

financial statement

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Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and Company for the financial year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of purchase of mortgage loans and hire purchase and leasing debts from primary lenders approved by the Company and the issue of bonds and notes to finance the purchases. The Company also purchases Islamic house financing debts and Islamic hire purchase debts and issues bonds under Islamic principles.

During the year, the Company embarked on the business of Mortgage-Backed Securitisation through incorporation of a subsidiary, Cagamas MBS Berhad, a special purpose entity solely for the purpose of operating business involving the securitisation of mortgage assets (Conventional and Islamic) from the Government of Malaysia.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit before taxation and zakat	279,154	183,296
Taxation	(78,366)	(51,566)
Zakat	(464)	(464)
	<hr/>	<hr/>
Net profit for the year	200,324	131,266
Retained earnings brought forward	986,056	986,056
	<hr/>	<hr/>
Profit available for appropriation	1,186,380	1,117,322
Final dividend (net of income tax of 28%) for financial year ended 31 December 2003	(5,400)	(5,400)
Interim dividend (net of income tax of 28%) for financial year ended 31 December 2004	(5,400)	(5,400)
	<hr/>	<hr/>
Retained earnings carried forward	<u>1,175,580</u>	<u>1,106,522</u>

DIVIDENDS

The dividends paid by the Company since 31 December 2003 are as follows:

	RM'000	RM'000
In respect of the financial year ended 31 December 2003, as shown in the Directors' report of that year,		
a final gross dividend of 5 sen per share on 150,000,000 ordinary shares, less income tax, paid on 13 April 2004	5,400	5,400
In respect of the financial year ended 31 December 2004,		
an interim gross dividend of 5 sen per share on 150,000,000 ordinary shares, less income tax, paid on 7 October 2004	5,400	5,400
	<hr/>	<hr/>
	<u>10,800</u>	<u>10,800</u>

DIVIDENDS (continued)

The Directors now recommend the payment of a final gross dividend of 10 sen per share, less income tax, on 150,000,000 ordinary shares amounting to RM10,800,000 for the financial year ended 31 December 2004 which, subject to approval of members at the forthcoming Annual General Meeting of the Company, will be paid on 9 May 2005 to shareholders registered on the Company's Register of Members as at the close of business on 15 April 2005.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the year are shown in the financial statements.

DIRECTORS

The Directors who have held office during the year since the date of the last report are as follows:

Dato' Ooi Sang Kuang (Chairman)

Tan Sri Dato' Azman Hashim

Datuk Tay Ah Lek

Dato' Tan Teong Hean

Datuk Amirsham A. Aziz

Mohamed Azmi Mahmood

Dato' Mohd Razif Abdul Kadir

Dato' Albert Yeoh Beow Tit

Zarir Jal Cama

Shayne Keith Nelson

Yvonne Chia

(appointed on 21.5.2004)

YM Tunku Afwida Tunku A.Malek

(appointed on 4.1.2005)

Abdul Karim Md Lassim

(appointed on 14.2.2005)

Dato' Wan Ismail Abdul Rahman

(resigned on 5.8.2004)

Md Agil Mohd Natt

(resigned on 4.9.2004)

Dr. Rozali Mohamed Ali

(resigned on 15.12.2004)

In accordance with the Company's Articles of Association, the following Directors retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election:

Mohamed Azmi Mahmood

Datuk Tay Ah Lek

Datuk Amirsham A. Aziz

In accordance with the Company's Articles of Association, the following Directors, who vacate office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election:

Yvonne Chia

YM Tunku Afwida Tunku A.Malek

Abdul Karim Md Lassim

DIRECTORS' BENEFITS

During and at the end of the year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Since the end of the previous year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration disclosed in Note 23 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, none of the Directors in office at the end of the year held any interest in shares in the Company.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statement and balance sheet were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and*
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and Company had 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:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or*
- (b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or*
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.*

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the Directors, will or may substantially affect the ability of the Group or Company to meet its obligations when they fall due.

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

- (a) any charge on the assets of the Group or Company which has arisen since the end of the year which secures the liability of any other person; or*
- (b) any contingent liability of the Group or Company which has arisen since the end of the year.*

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (continued)

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading or inappropriate.

In the opinion of the Directors,

- (a) the results of the Group's and Company's operations during the year 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 the end of the year 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 Group or Company for the financial year in which this report is made.

RELATED-PARTY TRANSACTIONS

Most of the transactions involving mortgage loans, hire purchase and leasing debts, Islamic house financing debts and Islamic hire purchase debts as well as issuance of unsecured debt securities are done at arm's length with related parties, namely the financial institutions who are related by virtue of these parties being the shareholders of the Group or Company.

AUDITORS

Our auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated 22 March 2005.

