Loans Approved in 2005 and 2006

Year	2005		2006	
	No.	Value (RM million)	No.	Value (RM million)
Schemes				
Main Schemes	6,882	2,511.59	6,191	2,507.36
New Principal Guarantee Scheme	3,323	1,033.41	3,298	1,204.23
Credit Enhancer Scheme*	-	-	9	1.08
Small Entrepreneur Guarantee Scheme	1,122	40.66	659	24.43
Islamic Banking Guarantee Scheme	88	51.99	91	63.28
Direct Access Guarantee Scheme	2,349	1,385.53	2,110	1,204.34
Direct Access Guarantee Scheme- Islamic	-	-	24	10.00
Programmed Lending Schemes	1,685	798.05	1,332	512.10
Flexi Guarantee Scheme	1,681	797.41	1,329	511.13
Franchise Financing Scheme	4	0.64	3	0.97
TOTAL	8,567	3,309.64	7,523	3,019.46

*Launched in August 2006

The Corporation has cumulatively guaranteed 360,657 loans valued at RM35.14 billion since its establishment in 1972.

OPERATIONAL REVIEW

1. Direction Of Lending

In 2006, three broad sectors continued to be the main beneficiaries of the Corporation's loans guaranteed under the various guarantee schemes. They are general business, manufacturing and

agriculture. The general business sector accounted for 6,129 loans (2005: 7,004 loans) valued at RM2.30 billion (2005: RM2.47 billion) followed by the manufacturing sector with a total of 1,315 loans (2005: 1,470 loans) valued at RM680.30 million (2005: RM801.57 million) and the agriculture sector with a total of 72 loans (2005: 89 loans) valued at RM37.61 million (2005: RM38.88 million).

2. Distribution By States

In terms of loans growth by states, Selangor continued to be the biggest beneficiary with 24.71% of total loans guaranteed i.e. 1,859 loans valued at RM839.74 million. This is followed by the Federal Territory of Kuala Lumpur which recorded 1,039 loans valued at RM468.05 million, representing 13.81% of the total number of loans guaranteed under the main schemes during the year.

CGC's main branch in Kelana Jaya contributed the highest in terms of the number of loans approved in Selangor, accounting for 23.95% (511 loans) of the total loans under DAGS.

3. Racial Composition

The Corporation guaranteed 1,768 loans valued at RM613.50 million to Bumiputera entrepreneurs under all schemes, representing 23.50% and 20.32% of the overall loans approved in terms of number and value respectively. Chinese entrepreneurs made up 71.61% (5,387 applicants) and 75.40% (RM2,276.79 million) of the overall loans approved in terms of number and value respectively, while Indian entrepreneurs, 4.0% (301 applicants) and 3.14% (RM94.93 million) respectively.

Under the program lending schemes category, Bumiputera entrepreneurs accounted for 25.30% (337 applicants) of the total loans approved and 24.98% (RM127.90 million) in terms of value. The Chinese entrepreneurs accounted for 71.10% (947 applicants) and 71.49% (RM366.11 million) in terms of number of loans and value respectively while the Indian entrepreneurs represented 3.23% (43 applicants) in terms of number of loans and 2.96% (RM15.17 million) in terms of value.

4. Range Of Loan Size

DAGS contributed 2,134 loan applications guaranteed in year 2006 with the value of RM1.22 billion. Under DAGS, 815 loans accounting for 38.19% of the total number of loans guaranteed in 2006, was below RM250,000 whilst 1,319 (61.81%) loans with a total value of RM1.09 billion (89.34%) were approved for loans above RM250,000. Out of 2,134 loans guaranteed under the scheme, 541 loans or 25.35% of the loans guaranteed are in the range of RM100,000 to RM250,000. Meanwhile, 533 loans, which represent 24.98% of the loans guaranteed under DAGS, are loans in the range of RM250,000 to RM500,000. For loans above RM500,000, a total of 786 loans were guaranteed, contributing to 10.45% of total new loans with a total value of RM882.58 million. It represents 29.23% of the overall loans guaranteed by CGC in 2006.

Under the New Principal Guarantee Scheme, loans below RM250,000 registered 26.05% (1,960 loans) in terms of number with a value of RM266.61 million (8.83%) of total loans guaranteed in 2006. Loans between RM250,000 to RM500,000 accounted for 9.88% (743 loans) with a value of 9.11% (RM274.98 million) out of total loans guaranteed in 2006, while loans in the range of RM500,000 to RM1,000,000 accounted for 5.02% (378 loans) with a value of 9.16% (RM276.62 million) of the overall loans guaranteed in 2006.

Under the Flexi Guarantee Scheme, loans below RM250,000 accounted for only 7.83% (589 loans) in terms of number while loans in excess of RM250,000 accounted for 9.84% (740 loans) in 2006. The majority of loans under the Small Entrepreneur Guarantee Scheme were those between the range of RM40,000 to RM50,000, contributing 3.51% (264 loans) and 0.42% (RM12.80 million) in terms of number and value to the overall loans approved in 2006 respectively.

As in previous years, the majority of the loans guaranteed by the Corporation in 2006 were those below RM250,000, benefiting mainly the smaller enterprises.

FINANCIAL HIGHLIGHTS

The Corporation's operating revenue comprised mainly guarantee fees and investment income whereby the guarantee fees for the year increased by RM23.34 million or 31.8% to RM96.74 million compared with RM73.41 million in 2005. The interest income increased from RM127.54 million in 2005 to RM146.87 million in 2006.

Operating expenses for the year decreased from RM227.54 million in 2005 to RM162.73 million in 2006. The reduction is mainly due to the lower provisions for delinquent loans of RM70.32 million. Consequently, the net profit for the year before appropriation to reserves was RM119.23 million.

The Corporation's liability on guaranteed loans is determined based on the review of all non-performing loans reported by the financial institutions. The Corporation therefore, has set aside an additional Specific Provision of RM113.91 million (2005: RM186.39 million) and a General Provision of RM12.91 million (2005: RM5.90 million), hence marking a total of RM126.82 million in provisions for 2006 (2005: RM192.29 million).

As at the end of 2006, the total provisions for claims on loans guaranteed by the Corporation declined to RM357.90 million (2005: RM402.90 million).

The Corporation continued to discharge its liability on delinquent loans claimed by financial institutions. In the year under review, 4,524 claims were lodged with a value of RM699.45 million. During the same period, a total of 5,925 claims were processed with a value of RM957.10 million and a total of 2,977 claims amounting to RM444.00 million was approved.

For the year under review, the Corporation recovered RM32.72 million, compared with a total claim pay out of RM181.94 million. Cumulatively, the Corporation had recovered RM152.99 million compared with the total recoverable amount of RM513.21 million. The rate of total recovery as at the end of 2006 was 14.65% (2005: 13.95%). Meanwhile, the Corporation approved a total of 772 accounts for subrogation, valued at RM417.67 million in terms of loan amount under DAGS, 142 accounts (RM21.35 million) for PROSPER and 7 accounts (RM4.09 million) for Non-DAGS.

SUPPORT ACTIVITIES

As part of marketing and communications strategy to promote and enhance the understanding of the Corporation's products and services, the Corporation continued to participate in various activities especially major annual exhibitions and expositions organised by the government and the private sector throughout the nation. In 2006, the Corporation participated in 58 briefing sessions and exhibitions, which benefited a total of 12,183 participants.

Yet another marketing communication effort, the Entrepreneur Dialogue, organised by the Corporation since 2001, grew from strength to strength with more than 800 participants, comprising borrowers and budding entrepreneurs, having attended seven entrepreneur dialogues organised throughout the country last year. Participants gained valuable information and knowledge from talks delivered by CGC managers, representatives of participating financial institutions and Business Advisory Services Entities (BASE). Joint briefings and seminars with other trade associations/chambers/institutions were also conducted nationwide to create greater awareness of CGC amongst the public in general and SMEs in particular.

The Corporation strongly believes that there is a need to enhance SMEs' awareness of the importance of maintaining good credit standing within the industry. In this regard, the Entrepreneur Dialogue has proven to be a useful platform for the dissemination of information on loans management in particular in ensuring that the loans remain performing at all times.