DATO' OOI SANG KUANG
CHAIRMAN

DATUK AMIRSHAM A. AZIZ
DIRECTOR

Balance Sheet

As at 31 December 2004

	Note	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
ASSETS				
Cash and short-term funds	4	307,229	209,608	73,648
Deposits and placements with financial institutions	5	65,000	65,000	–
Amounts due from counter parties	6	25,297,137	25,297,137	26,431,423
Mortgage assets	7	1,524,753	–	–
Investment securities	8	432,279	432,279	382,825
Islamic financing debts	9	2,211,227	2,211,227	907,689
Tax recoverable		4,163	4,163	1,455
Other assets	10	93,061	50,203	50,983
Property and equipment	11	6,983	6,983	5,101
Intangible asset	12	6,121	6,121	–
Amount due from a subsidiary		–	573	–
TOTAL ASSETS		29,947,953	28,283,294	27,853,124
LIABILITIES				
Unsecured bearer bonds and notes	13	26,737,353	26,737,353	26,433,248
Residential mortgage-backed securities	14	1,555,000	–	–
Deferred taxation	15	27,476	13,743	10,505
Other liabilities	16	302,544	275,676	273,315
TOTAL LIABILITIES		28,622,373	27,026,772	26,717,068
SHARE CAPITAL	17	150,000	150,000	150,000
RESERVES	18	1,175,580	1,106,522	986,056
SHAREHOLDERS' FUNDS		1,325,580	1,256,522	1,136,056
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		29,947,953	28,283,294	27,853,124
NET TANGIBLE ASSETS PER SHARE (RM)	25	8.84	8.38	7.57

The notes on pages 178 to 215 form an integral part of these financial statements.

Income Statement

For the financial year ended 31 December 2004

	Note	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
INTEREST INCOME	19	1,231,145	1,119,133	1,060,696
INTEREST EXPENSE	20	(954,429)	(940,737)	(872,774)
NET INTEREST INCOME		276,716	178,396	187,922
ISLAMIC OPERATIONS INCOME	37	3,664	3,664	2,519
NON-INTEREST INCOME	21	10,644	11,217	9,963
NET INCOME		291,024	193,277	200,404
ADMINISTRATION AND GENERAL EXPENSES		(7,281)	(5,392)	(4,257)
PERSONNEL COST		(4,589)	(4,589)	(3,635)
PROFIT BEFORE TAXATION AND ZAKAT	22	279,154	183,296	192,512
TAXATION	24	(78,366)	(51,566)	(53,945)
ZAKAT		(464)	(464)	(277)
NET PROFIT FOR THE YEAR		<u>200,324</u>	<u>131,266</u>	<u>138,290</u>
EARNINGS PER SHARE (SEN)	25	<u>133.5</u>	<u>87.5</u>	<u>92.2</u>
DIVIDEND PER SHARE (SEN)	26	<u>15</u>	<u>15</u>	<u>15</u>

The notes on pages 178 to 215 form an integral part of these financial statements.

Statement of Changes in Equity

For the financial year ended 31 December 2004

	Issued and fully paid ordinary shares of RMI each		Distributable	
	Number of Shares '000	Nominal Value RM'000	Retained Earnings RM'000	Total RM'000
Group				
Balance as at 1 January 2003	150,000	150,000	1,014,266	1,164,266
Net profit for the year	–	–	138,290	138,290
Dividends for the financial year ended 31 December 2002:				
– final dividend of 15 sen per share, less income tax	–	–	(16,200)	(16,200)
– special dividend of 93 sen per share, tax exempt	–	–	(139,500)	(139,500)
31 December 2003				
– interim dividend of 10 sen per share, less income tax	–	–	(10,800)	(10,800)
Balance as at 31 December 2003	150,000	150,000	986,056	1,136,056
Net profit for the year	–	–	200,324	200,324
Dividends for the financial year ended: 31 December 2003				
– final dividend of 5 sen per share, less income tax	–	–	(5,400)	(5,400)
31 December 2004				
– interim dividend of 5 sen per share, less income tax	–	–	(5,400)	(5,400)
Balance as at 31 December 2004	150,000	150,000	1,175,580 *	1,325,580

* As set out in Note 39 to the financial statements, as at 31 December 2004, RM69,057,895 of the Group retained earnings relate to retained earnings of Cagamas MBS Berhad for the period ended 31 December 2004 and may be subject to a discretionary bonus fee to the Government of Malaysia (GOM) after the full settlement of bonds at maturity in 2014.

The notes on pages 178 to 215 form an integral part of these financial statements.