In recognition of their valuable contributions toward the financing of the SME sector and their overall participation in CGC's credit guarantee schemes, four local commercial banks were awarded the Top SMI Supporter Award in 2006. The recipients of the award, which was inaugurated in 1996 and eleventh in the series, were Malayan Banking Berhad (Maybank), Bumiputra-Commerce Bank Berhad, Public Bank Berhad and EON Bank Berhad. For Maybank and Bumiputra-Commerce Bank, the awards were of special significance as it was the eleventh consecutive year that they have won this award from CGC. As for Public Bank, it was their third while EON Bank took the award for the first time. The Corporation presented the awards to the four financial institutions at its 33rd Annual General Meeting.

OUTLOOK

The prospects are looking positive for the Malaysian economy considering the prospect of sustained global growth and resilient domestic demand in 2007. With that, the Malaysian economy is projected to register strong growth with real GDP expanding by 6%.

With the economy projected to register strong growth, CGC will continue to pursue its strategy of high loans growth and improved cost efficiency, whilst maintaining the Corporation's credit standards and practices. To remain relevant in the changing environment as well as in support of the Government's intensified focus on SME sector development, the Corporation needs to further enhance its effectiveness in supporting the growth and development of



competitive SMEs. Accordingly, efforts are being intensified to transform CGC from a traditional credit guarantee provider to an effective and financially sustainable institution to meet the current and evolving needs of SMEs.



With the strategic theme of Organizational Reorientation and Capacity Building in 2006, which includes capacity and capability building, initiatives to prepare the Corporation for the new and expanded role and responsibilities were assumed. Capacity building would include both the areas of core competencies as well as financial capability.

2007 will indeed be another exciting year for the Corporation as it adopts the theme 'Expansion of Products and Services'.

The focus will be to create innovative products and services that meet the dynamic needs of SMEs at various stages of business development. CGC will ensure that the new products and services complement those already in the market for SMEs. Strategic thrusts pursued to ensure wider outreach of CGC's products and services are as follows:

1. Corporate branding through the media to ensure visibility;
2. Enhancing marketing approach by branches and dedicated marketing staff;
3. Collaboration with financial institutions, government agencies and trade chambers to expand SME outreach; and
4. Expanding the scope of guarantee beneficiaries to more Islamic banking and development financial institutions.

In line with this theme, the focus of activities for 2007 may be categorized into 3 main areas:

- i. Introducing new and innovative products and services;
- ii. Intensifying strategic marketing and awareness programmes; and
- iii. Further intensifying loan monitoring efforts (whilst continuing to build its capacity and infrastructure).

The products that will be developed and implemented, among others, are joint product packaging with financial institutions, portfolio guarantee, co-financing, equity funding, enhancement of existing guarantee schemes to include risk-adjusted pricing, securitisation of SME loans, issuance of bonds by CGC on behalf of SMEs and new guarantee schemes specific to certain target groups.

To further enhance its customer service, the Corporation will be more customer focus and it hopes to achieve this through the expansion of its Client Service Centre and the iGuarantee Internet banking channel. This represents the Corporation's on-going effort to build superior service experience that is benchmarked with other financial institutions. CGC will also actively pursue its marketing communication efforts to create greater awareness among the public on the Corporation's role in assisting SMEs to gain access to financing.

Last but not least, it is my sincere hope that with continuous support and cooperation provided by Bank Negara Malaysia, the financial institutions, the Ministry of Finance, government agencies and other organisations, and coupled with the initiatives under the on-going business transformation plan, the Corporation would be in a pole position to drive SMEs to achieve accelerated growth rate in 2007. Indeed, the Corporation will be mindful in managing the rising expectations of its stakeholders - customers, shareholders and staff - for long-term sustainable growth and profitable expansion in the years ahead.



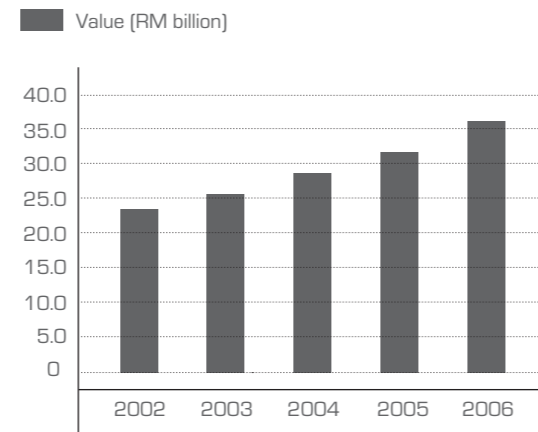
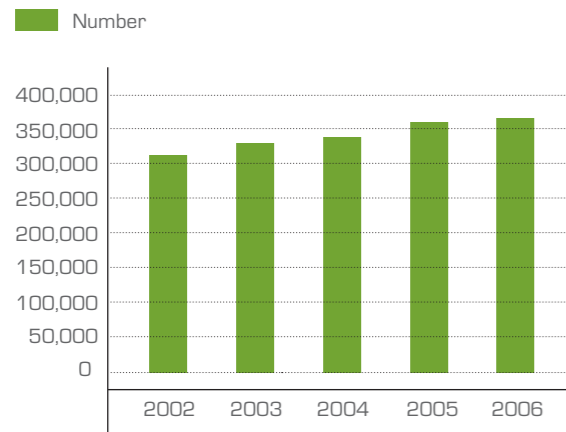
Given the near-term positive outlook for the Malaysian economy, coupled with a stronger foundation built to establish the Corporation as a commercially-driven financial institution under the transformation process, CGC is expected to continue to register an encouraging performance in 2007.

Datuk Wan Azhar Wan Ahmad
Chief Executive Officer

OPERATIONAL HIGHLIGHTS

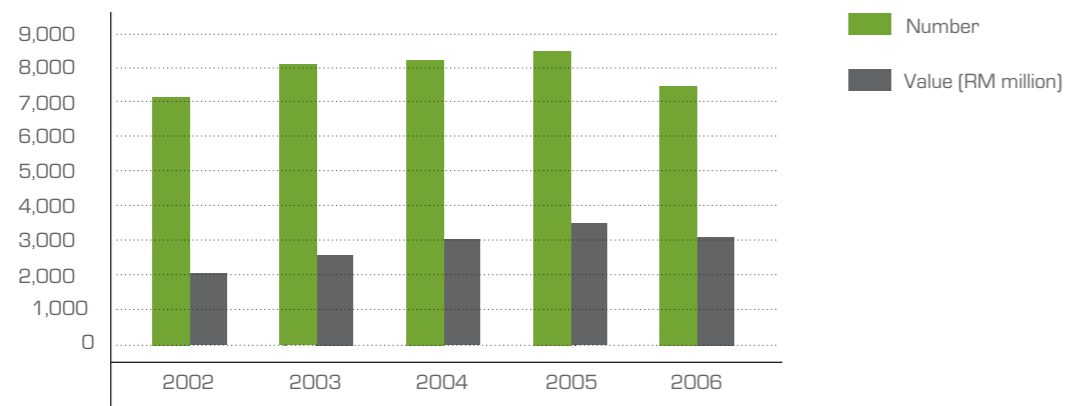
Cumulative Number and Value of Loans Guaranteed under All Schemes

Year	2002	2003	2004	2005	2006
Number	328,025	336,115	344,567	353,134	360,657
Value (RM billion)	23.1	25.8	28.8	32.1	35.1



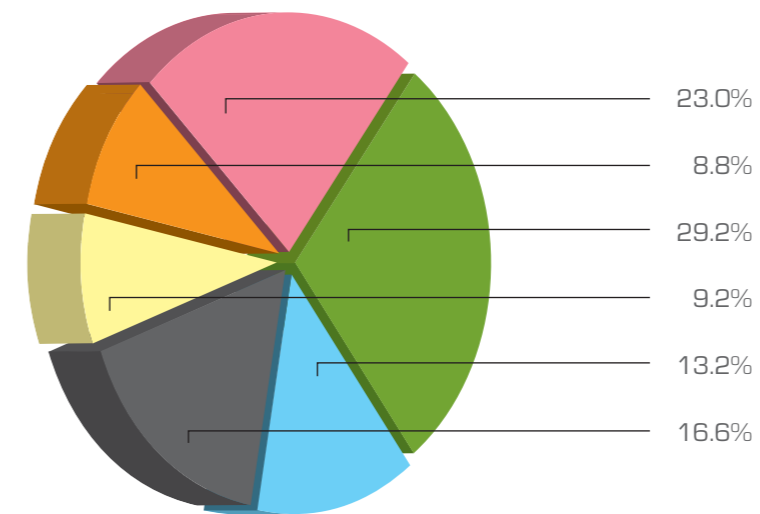
Loans Guaranteed (By Number and Value)

Year	2002	2003	2004	2005	2006
Number	7,277	8,090	8,452	8,567	7,523
Value (RM million)	2,003.50	2,683.58	3,007.60	3,309.64	3,019.46

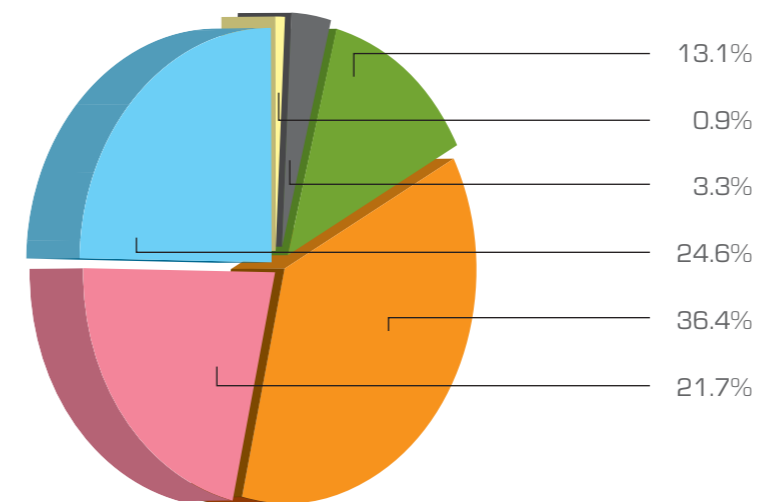


Range of Loans Size Guaranteed under All Schemes

Range of Loans Size	No.	%	Value (RM million)	%
1,000 - 50,000	691	9.2	25.66	0.9
50,001 - 100,000	1,247	16.6	100.28	3.3
100,001 - 250,000	2,194	29.2	395.69	13.1
250,001 - 500,000	1,733	23.0	655.69	21.7
500,001 - 1,000,000	997	13.2	743.23	24.6
1,000,001 - 10,000,000	661	8.8	1,098.91	36.4
Total	7,523	100.0	3,019.46	100.0



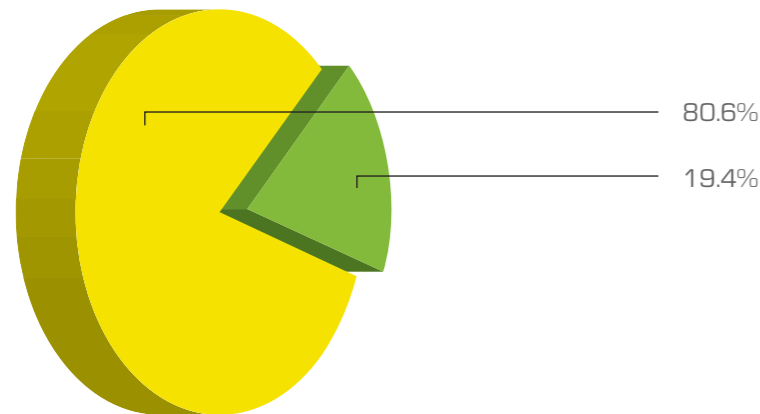
Loan Size By Number



Loan Size By Value

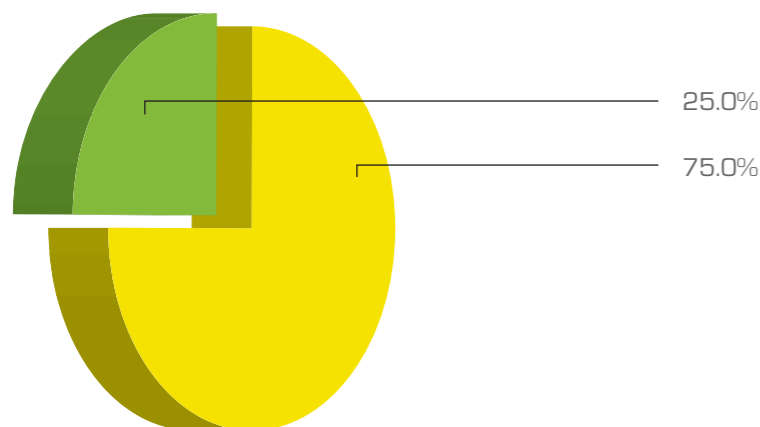
Racial Composition of Loans for Main Schemes (By Loans Value)

Main Schemes	%	Value (RM million)
Bumiputera	19.4	485.60
Non-Bumiputera	80.6	2,021.76
Total	100.0	2,507.36



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

Programmed Lending Schemes	%	Value (RM million)
Bumiputera	25.0	127.90
Non-Bumiputera	75.0	384.20
Total	100.0	512.10



CUSTOMER RELATIONSHIP MANAGEMENT

“Customer service is an intrinsic part of the Corporation’s overall business strategy, with the core values of customer focus, sensitivity, mutual respect, innovation and quality being at the heart of its Customer Relationship Management (CRM).”

As stated in the Mission statement, the Corporation places utmost importance on customers’ interest as evident in its unwavering commitment towards providing excellent customer services, innovative products and services, and delivering them with the highest degree of professionalism, efficiency and effectiveness. Customers’ interest is always at the core of every initiative undertaken as the Corporation understands that today’s customers are knowledgeable, empowered and constantly demanding high quality service at every point of contact with the Corporation.

Customer service is an intrinsic part of the Corporation’s overall business strategy, with the core values of customer focus, sensitivity, mutual respect, innovation and quality being at the heart of its Customer Relationship Management (CRM). Our front-liners at the Client Service Centre (CSC) are highly trained to ensure that they deliver satisfying ‘customer experience’, consistently, professionally and efficiently. They are always on hand to answer inquiries and help our customers understand the Corporation’s products and services, and operational processes better. Customer complaints and feedbacks are replied within the set client charter in order to ensure high level of customer satisfaction.

Amongst the major initiatives aimed at further upgrading our client servicing is the project on enhancing the Loan Origination System. The system includes enhanced CRM system on client servicing where prompt follow-up actions on queries and responses to complaints can be monitored.



It is envisaged that the CRM module in the enhanced Loan Origination System will help to expedite follow up activities with various departments and provide a holistic view of the guarantee processes, where activities are systemized and information extracted and conveyed to the customers within a touch of a button. The enhanced CRM module would also enable the CSC to capture almost every activity performed during the interface process with our existing and new customers.

EVENT HIGHLIGHTS

In line with the Corporation's Business Transformation Plan, new avenues are continuously being explored to reach out to a wider cross-section of the business community, to provide convenient and easier access to CGC's credit guarantee schemes and services. This includes the expansion of the scope of the Corporation's guarantee beneficiaries. In this regard, eight Islamic financial institutions and three development financial institutions have thus far signed a Memorandum of Understanding (MoU) to participate in the Corporation's credit guarantee schemes. New products are being developed and existing products are being reviewed to expand the product lines, making available a broad range of products and services that meet the individual needs of discerning SME customers through a wider network of participating financial institutions.

In addition to these initiatives, the Corporation's comprehensive website is also updated on a regular basis to ensure that it provides the latest information on new initiatives and developments. Customers can logon to www.iGuarantee.com.my to access information on the various credit guarantee schemes, application procedures, to better understand the processes involved, loan documents required and many others. The Corporation also disseminates information through its own product briefing sessions, and through exhibitions and seminars organized by third parties.