Statement of Changes in Equity

For the financial year ended 31 December 2004 (continued)

	Issued and fully paid ordinary shares of RM1 each		Distributable	
	Number of Shares '000	Nominal Value RM'000	Retained Earnings RM'000	Total RM'000
Company				
Balance as at 1 January 2003	150,000	150,000	1,014,266	1,164,266
Net profit for the year	–	–	138,290	138,290
Dividends for the financial year ended:				
31 December 2002				
– final dividend of 15 sen per share, less income tax	–	–	(16,200)	(16,200)
– special dividend of 93 sen per share, tax exempt	–	–	(139,500)	(139,500)
31 December 2003				
– interim dividend of 10 sen per share, less income tax	–	–	(10,800)	(10,800)
Balance as at 31 December 2003	150,000	150,000	986,056	1,136,056
Net profit for the year	–	–	131,266	131,266
Dividends for the financial year ended:				
31 December 2003				
– final dividend of 5 sen per share, less income tax	–	–	(5,400)	(5,400)
31 December 2004				
– interim dividend of 5 sen per share, less income tax	–	–	(5,400)	(5,400)
Balance as at 31 December 2004	150,000	150,000	1,106,522	1,256,522

The notes on pages 178 to 215 form an integral part of these financial statements.

Cash Flow Statement

For the financial year ended 31 December 2004

	Note	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
OPERATING ACTIVITIES				
Net profit for the year		200,324	131,266	138,290
Adjustments for investment items and items not involving the movement of cash and cash equivalents:				
Amortisation of premium on Malaysian Government securities				
		756	756	554
Amortisation of premium less accretion of discount on Islamic debt securities				
		1,909	1,909	1,243
Accretion of discount on mortgage assets				
		(49,047)	–	–
Income accrued from Islamic debt securities				
		(17,871)	(17,871)	(14,492)
Interest income accrued from investments				
		(4,134)	(4,134)	(3,567)
Interest income accrued from interest rate swaps				
		(4,483)	(4,483)	(5,612)
Depreciation of property and equipment				
		903	903	856
Gain on sale of property and equipment				
		(11)	(11)	(26)
Taxation				
		78,366	51,566	53,945
Zakat				
		464	464	277
Operating profit before working capital changes		207,176	160,365	171,468
Decrease/(increase) in amounts due from counter parties				
		1,134,286	1,134,286	(1,101,342)
Increase in Islamic financing debts				
		(1,303,538)	(1,303,538)	(204,299)
Increase in mortgage assets				
		(1,475,706)	–	–
(Increase)/decrease in other assets				
		(50,148)	(5,494)	9,502
Increase in unsecured bearer bonds and notes				
		304,105	304,105	1,493,083
Increase in residential mortgage-backed securities				
		1,555,000	–	–
Increase in other liabilities				
		17,698	1,528	2,175
Cash generated from operations		388,873	291,252	370,587
Payment of zakat				
		(266)	(266)	(253)
Payment of taxation				
		(50,400)	(50,400)	(52,514)
Net cash generated from operating activities		338,207	240,586	317,820

The notes on pages 178 to 215 form an integral part of these financial statements.

Cash Flow Statement

For the financial year ended 31 December 2004 (continued)

	Note	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
INVESTING ACTIVITIES				
Purchase of:				
Investments		(71,547)	(71,547)	(150,095)
Property and equipment		(2,787)	(2,787)	(1,753)
Income received from Islamic debt securities		6,625	6,625	2,718
Interest income received from investments		4,141	4,141	2,943
Interest income received from interest rate swaps		4,731	4,731	7,589
Gain from disposal of property and equipment		11	11	26
Redemption of investments		30,000	30,000	–
Net cash utilised in investing activities		(28,826)	(28,826)	(138,572)
FINANCING ACTIVITIES				
Payment of dividends		(10,800)	(10,800)	(166,500)
Net cash utilised in financing activities		(10,800)	(10,800)	(166,500)
Net increase in cash and cash equivalents		298,581	200,960	12,748
Cash and cash equivalents as at beginning of the year		73,648	73,648	60,900
Cash and cash equivalents as at end of the year		372,229	274,608	73,648
Analysis of cash and cash equivalents:				
Cash and short-term funds	4	307,229	209,608	73,648
Deposits and placements with financial institutions	5	65,000	65,000	–
		372,229	274,608	73,648

The notes on pages 178 to 215 form an integral part of these financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

The principal activities of the Company consist of the purchase of mortgage loans, hire purchase and leasing debts from primary lenders approved by the Company and the issue of bonds and notes to finance the purchases. The Company also purchases Islamic house financing debts and Islamic hire purchase debts and issues bonds under Islamic principles.

During the year, the Company embarked on the business of Mortgage-Backed Securitisation through incorporation of a subsidiary, Cagamas MBS Berhad, a special purpose entity solely for the purpose of operating business involving the securitisation of mortgage assets (Conventional and Islamic) from the Government of Malaysia.

The number of employees in the Group and Company at the end of the year was 54 (2003: 53). The subsidiary company is not permitted to have any employees by its Memorandum of Association.

The Company is a limited liability company, incorporated and domiciled in Malaysia.

The address of the registered office and principal place of business of the Company is 19th Floor, West Wing, Menara Maybank, 100 Jalan Tun Perak, 50050 Kuala Lumpur.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All significant accounting policies set out below are consistent with those applied in the previous year.

(a) Basis of preparation

The financial statements of the Group and Company have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies.