Central to its pursuit of achieving customer service excellence is the Corporation's employees. Without their cooperation and support, all its initiatives will not produce the desired outcome. Therefore, the Corporation leaves no stones unturned to ensure that its employees are always recognized as internal customers and that they are adequately supported and consulted with regard to service delivery issues. These are amongst the value-added services that the Corporation considers as an integral part of its overall customer relationship management.

2006 Business Plan Kick-off

CGC held its annual Business Plan Kick-off at Hyatt Saujana Hotel, Subang, Selangor on 1st April 2006. The highlight of the session was the briefing on CGC's three-year Business Transformation Plan by the Managing Director, Datuk Wan Azhar Wan Ahmad. The Corporation embarked on this plan to transform itself into an effective and financially sustainable institution. It is also at this event that the Management brainstorms business strategies, sets its annual budget and most importantly, fosters togetherness and teamwork.

CGC sources TRITON to empower its operations

CGC sources Triton Commercial Loan Origination System (LOS) to empower its business operations. The MoU signing ceremony between CGC Managing Director, Datuk Wan Azhar Wan Ahmad and the CEO of 3i Infotech Sdn Bhd, Mr. Debneel Mukherjee, was held at Equatorial Hotel, Kuala Lumpur on 8th May 2006.

11th Top SMI Supporter Award

CGC's Top SMI Supporter Award that recognizes financial institutions for their significant contribution towards the financing of small and medium scale industries (SMI) and their overall participation in CGC's



guarantee schemes annually, was presented to the top four banks in 2006. CGC Chairman, Dato' Zamani Abdul Ghani presented the awards to the representatives of award recipients i.e. Maybank, Bumiputra-Commerce Bank, Public Bank Berhad and EON Bank Berhad at the 11th Top SMI Supporter Award presentation ceremony held in conjunction with the Corporation's 33rd Annual General Meeting at CGC Head Office, Petaling Jaya, Selangor on 26th May 2006.

Annual General Meeting

The Corporation held its 33rd Annual General Meeting on 26th May 2006 at its Head Office in Petaling Jaya, Selangor.



CGC and KfW Bankengruppe of Germany forged strategic cooperation

CGC signed a MoU with KfW Bankengruppe of Germany on 30th May 2006. The strategic partnership paves the way for CGC to leverage on the vast expertise of KfW. The MoU, signed by the Chairman of CGC, Dato' Zamani Abdul Ghani and KfW's Chairman, Mr. Hans Reich, was witnessed by the Governor of Bank Negara Malaysia, YBhg. Tan Sri Dato' Dr. Zeti Akhtar Aziz. The event was held at Bank Negara Malaysia.

CGC introduces ENHANCER to facilitate SME financing

The ENHANCER, a new credit guarantee scheme, was launched by Dato' Zamani Abdul Ghani, the Deputy Governor of Bank Negara Malaysia, who is also the Chairman of CGC, at Nikko Hotel Kuala Lumpur on 28th August 2006. The ENHANCER is a guarantee scheme with risk-adjusted pricing, a first for the Corporation that imposes pricing according to the credit rating of the SME borrowers.



ACSIC - Charting the course of SME development in Asia



The members of Asia's leading credit enhancers' confederation, the Asian Credit Supplementation Institution Confederation (ACSIC) convened in Kuala Lumpur for a 4 - day conference themed "Credit Guarantee in a Market Driven Environment: The Challenge of Being Self-Sustainable". Among the guest speakers were representatives from the World Bank and the Planters Development Bank of the Philippines. The Conference, hosted by CGC for the 3rd time, was officiated by the Deputy Minister of Finance, YB Dato' Dr. Awang Adek Hussin. It was held at Mandarin Oriental, Kuala Lumpur from 19th to 22nd November 2006.

CGC's Entrepreneur Dialogue

Information pertaining to CGC's products and services are disseminated to the SME community, existing borrowers and the general public on a regular basis through various channels including the Corporation's Entrepreneur Dialogues that are organised in the Klang valley and at regional level. Besides providing information on products and services, CGC also takes the opportunity to clarify common issues faced by applicants, loan application processes involved, financial institutions' requirements and highlights success stories. In 2006, CGC organised seven entrepreneur dialogues nationwide, benefiting more than 800 participants.

DIRECTORS' REPORT

The directors are pleased to submit their annual report and the audited financial statements of the Corporation for the year ended 31st December, 2006.

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);
- New Entrepreneurs Fund (NEF);
- Franchise Financing Scheme (FFS);
- Flexi-Guarantee Scheme (FGS);
- Direct Access Guarantee Scheme (DAGS);
- Small Entrepreneurs Guarantee Scheme (SEGS); and
- Islamic Banking Guarantee Scheme (IBGS).

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

The following schemes have ceased operations, but have yet to be wound down:-

- Small Entrepreneurs Financing Fund (SEFF) (ceased operations with effect from May 1999);
- Amanah Ikhtiar Malaysia (AIM) (ceased operations with effect from August 1998);
- Tabung Usahawan Kecil (TUK) (ceased operations with effect from January 2000);
- Youth Economic Development Programme (YEDP) (ceased operations with effect from July 1998);
- Enterprise Programme Guarantee Scheme (EPGS) (ceased operations with effect from November 2000); and
- Special Relief Guarantee Facility (SRGF) (ceased operations with effect from July 2004).

2. RESULTS

Net profit for the year	RM <u>119,230,604</u>
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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, 2006.

4. RESERVES AND PROVISIONS

a) Reserves

The directors are recommending the transfer of RM56,716,344 from/(to) the profit for the year to/(from) the following reserves:-

	RM
Special Reserve	41,647,613
Special Programme Reserve	15,587,526
SPI Reserve	<u>(518,795)</u>
	<u>56,716,344</u>

b) Provisions

During the year, a provision of RM113,792,862 representing possible claims against the Corporation was made by way of a charge against the income statement.

5. BAD AND DOUBTFUL DEBTS

Before the financial statements of the Corporation were 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.

As 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 of allowance 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 were 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, 2006 which secures the liabilities of any other person; and
- (b) any contingent liability in respect of the Corporation that has arisen since 31st December, 2006.

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, 2006 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, 2006 were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between 31st December, 2006 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:-

Dato' Zamani Abdul Ghani - Chairman
Datuk Wan Azhar Wan Ahmad - Managing Director
Encik Md. Yusof Hussin
Dato' Mohd Hanif Sher Mohamed
Datuk P. Kasi
Dato' Tan Yew Thong
Dato' Mohd Rosli Abdul Aziz
Puan Zaiton Mohd Hassan
Dato' Sri Abdul Hamidy Abdul Hafiz

11. DIRECTORS (CONTD)

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

Encik Md. Yusof Hussin, Dato' Mohd Hanif Sher Mohamed and Datuk P. Kasi 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.

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.