The financial statements comply with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The financial statements incorporate those activities relating to the Islamic operations of the Company.

The Islamic operations of the Company refer to the purchase of Islamic house financing debts and Islamic hire purchase debts from approved originators and issuance of debt securities under Islamic principles, and acquisition, investment in and trading of Islamic financial instruments. In the accounting for its Islamic operations, the Company has, when necessary, modified its accounting policies to comply with the Islamic principles.

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary company made up to the end of the financial year.

Inter-company transactions, balances and unrealised gains on transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are also eliminated unless cost cannot be recovered.

(c) Amounts due from counter parties

Note 1 of the financial statements describes the principal activities of the Company, which are inter alia, the purchase of mortgage loans and hire purchase and leasing debts. These activities are also set out in the object clauses of the Memorandum of Association of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Amounts due from counter parties (continued)

The purchase of "Mortgage loans and hire purchase and leasing debts" was reclassified as "Amounts due from counter parties" on the balance sheet in accordance with a Guideline issued by Bank Negara Malaysia to the financial institutions on 31 July 2001. However, the Company and the counter parties to these transactions still consider the transactions to be sales and purchases. The Company and the relevant counter parties have entered into agreements which state that any accounting reclassification is only to accommodate accounting convention and/or to comply with the directives of the regulatory authorities, and does not reflect or change the intention of the parties to effect true absolute sales.

As at the balance sheet date, amounts due from counter parties in respect of mortgage loans and hire purchase and leasing debts are stated at their unpaid principal balances due to the Company. Interest income on amounts due from counter parties is recognised on an accrual basis and computed at the respective interest rates based on monthly rest.

(d) Mortgage Assets

Mortgage assets are acquired by the Company through its subsidiary from the Government of Malaysia at fair value. The originator will act as servicer and remit the principal and interest from the mortgage assets to the subsidiary company on a specified interval as agreed by both parties.

As at the balance sheet date, mortgage assets acquired are stated at their unpaid principal balances due to the subsidiary company. Interest income on mortgage assets is recognised on an accrual basis and computed at the respective interest rates based on monthly rest.

The discount arising from the difference between the purchase price and book value of the mortgage assets acquired is accreted to the income statement over the life of the mortgage assets.

(e) Investments

Malaysian Government securities and long-term private debt securities intended to be held to maturity, are stated at cost adjusted for amortisation of premium or accretion of discount over the period from acquisition to maturity of the investments.

Malaysian Government securities and other investments intended to be held on a short-term basis are stated at the lower of cost and market value.

Islamic debt securities intended to be held to maturity are stated at cost adjusted for amortisation of premium or accretion of discount over the period from acquisition to maturity of the investments.

(f) Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated on a straight line basis to write off the cost of the assets over their estimated useful lives. The principal annual rates of depreciation used are as follows:

Office equipment	20% – 25%
Motor vehicles	20%
Furniture and fittings	10%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income recognition

Interest income is recognised on an accrual basis. As for Islamic operations, income is accounted for on an accrual basis of accounting.

(h) Premium and discount on unsecured bearer bonds

Premium on unsecured bearer bonds representing the excess of the issue price over the redemption value of the bonds are accreted to the income statement over the life of the bonds. Where the redemption value exceeds the issue price of the bonds, the difference, being the discount is amortised to the income statement over the life of the bonds.

(i) Discount on unsecured bearer notes

Discount on unsecured bearer notes representing the excess of redemption value over the issue price of the notes are amortised to the income statement over the life of the notes.

(j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences, which are differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property and equipment and in relation to acquisitions of investments, and on the difference between the fair values of the net assets acquired and their tax bases.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and balances with banks and other financial institutions and short-term investments in money market instruments maturing within three months.

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(m) Interest rate swaps

Any differential to be paid or received on an interest rate swap (IRS) is recognised as a component of interest expense or revenue over the period of the agreement. Losses and gains on early termination of IRS are taken to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Provisions

Provisions are recognised when the Group and Company have a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation as well as a reliable estimate can be made of the amount of the obligation.

(o) Zakat

Zakat are tithes payable by the Group and Company in respect of its Islamic operations in compliance with the principles of Syariah.

(p) Employee benefits

(i) Short-term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group and Company.

(ii) Post-employment benefits

The Group and Company contribute to a national defined contribution plan (the Employee Provident Fund) and the amounts contributed to the plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group and Company have no further payment obligations.

(q) Intangible asset

Upfront costs on the issuance of Residential Mortgage-Backed Securities (RMBS) are capitalised and amortised using the straight line method over tenure of the RMBS

3 RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company's primary objective of risk management is to effectively manage and link risks with reward in order to maximise the Company's shareholders' value as well as to ensure that the Company is able to sustain its performance.

The Company is progressively putting in place risk management capabilities to better assess and manage its risk exposure. The Board of Directors (Board) has approved the Risk Management Framework which sets out, amongst others, identification of relevant risks, roles and responsibilities and reporting structures of parties involved in the management of risks.

In 2004, the Board approved the appointment of KPMG Business Advisory Sdn Bhd to develop an Integrated Risk Management Action Plan and to conduct an environmental survey of the availability of data to build credit scorecards. Cagamas will be embarking on Phase 2 of the project to review and set up a Credit Risk Management Framework and to develop credit scorecards, which will assist the Company in its securitisation programme.

Risk Management Structure

The Board has the overall responsibility to ensure that there is proper oversight of the management of risks in the Company. The Board sets the risk appetite and tolerance level that are consistent with the Company's overall business objectives and desired risk profile. The Board also reviews and approves all significant risk management policies and risk exposures.

The Board Risk Committee (BRC) assists the Board by ensuring that there is effective oversight and development of strategies, policies, procedures and infrastructure to manage the Company's risks.

3 RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Risk Management Structure (continued)

Senior Management is responsible for the implementation of the policies laid down by the Board by ensuring that there are adequate and effective operational procedures, internal controls and systems for assessing, measuring, controlling, monitoring and reporting risks.

In December 2004, the Board approved a new structure which provides for a Chief Risk Officer to report independently to the BRC and to assist the BRC in the development of strategies and policies as well as ensuring that the infrastructure, resources and systems are in place for risk management.

Risk Management Unit (RMU) is responsible for independently reporting the risk exposures and coordinating the management of risks on an enterprise-wide basis. RMU is independent of other departments and units involved in risk-taking activities. The Board has also approved a RMU Charter, which outlines the functions of RMU.

Risks Faced by the Company

The Company's operations can be segregated into purchase with recourse and purchase without recourse business.

Purchase With Recourse

For the purchase with recourse business, the Company faces the following risks:

- (a) Market risk;
- (b) Liquidity risk;
- (c) Credit risk; and
- (d) Operational risk.

(a) Market Risk

Market risk is the risk of losses arising from on- and off-balance sheet positions as a result of adverse movements in the level or volatility of market interest rates or prices. The Company is mainly exposed to interest rate risk associated with issuing debt securities after committing to purchase loans and debts. Since the Company would have to purchase a sizeable amount of loans and debts prior to the issuance of the debt securities, the Company's margin could be reduced in the event yields rise between the time of purchase of loans and debts and the issuance of debt securities.

The Company also faces the risk of funding mismatch between its assets and its liabilities. An example of funding mismatch risk is when there is prepayment. The assets portfolio of the Company has a shorter average life if the rate of prepayment is high. Funding mismatch may also arise when there is a shortfall in funding requirements. Consequently, funding mismatch may require the Company to reinvest at lower rates in the case of a prepayment or to borrow at higher rates in the case of a shortfall in funding requirements.

Interest rate risk is mitigated through close monitoring of the secondary market trading of bonds and prevailing market expectations on interest rates and bond yields. The Company's ability to issue debt securities within the shortest possible time also reduces the Company's exposure to pipeline risk. To minimise the impact of repurchases on its cash flow, the Company has also incorporated compulsory replacement of all repurchased loans and debts, with the exception of housing loans, where replacement remains optional.

The Company has set in place a Treasury Management Policy (TMP) to define the structure and functions of the Treasury Department and the management of risks relevant to treasury activities as well as a Market Risk Policy which sets out, inter alia, the strategy and policies in the management of market risk.

3 RISK MANAGEMENT (continued)

(a) Market Risk (continued)

The Company's Asset Liability Management (ALM) System enables the Company to simulate and perform gap, margin, duration and sensitivity analysis using rate scenarios and assumption builders on its total portfolio. Duration analysis is undertaken before any new bond issuance to ensure that the Company's assets and liabilities are closely matched within the tolerance limit set by the Board. The Company performs sensitivity analysis of its forecast net interest income to manage the Company's exposure to changes in interest rates.

The Company also uses derivative financial instruments such as interest rate futures and interest rate swaps to manage and hedge its exposure to fluctuations in market interest rates. The Company does not undertake any treasury activity that is unrelated to its underlying cash flows or is purely speculative in nature.

(b) Liquidity Risk

Liquidity risk arises when the Company does not have sufficient funds to meet its liabilities as and when they fall due. This includes the risk that borrowed funds may not be available when the Company requires them or that they will not be available for the required period or at an acceptable cost.

The Company mitigates its liquidity risk by matching the timing of purchases of loans and debts with the issuance of debt securities. The Company maintains adequate undrawn funding sources for possible use to meet its debt obligations. Close monitoring and planning of cash flows and the Company's ability to issue notes for short-term funding needs also helps to mitigate the Company's liquidity risk.

(c) Credit Risk

Credit risk is the potential earnings volatility caused by the failure of the Company's customers or counter parties to fulfill their financial obligations in a timely manner. As a result, Cagamas may have to replace the transaction with a different counter party or borrow from the inter-bank money market.