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,



DATO' ZAMANI ABDUL GHANI
Chairman



MD. YUSOF HUSSIN
Director

Kuala Lumpur,
Date: 19th April, 2007

BALANCE SHEET AS AT 31st DECEMBER, 2006

INCOME STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2006

	Note	2006 RM	2005 RM
ASSETS			
Non-Current Asset			
Property, Plant and Equipment	7	36,752,226	35,615,499
Current Assets			
Fees receivable		19,494,749	11,588,053
Other receivables		4,982,606	5,725,285
Loans and advances	8	221,584,357	326,389,104
Investment securities	9	263,721,241	119,749,252
Term deposits and interest receivable	10	4,095,687,289	4,087,369,451
Cash and bank balances		7,461,728	7,228,105
		4,612,931,970	4,558,049,250
TOTAL ASSETS		<u>4,649,684,196</u>	<u>4,593,664,749</u>
EQUITY AND LIABILITIES			
Equity Attributable To The Shareholders Of The Corporation			
Share Capital	11	1,635,600,000	1,635,600,000
Reserves	12	698,110,211	578,879,607
TOTAL EQUITY		2,333,710,211	2,214,479,607
Non-Current Liabilities			
Amount due to Bank Negara Malaysia	13	650,000,000	650,000,000
Small Entrepreneurs Financing Fund	14	30,000,000	50,000,000
Tabung Usahawan Kecil	15	50,000,000	90,000,000
Small Entrepreneurs Guarantee Scheme	16	79,000,000	79,000,000
		809,000,000	869,000,000
Current Liabilities			
Claims payable		39,988,831	63,143,566
Other payables		59,082,660	44,145,189
Government Funds	17	300,000,000	300,000,000
Amount due to Bank Negara Malaysia	13	300,000,000	300,000,000
Small Entrepreneurs Financing Fund	14	10,000,000	-
Tabung Usahawan Kecil	15	440,000,000	400,000,000
Provision for claims under the Guarantee Scheme	18	357,902,494	402,896,387
		1,506,973,985	1,510,185,142
TOTAL LIABILITIES		2,315,973,985	2,379,185,142
TOTAL EQUITY AND LIABILITIES		<u>4,649,684,196</u>	<u>4,593,664,749</u>

The notes on page 49 to 67 form part of these financial statements.

	Note	2006 RM	2005 RM
REVENUE	23	243,612,487	200,945,802
OTHER OPERATING INCOME		38,350,465	34,766,474
		<u>281,962,952</u>	<u>235,712,276</u>
EMPLOYEE BENEFITS EXPENSES		(20,835,866)	(16,917,203)
DEPRECIATION	7	(5,465,932)	(6,035,712)
PROVISION FOR CLAIMS		(113,792,862)	(184,109,667)
INTEREST EXPENSE ON GOVERNMENT LOANS		(12,375,000)	(12,875,000)
OTHER OPERATING EXPENSES		(10,262,688)	(7,604,354)
TOTAL OPERATING EXPENSES		<u>(162,732,348)</u>	<u>(227,541,936)</u>
NET PROFIT FOR THE YEAR	24	<u>119,230,604</u>	<u>8,170,340</u>

The notes on page 49 to 67 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31st DECEMBER, 2006

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2006

	Ordinary Share Capital RM	Preference Share Capital RM	Special Reserve RM	Special Programme Reserve RM	SPI Reserve RM	Retained Profits RM	Total RM
Balance at 1st January, 2005	1,435,600,000	200,000,000	17,903,485	93,432,306	39,335,905	390,037,571	2,176,309,267
Net profit for the year	-	-	-	-	-	8,170,340	8,170,340
Grants received during the year - PROSPER Scheme (Note 22)	-	-	-	30,000,000	-	-	30,000,000
Transfers	-	-	20,050,928	(10,721,415)	(6,611,374)	(2,718,139)	-
Balance at 31st December, 2005	<u>1,435,600,000</u>	<u>200,000,000</u>	<u>37,954,413</u>	<u>112,710,891</u>	<u>32,724,531</u>	<u>395,489,772</u>	<u>2,214,479,607</u>
Net profit for the year	-	-	-	-	-	119,230,604	119,230,604
Transfers	-	-	41,647,613	15,587,526	(518,795)	(56,716,344)	-
Balance at 31st December, 2006	<u>1,435,600,000</u>	<u>200,000,000</u>	<u>79,602,026</u>	<u>128,298,417</u>	<u>32,205,736</u>	<u>458,004,032</u>	<u>2,333,710,211</u>

	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year	119,230,604	8,170,340
Adjustments for:		
Depreciation on property, plant and equipment	5,465,932	6,035,712
Provision for claims	113,792,862	184,109,667
Accumulated amortisation cost on bonds	948,406	2,300,295
Gain on disposal of property, plant and equipment	(209,998)	(2,098)
Operating profit before working capital changes	239,227,806	200,613,916
(Increase)/decrease in fees receivable	(7,906,696)	14,451,024
Increase in interest receivable	(29,066,776)	(197,143)
Decrease in other receivables	742,679	2,260,430
Decrease in loans and advances	104,804,747	264,110,216
Increase/(decrease) in other payables	14,937,471	(4,458,523)
Decrease in claims payables	(7,526,205)	(10,614,083)
Cash generated from operations	315,213,026	466,165,837
Payment of claims under the Guarantee Schemes	(174,415,285)	(208,394,390)
Net cash generated from operating activities	140,797,741	257,771,447
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investment securities matured	45,152,740	87,318,621
Proceeds from sale of property, plant and equipment	210,000	2,100
Purchase of property, plant and equipment	(6,602,661)	(1,405,023)
Purchase of investment securities	(188,529,817)	(51,383,090)
Net cash (used in)/generated from investing activities	(149,769,738)	34,532,608

The notes on page 49 to 67 form part of these financial statements.

The notes on page 49 to 67 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31st DECEMBER, 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 2006 (CONTD)

	2006 RM	2005 RM
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of fund from Permodalan Nasional Berhad	(10,000,000)	-
Grant received under PROSPER Scheme (Note 22)	-	30,000,000
Funds paid to Bank Negara Malaysia	-	(50,000,000)
Fund received from Ministry of Finance	-	29,000,000
Net cash (used in)/generated from financing activities	(10,000,000)	9,000,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(18,971,997)	301,304,055
CASH AND CASH EQUIVALENTS AT 1st JANUARY	4,062,958,220	3,761,654,165
CASH AND CASH EQUIVALENTS AT 31st DECEMBER	<u>4,043,986,223</u>	<u>4,062,958,220</u>
CASH AND CASH EQUIVALENTS COMPRISE:		
Term deposits (Note 10)	4,036,524,495	4,055,730,115
Cash and bank balances	7,461,728	7,228,105
	<u>4,043,986,223</u>	<u>4,062,958,220</u>

1. BASIS OF ACCOUNTING

The financial statements of the Corporation have been prepared under the historical cost convention and comply with the approved accounting standards issued by the Malaysian Accounting Standards Board for entities other than private entities and the provisions of the Companies Act, 1965.

In this set of financial statements, the Corporation has adopted all the new and revised Financial Reporting Standards ("FRS") issued by the Malaysian Accounting Standards Board ("MASB") that are relevant to the Corporation's operations effective from the financial periods beginning on or after 1st January, 2006 as follows:-

FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 136	Impairment of Assets
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

The adoption of the above FRSs have been made in accordance with their respective transitional provisions, if any, and did not result in any substantial financial impact on the results of the Corporation.

2. GENERAL INFORMATION

The financial statements of the Corporation were authorised for issue on 29th March, 2007 by the Board of Directors.

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

The address of the registered office of the Corporation is Level 13, 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 POLICIES

In the normal course of business the Corporation is subjected to four main areas of risk, namely credit risk, market risk, liquidity risk and operational risk.

(a) Credit Risk

Credit risk is the potential loss to the Corporation arising from guaranteed parties or counter-parties failing to meet financial obligations to their respective lenders.

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 placements in licenced financial institutions. For debt instruments, the Corporation only invests in highly rated instruments.

(b) Market Risk

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

The Corporation invests in highly rated debt instruments mainly for interest/dividend income, and hold these instruments 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 over various tenure 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 systems, 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.

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 down the cost of property, plant and equipment to their residual values over their estimated useful lives. The principal annual rates used for this purpose are as follows:-

Leasehold land and building	4%
All other items of property, plant and equipment	20%

4. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(b) Impairment of Assets

The carrying values of assets (other than financial 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 relevant 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.

(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 loans, 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.

(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 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% (2005: 1.5%) of the total credit facilities guaranteed by the Corporation net of specific provision for claims is also maintained.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(f) Provision For Claims Under The Guarantee Schemes (Contd)

Previously, provision for claims in respect of the main schemes is charged to the income statement first, and where this is not adequate, the provision will be charged to the special reserves. For 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.

During the year, the Corporation standardised this practice for all its schemes by charging all provision for claims directly to the income statement. Transfer of surplus or deficit attributable to specific reserves shall then be made from retained profits.