Another form of credit risk arises from the investments made by the Company, where changes in the market's perception of the issuer's financial strength and credit quality may result in adverse price movements of the investments. The Company may face financial losses when the investments are liquidated prior to their maturity.

Most of the Company's purchases of loans and debts on with recourse are from financial institutions, which are supervised by Bank Negara Malaysia. Hence, the likelihood of default by the selling institutions is minimised. The Company's loans and debts are also subject to an annual audit to ensure that the loans and debts purchased are of the quality required by Cagamas.

The Company also mitigates its credit risk through credit policies and limits approved by the Board. There are strict guidelines and limits on permitted investments and these investments are restricted to high quality papers.

(d) Operational Risk

Operational risk is the potential exposure to financial or other damage resulting from inadequate or failed internal processes, human behaviour, systems or from external events. It also includes human resources, legal and reputation risks.

The Company mitigates its operational risk by having comprehensive internal controls, systems and procedures that are reviewed on a regular basis and are subject to regular audits by Cagamas' Internal Audit Department. The Company has in place a comprehensive Business Continuity Plan to minimise the impact of potential internal and external disaster disruptions to the Company's operations. The Company conducts tests on its critical systems and processes on a regular basis.

3 RISK MANAGEMENT (continued)

(d) Operational Risk (continued)

During the year, the Company has implemented a Treasury Management System and a Loans Processing System to enhance efficiency, processing and reporting capabilities and to minimise the likelihood of errors due to manual processes. The systems have built-in controls and validations that will enable the Company to maintain and monitor limits and to receive alerts on breaches of certain limits.

Purchase Without Recourse

In 2004, Cagamas undertook the securitisation of the Government's (GOM) first tranche consisting of pensioners' mortgage assets (Pension Pool) and as the rights of the bondholders are only limited to the assets and there is no recourse against the Company's wholly-owned subsidiary, Cagamas MBS Berhad per se. The risks inherent in this securitisation exercise and the mitigants were taken into account in structuring the deal.

Cagamas, as the Transaction Administrator, will be carrying out regular reconciliation of the amount due and amount paid by the pensioners. Regular reports on the Pension Pool are also generated to enable the GOM and Cagamas to monitor the performance of the Pension Pool.

4 CASH AND SHORT-TERM FUNDS

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Cash and balances with banks and other financial institutions	311	308	548
Money at call and deposits placements maturing within one month	229,668	132,050	60,480
Mudharabah money at call and deposits placements maturing within one month	77,250	77,250	12,620
	<u>307,229</u>	<u>209,608</u>	<u>73,648</u>

5 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed bank	<u>65,000</u>	<u>65,000</u>	<u>–</u>
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6 AMOUNTS DUE FROM COUNTER PARTIES

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Relating to:			
Mortgage loans	13,564,967	13,564,967	15,195,597
Hire purchase and leasing debts	11,732,170	11,732,170	11,235,826
	<u>25,297,137</u>	<u>25,297,137</u>	<u>26,431,423</u>

The maturity structure of amounts due from counter parties is as follows:

Maturing within one year	6,384,940	6,384,940	5,993,855
One year to three years	13,118,941	13,118,941	11,960,205
Three years to five years	4,210,860	4,210,860	6,752,401
More than five years	1,582,396	1,582,396	1,724,962
	<u>25,297,137</u>	<u>25,297,137</u>	<u>26,431,423</u>

7 MORTGAGE ASSETS

Mortgage assets	<u>1,524,753</u>	<u>–</u>	<u>–</u>
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The maturity structure of the mortgage assets is as follows:

Maturing within one year	267,953	–	–
One year to three years	317,662	–	–
Three years to five years	333,591	–	–
More than five years	963,313	–	–
	<u>1,882,519</u>	<u>–</u>	<u>–</u>
Unaccreted discount	(357,766)	–	–
	<u>1,524,753</u>	<u>–</u>	<u>–</u>

8 INVESTMENT SECURITIES

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Malaysian Government securities	34,806	34,806	34,806
Khazanah bonds	114,164	114,164	114,164
Private debt securities	31,118	31,118	31,118
Islamic debt securities	211,404	211,404	170,327
	<hr/>	<hr/>	<hr/>
	391,492	391,492	350,415
Amortisation of premium less accretion of discount	40,787	40,787	32,410
	<hr/>	<hr/>	<hr/>
	432,279	432,279	382,825

Market value of investment securities is as follows:

Malaysian Government securities	32,370	32,370	33,349
Khazanah bonds	188,454	188,454	170,462
Private debt securities	30,857	30,857	30,440
Islamic debt securities	210,467	210,467	167,889
	<hr/>	<hr/>	<hr/>
	462,148	462,148	402,140

The maturity structure of investment securities is as follows:

Maturing within one year	41,031	41,031	25,508
One year to three years	249,646	249,646	163,565
Three years to five years	100,815	100,815	60,527
More than five years	–	–	100,815
	<hr/>	<hr/>	<hr/>
	391,492	391,492	350,415

9 ISLAMIC FINANCING DEBTS

Islamic house financing debts	704,401	704,401	344,463
Islamic hire purchase debts	1,506,826	1,506,826	563,226
	<hr/>	<hr/>	<hr/>
	2,211,227	2,211,227	907,689

The maturity structure of Islamic financing debts is as follows:

Maturing within one year	342,727	342,727	246,735
One year to three years	1,078,142	1,078,142	342,960
Three years to five years	790,358	790,358	279,672
More than five years	–	–	38,322
	<hr/>	<hr/>	<hr/>
	2,211,227	2,211,227	907,689

10 OTHER ASSETS

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Accrued interest receivables	82,285	39,427	43,385
Staff loans and financing	3,441	3,441	3,658
Deposits	144	144	144
Prepayments	165	165	149
Other receivables	7,026	7,026	3,647
	93,061	50,203	50,983

11 PROPERTY AND EQUIPMENT

Group and Company

	As at 1.1.2004 RM'000	Additions RM'000	Disposals RM'000	As at 31.12.2004 RM'000
Cost				
Office equipment	7,498	2,611	(68)	10,041
Furniture and fittings	620	11	-	631
Motor vehicles	808	165	(5)	968
	8,926	2,787	(73)	11,640
Accumulated Depreciation				
Office equipment	3,160	674	(68)	3,766
Furniture and fittings	269	53	-	322
Motor vehicles	396	176	(3)	569
	3,825	903	(71)	4,657
Net Book Value				
Office equipment				6,275
Furniture and fittings				309
Motor vehicles				399
				6,983

11 PROPERTY AND EQUIPMENT (continued)

Company

	As at 1.1.2003 RM'000	Additions RM'000	Disposals RM'000	As at 31.12.2003 RM'000
Cost				
Office equipment	5,836	1,752	(90)	7,498
Furniture and fittings	619	1	–	620
Motor vehicles	861	–	(53)	808
	<u>7,316</u>	<u>1,753</u>	<u>(143)</u>	<u>8,926</u>

Accumulated Depreciation

Office equipment	2,610	640	(90)	3,160
Furniture and fittings	217	52	–	269
Motor vehicles	285	164	(53)	396
	<u>3,112</u>	<u>856</u>	<u>(143)</u>	<u>3,825</u>

Net Book Value

Office equipment	4,338
Furniture and fittings	351
Motor vehicles	412
	<u>5,101</u>

12 INTANGIBLE ASSET

	Group 2004 RM'000	Company 2004 RM'000	Company 2003 RM'000
Net Book Value			
As at 1 January 2004	–	–	–
Capitalised during the year	6,245	6,245	–
Amortisation charge	(124)	(124)	–
As at 31 December 2004	<u>6,121</u>	<u>6,121</u>	<u>–</u>

13 UNSECURED BEARER BONDS AND NOTES

Group and Company

	Year of Maturity	2004		2003	
		Amount Outstanding RM'000	Effective Rate %	Amount Outstanding RM'000	Effective Rate %
Fixed Rate Bonds	2004	–	–	7,022,000	3.133 - 6.054
	2005	4,935,000	3.132 - 5.449	4,935,000	3.132 - 5.449
	2006	10,102,000	3.060 - 3.928	9,487,000	3.060 - 3.928
	2007	4,965,000	3.253 - 4.351	1,040,000	3.253 - 4.351
	2008	3,450,000	3.114 - 4.114	1,850,000	3.114 - 3.122
	2009	550,000	4.080	–	–
	2011	220,000	3.912	220,000	3.912
			<u>24,222,000</u>		<u>24,554,000</u>
Add : Unaccreted premium		8,825		7,424	
Less : Unamortised discount		(41,830)		(54,327)	
		<u>24,188,995</u>		<u>24,507,097</u>	
Sanadat Mudharabah Cagamas	2004	–	–	144,000	–
	2006	200,000	–	200,000	–
	2007	560,000	–	560,000	–
	2008	120,000	–	120,000	–
	2009	50,000	–	50,000	–
		<u>930,000</u>		<u>1,074,000</u>	
Sanadat Cagamas	2006	638,200	3.150 - 3.250	–	–
	2007	775,381	3.509 - 3.650	–	–
	2009	363,375	4.225	–	–
		<u>1,776,956</u>		<u>–</u>	
Less : Unamortised discount		(9)		–	
Less : Unamortised profit payable		(158,589)		–	
		<u>1,618,358</u>		<u>–</u>	
Short-term notes	2004	–	–	875,000	3.036
	–	–	–	875,000	–
Less : Unamortised discount		–		(22,849)	
		–		<u>852,151</u>	
Unsecured bearer bonds and notes		<u>26,737,353</u>		<u>26,433,248</u>	

13 UNSECURED BEARER BONDS AND NOTES (continued)

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
<i>The maturity structure of unsecured bearer bonds and notes is as follows:</i>			
Maturing within one year	4,933,226	4,933,226	8,018,796
One year to three years	17,135,210	17,135,210	14,601,565
Three years to five years	4,448,920	4,448,920	3,542,890
More than five years	219,997	219,997	269,997
	26,737,353	26,737,353	26,433,248

The bonds and notes are redeemable at par on the due dates, unless previously redeemed, together with accrued interest where applicable except for the Sanadat Mudharabah Cagamas which are on a profit-sharing basis and are redeemable at par on the due date unless there is principal diminution.