The change in accounting treatment has been accounted for retrospectively and the effects on the financial statements of the previous year are disclosed in Note 29 to the financial statements. The impact of this change in this financial year is an increase in the profit for the year by RM66,981,162.

(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 Corporation. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their

4. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(i) Employee Benefits (Contd)

Short term benefits (Contd)

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, the Corporation makes contributions to 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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Corporation make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no estimates and assumptions made by the Corporation that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

6. FUNCTIONAL AND PRESENTATION CURRENCY

Items included on the financial statements of the Corporation are measured using the currency of the primary economic environment in which the Corporation operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Corporation's functional and presentation currency.

7. PROPERTY, PLANT AND EQUIPMENT

	Long term							Total
	Leasehold Land and Building	Motor Vehicles	Office Equipment	Furniture Fittings & Fixtures	Computer Equipment	Capital Work In Progress		
2006	RM	RM	RM	RM	RM	RM	RM	
Cost:								
At 1st January	44,091,574	682,120	1,343,749	7,578,790	18,606,983	157,008	72,460,224	
Additions	-	698,964	43,122	412,883	433,644	5,014,048	6,602,661	
Reclassification	-	-	-	157,008	-	(157,008)	-	
Disposals	-	(544,597)	-	-	-	-	(544,597)	
At 31st December	<u>44,091,574</u>	<u>836,487</u>	<u>1,386,871</u>	<u>8,148,681</u>	<u>19,040,627</u>	<u>5,014,048</u>	<u>78,518,288</u>	
Accumulated depreciation:								
At 1st January	15,872,967	638,569	936,095	5,910,805	13,486,289	-	36,844,725	
Charge for the year	1,763,663	127,918	158,803	730,512	2,685,036	-	5,465,932	
Eliminated on disposal	-	(544,595)	-	-	-	-	(544,595)	
As at 31st December	<u>17,636,630</u>	<u>221,892</u>	<u>1,094,898</u>	<u>6,641,317</u>	<u>16,171,325</u>	<u>-</u>	<u>41,766,062</u>	
Net book value at 31st December	<u>26,454,944</u>	<u>614,595</u>	<u>291,973</u>	<u>1,507,364</u>	<u>2,869,302</u>	<u>5,014,048</u>	<u>36,752,226</u>	
2005								
Cost:								
At 1st January	44,091,574	682,120	1,313,362	7,311,231	17,665,464	-	71,063,751	
Additions	-	-	34,177	267,559	946,279	157,008	1,405,023	
Disposals	-	-	(3,790)	-	(4,760)	-	(8,550)	
At 31st December	<u>44,091,574</u>	<u>682,120</u>	<u>1,343,749</u>	<u>7,578,790</u>	<u>18,606,983</u>	<u>157,008</u>	<u>72,460,224</u>	
Accumulated depreciation:								
At 1st January	14,109,304	544,299	742,664	4,930,382	10,490,912	-	30,817,561	
Charge for the year	1,763,663	94,270	197,220	980,423	3,000,136	-	6,035,712	
Eliminated on disposal	-	-	(3,789)	-	(4,759)	-	(8,548)	
As at 31st December	<u>15,872,967</u>	<u>638,569</u>	<u>936,095</u>	<u>5,910,805</u>	<u>13,486,289</u>	<u>-</u>	<u>36,844,725</u>	
Net book value at 31st December	<u>28,218,607</u>	<u>43,551</u>	<u>407,654</u>	<u>1,667,985</u>	<u>5,120,694</u>	<u>157,008</u>	<u>35,615,499</u>	

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

8. LOANS AND ADVANCES

	2006 RM	2005 RM
At 1st January	326,389,104	590,499,320
Less: Repayments received	<u>(104,804,747)</u>	<u>(264,110,216)</u>
At 31st December	<u>221,584,357</u>	<u>326,389,104</u>

This represents the balance of the total amount drawdown under the CGC Special Loan Schemes referred to in Note 13 to the financial statements, the Tabung Usahawan Kecil (TUK), Tabung Industri Kecil dan Sederhana 2 (TIKS 2) and New Entrepreneur Fund 2 (NEF 2).

9. INVESTMENT SECURITIES

	2006 RM	2005 RM
Malaysian Government Securities	25,512,500	30,545,000
Interest receivable	81,565	208,166
	<u>25,594,065</u>	<u>30,753,166</u>
Cagamas Bonds	30,044,000	30,044,000
Interest receivable	217,844	219,679
	<u>30,261,844</u>	<u>30,263,679</u>
Other Bonds	205,391,471	57,930,300
Interest receivable	2,473,861	802,107
	<u>207,865,332</u>	<u>58,732,407</u>
	<u>263,721,241</u>	<u>119,749,252</u>
Market value		
- Malaysian Government Securities	26,612,500	32,540,500
- Cagamas Bonds	29,982,000	29,864,000
- Other Bonds	207,814,050	57,578,000
	<u>264,408,550</u>	<u>119,982,500</u>

10. TERM DEPOSITS AND INTEREST RECEIVABLE

	2006 RM	2005 RM
Term deposits		
- with licensed banks	3,021,702,660	3,368,458,504
- other financial institutions	<u>1,014,821,835</u>	<u>687,271,611</u>
	4,036,524,495	4,055,730,115
Interest receivable		
- from licensed banks	<u>45,592,279</u>	<u>24,835,220</u>
- other financial institutions	<u>13,570,515</u>	<u>6,804,116</u>
	59,162,794	31,639,336
	<u>4,095,687,289</u>	<u>4,087,369,451</u>

11. SHARE CAPITAL

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>3,000,000,000</u>	<u>500,000,000</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	250,000,000	250,000,000
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.

ISSUED AND FULLY PAID:

	2006 RM	2005 RM
Ordinary shares of RM1 each - At 31st December	1,435,600,000	1,435,600,000
200,000,000 ten-year 1% non-cumulative redeemable 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>

11. SHARE CAPITAL (CONTD)

The preference shares issued confer the right to a non-cumulative 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:

	2006 RM	2005 RM
Class A	1,097,096,000	1,097,096,000
Class B	336,746,000	321,791,000
Class C	<u>1,758,000</u>	<u>16,713,000</u>
Total ordinary share capital	<u>1,435,600,000</u>	<u>1,435,600,000</u>

14,955,000 ordinary shares held by certain finance companies in the previous year were converted from Class C to Class B ordinary shares due to the mergers of finance companies and commercial banks.

12. RESERVES

	2006 RM	2005 RM
Special Programme Reserve	128,298,417	112,710,891
Special Reserve	79,602,026	37,954,413
SPI Reserve	<u>32,205,736</u>	<u>32,724,531</u>
	240,106,179	183,389,835
Retained Profits	<u>458,004,032</u>	<u>395,489,772</u>
	<u>698,110,211</u>	<u>578,879,607</u>
(a) Special Programme Reserve:-		
At 1st January	112,710,891	93,432,306
Grant received under "PROSPER"	-	30,000,000
Transfer from/(to) income statement	<u>15,587,526</u>	<u>(10,721,415)</u>
At 31st December	<u>128,298,417</u>	<u>112,710,891</u>

The Special Programme Reserve was created to meet possible losses arising from the loans granted under the TUK, SEFF, AIM, Franchise Financing Scheme Fund (FFS), Youth Economic Development Programme (YEDP) and PROSPER scheme 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 14).

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.

In 2005, the Corporation received the amount of RM30,000,000 from the Ministry of Finance (MOF) in respect of PROSPER scheme. This fund is to be used to meet possible loan loss under this scheme (Note 22).

12. RESERVES (CONTD)

	2006	2005
	RM	RM
(b) SPI Reserve:-		
At 1st January	32,724,531	39,335,905
Transfer to income statement	(518,795)	(6,611,374)
At 31st December	<u>32,205,736</u>	<u>32,724,531</u>

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

In 2004, the Corporation has transferred RM40 million from retained profits to SPI Reserve to meet claim contingencies on Islamic facilities for the next 5 years.

	2006	2005
	RM	RM
(c) Special Reserve:-		
At 1st January	37,954,413	17,903,485
Transfer from income statement	41,647,613	20,050,928
At 31st December	<u>79,602,026</u>	<u>37,954,413</u>

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. The Special Reserve may be utilised to meet excess claim contingencies in respect of all other schemes should the need arises.

13. AMOUNT DUE TO BANK NEGARA MALAYSIA

	2006	2005
	RM	RM
Repayable within 12 months	300,000,000	300,000,000
Repayable after 12 months	<u>650,000,000</u>	<u>650,000,000</u>
	<u>950,000,000</u>	<u>950,000,000</u>

The amount due to Bank Negara Malaysia (BNM) comprise of the following:-

a) RM300 million, repayable within 12 months, consisting of the following:-

(i) RM100 million 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 from the date of drawdown on 8th July, 1999. The Corporation had applied for an extension of repayment from BNM. BNM has agreed to extend the loan repayment to a date to be advised by BNM accordingly.

(ii) 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. Later on, this amount was allocated for TUK to meet loan demands and used to build up reserve fund to meet potential claims under the TUK. This amount is secured by a promissory note issued on 4th January, 2000 with a maturity date on 31st December, 2004 and is subject to interest at 1% per annum. The Corporation

13. AMOUNT DUE TO BANK NEGARA MALAYSIA (CONTD)

had applied for an extension of repayment from BNM. BNM has agreed to extend the loan repayment to a date to be advised by BNM accordingly.

b) RM650 million, repayable after 12 months, consisting of the following:-

(i) RM200 million, a loan received by the Corporation in year 2000 to administer Tabung Industri Kecil dan Sederhana 2 (TIKS 2);

(ii) RM200 million, an additional loan received in year 2001 for the purpose of TIKS 2;

(iii) RM250 million, to administer New Entrepreneur Fund (NEF 2) in year 2001.

The repayment for both TIKS 2 and NEF 2 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.

14. SMALL ENTREPRENEURS FINANCING FUND (SEFF)

	2006	2005
	RM	RM
As at 1st January	50,000,000	50,000,000
Repayment during the year	(10,000,000)	-
As at 31st December	<u>40,000,000</u>	<u>50,000,000</u>
Repayable within 12 months	10,000,000	-
Repayable after 12 months	<u>30,000,000</u>	<u>50,000,000</u>
	<u>40,000,000</u>	<u>50,000,000</u>

In 1996, the Corporation entered into an agreement with Permodalan Nasional Berhad (PNB) who shall contribute RM200 million to a fund known as Small Entrepreneurs Financing Fund (SEFF) of which RM50 million was received in 1996. Repayment shall be made by 5 equal annual instalments commencing on the 5th anniversary of the disbursement of each advance. In 2001, the Corporation had applied for the extension of the repayment for another 5 years. During the year, the repayment of the first instalment amounting to RM10 million had been made by the Corporation.

In addition, the MECD contributed a guarantee fund of RM40 million which had been received in 1996 and included under the Special Programme Reserve to absorb possible losses on loans granted under the SEFF (Note 12).

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

14. SMALL ENTREPRENEURS FINANCING FUND (SEFF) (CONTD)

With effect from 1st January, 1999, MECO has consolidated the SEFF and TUK. The consolidation of these two schemes is known as TUK. Guarantee fund of RM40 million included under the Special Programme 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 Programme Reserve and will be used to absorb possible losses on loans granted under this scheme [Note 12].

15. TABUNG USAHAWAN KECIL

	2006 RM	2005 RM
Repayable within 12 months	440,000,000	400,000,000
Repayable after 12 months	<u>50,000,000</u>	<u>90,000,000</u>
	<u>490,000,000</u>	<u>490,000,000</u>

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 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 million to the fund whereby RM300 million is secured by a promissory note with 5 years maturity from the date of drawdown on 8th July, 1999 and RM100 million secured by a promissory note with 5 years maturity from the date of drawdown on 3rd September, 1999. Both amounts are subject to interest at 1% per annum. The Corporation had applied for an extension of repayment from BNM. BNM has agreed to extend the loan repayment to a date to be advised by BNM accordingly.

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 Programme Reserves and will be used to absorb possible losses on loans granted under this scheme [Note 12].

16. SMALL ENTREPRENEURS GUARANTEE SCHEME (SEGS)

	2006 RM	2005 RM
As at 1st January	79,000,000	50,000,000
Receipt during the year	<u>-</u>	<u>29,000,000</u>
As at 31st December	<u>79,000,000</u>	<u>79,000,000</u>

On 15th May, 2002, the Corporation entered into an agreement with the Ministry of Finance (MOF) who contributed RM50 million to initiate a guarantee fund known as Small Entrepreneurs Guarantee Scheme (SEGS) to meet possible loan losses. This fund was 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. However, on 30th August, 2005, MOF agreed to waive the interest which was previously charged to the Corporation.

On 30th August, 2005, the Corporation entered into another agreement with MOF, for an additional RM29 million contribution. This fund is to be repaid in one lump sum at the end of 6 years and is interest free.

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.

17. GOVERNMENT FUNDS

	2006 RM	2005 RM
Repayable on demand	<u>300,000,000</u>	<u>300,000,000</u>

These comprise various placements from Bank Negara Malaysia (BNM), with the following terms:-

- (a) RM80 million, intended to enable the Corporation to build up its reserves, is repayable on demand and is interest free.
- (b) RM220 million, intended for loanable funds, of which
 - (i) RM50 million for LFHPT 1992, which is repayable on demand and is interest free;
 - (ii) RM50 million for HPT 1992, which is repayable on demand and is subject to interest at 1% per annum;
 - (iii) RM20 million for the implementation of the Association Special Loan Scheme (ASLS), which is repayable on demand and is interest free;
 - (iv) RM100 million for the New Investment Fund (NIF), which was repayable on 14th December, 2006 after approval obtained from Ministry of Finance Malaysia for the extension of repayment for one year. During the year, the Corporation has applied for the extension for repayment for another one year but approval has yet to be granted.

17. GOVERNMENT FUNDS (CONTD)

Of the above, RM200 million is secured by way of deposits of Malaysian Government Securities and Fixed Deposits with face values of RM25 million and RM80 million respectively.

18. PROVISION FOR CLAIMS UNDER THE GUARANTEE SCHEMES

	2006 RM	2005 RM
Specific provision:		
At 1st January	352,521,934	382,175,964
Provision made during the year	113,911,483	190,933,670
Write back of provision	-	(4,546,428)
Claims payable	(171,819,423)	(216,041,272)
At 31st December	<u>294,613,994</u>	<u>352,521,934</u>
General provision:		
At 1st January	50,374,453	44,470,880
Provision made during the year	12,914,047	5,934,479
Write back of provision during the year	-	(30,906)
At 31st December	<u>63,288,500</u>	<u>50,374,453</u>
Total	<u>357,902,494</u>	<u>402,896,387</u>

19. 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 RM2.9 million 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 million 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.

20. YOUTH ECONOMIC DEVELOPMENT PROGRAMME (YEDP)

This programme 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 RM7.6 million which has been included in the Special Programme Reserve.

This programme 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.

21. TABUNG INDUSTRI KECIL DAN SEDERHANA 2 (TIKS 2)

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 (TIKS 2) 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 TIKS 2 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 TIKS 2 as well as TUB 2 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.

22. PROJEK USAHAWAN BUMIPUTRA DALAM BIDANG PERUNCITAN (PROSPER)

PROSPER scheme was introduced in August 2000 in an effort to encourage more Bumiputra entrepreneurs to be involved in retail business throughout Malaysia. Under this scheme, four main parties were involved:-

- (i) Perbadanan Usahawan Nasional Berhad (PUNB)
- (ii) TPPT Sdn. Bhd.
- (iii) Participating Financial Institution (currently only Malayan Banking Berhad is involved)
- (iv) Corporation

22. PROJEK USAHAWAN BUMIPUTRA DALAM BIDANG PERUNCITAN (PROSPER) (CONTD)

Facilities under PROSPER scheme is provided under CGC's Flexi Guarantee Scheme (FGS) with 100% guarantee coverage.

On 3rd March, 2005, the Corporation received an amount of RM30 million as a grant from the Ministry of Finance (MOF). The fund is to be used to meet possible loan loss under this scheme.

23. REVENUE

	2006 RM	2005 RM
Guarantee fees	96,744,700	73,407,767
Interest - term deposits	136,258,691	121,775,653
- Malaysian Government Securities	-	1,441,331
- Cagamas Bonds	1,078,000	388,263
- Other bonds	9,531,096	3,932,788
	<u>243,612,487</u>	<u>200,945,802</u>

24. NET PROFIT FOR THE YEAR

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

Director's remuneration	746,830	595,631
Directors' fees	89,479	68,882
Directors' meeting allowances	123,000	51,000
Employees Provident Fund contribution	2,344,371	1,830,998
Depreciation on property, plant and equipment (Note 7)	5,465,932	6,035,712
Auditors' remuneration	30,000	27,500
Provision for claims	113,792,862	184,109,667
Rental income	(598,184)	(617,619)
Accumulated amortisation cost on bonds	948,406	2,300,295
Gain on disposal of property, plant and equipment	(209,998)	(2,098)
	<u>29,379</u>	<u>28,501</u>

25. 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.

26. CONTINGENCIES

The Corporation is contingently liable by virtue of guarantees provided in respect of credit facilities extended by member financial institutions to borrowers under the various schemes.

	2006 RM	2005 RM
Total credit facilities guaranteed by the Corporation under the Schemes	<u>5,404,577,776</u>	<u>4,178,274,997</u>
Contingencies arising thereon	4,512,887,957	3,711,494,960
Less: Amount deemed to be bad and doubtful for which provisions have been made	357,902,494	402,896,387
Amount set aside in the Reserves to meet future claims	240,106,179	183,389,835
	<u>598,008,673</u>	<u>586,286,222</u>
Net contingencies	<u>3,914,879,284</u>	<u>3,125,208,738</u>

27. CAPITAL COMMITMENTS

Capital expenditure not provided for in the financial statements:-

Authorised and contracted for	523,859	887,062
Authorised but not contracted for	<u>26,242,991</u>	<u>6,236,020</u>
	<u>26,766,850</u>	<u>7,123,082</u>

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:-

	2006		2005	
	Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
Financial Assets				
Fee receivables	19,494,749	19,494,749	11,588,053	11,588,053
Other receivables	4,982,606	4,982,606	5,725,285	5,725,285
Loan and advances	221,584,356	221,584,356	326,389,104	326,389,104
Investment securities	263,721,241	263,721,241	119,749,252	119,749,252
Deposit, cash and bank balances	4,103,149,017	4,103,149,017	4,094,597,556	4,094,597,556

28. FINANCIAL INSTRUMENTS (CONTD)

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	RM	RM	RM	RM
Claims payable	39,988,831	39,988,831	63,143,566	63,143,566
Other payables	59,082,660	59,082,660	44,145,189	44,145,189
Government Funds	300,000,000	296,000,000	300,000,000	292,500,000
Amount due to Bank Negara				
Malaysia	950,000,000	841,000,000	950,000,000	821,000,000
Small Entrepreneurs Financing				
Fund	40,000,000	38,000,000	50,000,000	47,000,000
Tabung Usahawan Kecil	490,000,000	486,000,000	490,000,000	484,000,000
Small Entrepreneurs Guarantee				
Scheme	79,000,000	73,000,000	79,000,000	70,000,000

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 amounts 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

Certain comparative figures have been reclassified to conform with the current year's presentation and to conform with the presentation requirements of FRS 101. The effects of the reclassification on the financial statements are as follows:-

	As Previously Reported	As Restated	Financial Impact
	RM	RM	RM
Income Statement			
Revenue	144,596,993	200,945,802	56,348,809
Other operating income	31,023,052	34,766,474	3,743,422
Provisions for claims	139,787,469	184,109,667	44,322,198
Interest expense on government loans	-	12,875,000	12,875,000
Other operating expenses	7,427,460	7,604,354	176,894
Interest arbitrage earned	43,473,809	-	(43,473,809)
Net profit for the year	48,926,010	8,170,340	(40,755,670)

STATEMENT BY DIRECTORS AND STATUTORY DECLARATION - 31st DECEMBER, 2006

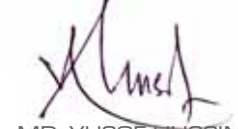
STATEMENT BY DIRECTORS

We, DATO' ZAMANI ABDUL GHANI and MD. YUSOF HUSSIN, 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 44 to 67 are drawn up in accordance with the approved accounting standards issued by the Malaysian Accounting Standards Board for entities other than private entities 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, 2006 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,



DATO' ZAMANI ABDUL GHANI



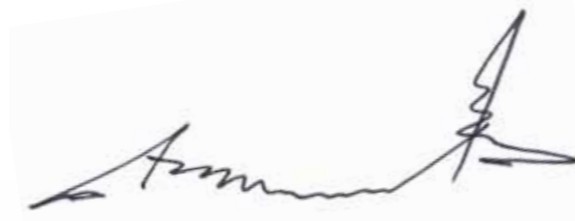
MD. YUSOF HUSSIN

Kuala Lumpur,
Date: 19th April, 2007

STATUTORY DECLARATION

I, DATUK WAN AZHAR BIN 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 44 to 67 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 BIN WAN AHMAD at Shah]
Alam in Selangor]
on 19th April, 2007]



DATUK WAN AZHAR BIN WAN AHMAD

Before me,



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 44 to 67. These financial statements are the responsibility of the directors.

It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the contents of this report.

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 approved accounting standards issued by the Malaysian Accounting Standards Board for entities other than private entities 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, 2006 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



NG ENG KIAT
1064/03/09(J/PH)
Partner of the Firm

Kuala Lumpur,
Date: 19th April, 2007



Year Three Plan

The strategic thrust in the third year of Business Transformation Plan (2008) is the **attainment of financial sustainability**. This is expected to be achieved through the implementation of specific initiatives which include capital market activities such as issuance of bonds for SMEs, more effective strategies to enhance investment returns and offering products and services at competitive terms.

ATTAINMENT OF FINANCIAL SUSTAINABILITY MENCAPAI KEKUKUHAN KEWANGAN

Pelan Tahun Ketiga

Halatuju yang strategik pada tahun ketiga dalam Rancangan Pembaharuan Perniagaan (2008) adalah untuk **mencapai kekukuhan kewangan**. Ianya dijangka dapat dicapai melalui pelaksanaan inisiatif-inisiatif khusus yang merangkumi aktiviti-aktiviti pasaran modal seperti pengeluaran bon-bon untuk PKS, melaksanakan strategi-strategi yang lebih efektif untuk meningkatkan pendapatan pelaburan serta menawarkan produk-produk dan perkhidmatan-perkhidmatan yang berdaya saing.



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 Fourth Annual General Meeting of the Company to be held
on Monday, 21st May 2007 at 12.30 p.m. and at any adjournment thereof in the manner indicated below.

Table with 3 columns: Resolution (1-4), For, 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 this day of 2007.

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

Credit Guarantee Corporation Malaysia Berhad (CGC) has embarked on a three year Business Transformation Plan to further enhance its role in supporting the growth and development of competitive SMEs. Guided by Bank Negara Malaysia, this initiative essentially complements the efforts by the government to strengthen the support for SMEs.

In its **1st Year** (2006), the Corporation's Business Transformation Plan focused on **organisational reorientation and capacity building**. This is to ensure that the institutional capacity is strengthened to enable the Corporation to effectively perform its enhanced role.

In the **2nd Year** (2007), the plan is one of **expansion whereby new and innovative guarantee products and services** will be introduced to SMEs.

The strategic thrust in the **3rd Year** (2008) is the **attainment of financial sustainability** through the implementation of specific initiatives which include capital market activities and effective investment strategies as well as offering products and services at competitive terms.

This is how the Corporation envisions its transformation into an effective financial institution that can better help nurture the continued growth of SMEs.