14 RESIDENTIAL MORTGAGE-BACKED SECURITIES

Group					
	Year of Maturity	2004 Amount Outstanding RM'000	Effective Rate %	2003 Amount Outstanding RM'000	Effective Rate %
Residential mortgage-backed securities	2007	580,000	3.700	-	-
	2009	340,000	4.300	-	-
	2011	290,000	4.950	-	-
	2014	345,000	5.500	-	-
		1,555,000	-	-	-
		Group 2004 RM'000		Company 2004 RM'000	2003 RM'000

The maturity structure of the residential mortgage-backed securities is as follows:

One year to three years	580,000	-	-
Three years to five years	340,000	-	-
More than five years	635,000	-	-
	1,555,000	-	-

14 RESIDENTIAL MORTGAGE-BACKED SECURITIES (continued)

The residential mortgage-backed securities (RMBS) have the following features:

- a) The RMBS are redeemable by CMBS at its nominal value on the maturity dates. CMBS may at its option redeem partially the RMBS with the longest maturity on any redemption date on *pari passu* and rateable basis provided that after such redemption, the balance in the Collections Account is not less than RM66,000,000.
- b) The RMBS' interest coupon is payable quarterly in arrears on 20 January, 20 April, 20 July and 20 October every year.
- c) The RMBS are constituted by a Trust Deed dated 14 October 2004 made between CMBS and Malaysian Trustees Berhad (the Trustees), to act for the benefit of the bondholders.
- d) The RMBS constitute direct, unconditional, unsubordinated and secured obligations of CMBS and rank *pari passu* without discrimination, preference or priority among themselves, but are subject to payments preferred under law and the Issue Documents.

CMBS has created a charge in favour of the Trustees for the payment of the RM1,555,000,000 nominal value RMBS in accordance with the Security Documents below all dated 14 October 2004.

- (i) First fixed charge over the mortgage assets in the Pension Pool;
 - (ii) A legal assignment and a charge over the Collections Account and monies standing to the credit of the same; and
 - (iii) A legal assignment of CMBS' rights, benefits, interest and title in, to and under the Purchase Contract, the Deed of Assignment, the Servicing Agreement and the Administration Services Documents.
- e) The RMBS are issued on a limited recourse basis. Holders of the RMBS will be limited in their recourse to the underlying mortgage assets, the related collections and the proceeds from the enforcement of other securities related to the mortgage assets.

15 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Deferred tax liabilities	28,833	15,100	11,619
Deferred tax assets	(1,357)	(1,357)	(1,114)
	27,476	13,743	10,505

The movements during the year relating to deferred taxation are as follows:

Balance as at beginning of the year	10,505	10,505	7,588
Charge to income statement	16,971	3,238	2,917
Balance as at end of the year	27,476	13,743	10,505

15 DEFERRED TAXATION (continued)

The movements in deferred tax assets and liabilities of the Group during the year comprise the following:

Group	As at 1.1.2004 RM'000	Charged to Income Statement RM'000	As at 31.12.2004 RM'000
Deferred tax liabilities			
Excess of capital allowances over depreciation on property and equipment	1,069	520	1,589
Temporary difference relating to accretion of discount of investment securities	10,550	16,694	27,244
	<u>11,619</u>	<u>17,214</u>	<u>28,833</u>
Deferred tax assets			
Temporary difference relating to amortisation of premium of investment securities	1,114	243	1,357

The movements in deferred tax assets and liabilities of the Company during the year comprise the following:

Company	As at 1.1.2004 RM'000	Charged to Income Statement RM'000	As at 31.12.2004 RM'000
Deferred tax liabilities			
Excess of capital allowances over depreciation on property and equipment	1,069	520	1,589
Temporary difference relating to accretion of discount of investment securities	10,550	2,961	13,511
	<u>11,619</u>	<u>3,481</u>	<u>15,100</u>
Deferred tax assets			
Temporary difference relating to amortisation of premium of investment securities	1,114	243	1,357

15 DEFERRED TAXATION (continued)

Company	As at 1.1.2003 RM'000	Charged to Income Statement RM'000	As at 31.12.2003 RM'000
Deferred tax liabilities			
Excess of capital allowances over depreciation on property and equipment	728	341	1,069
Temporary difference relating to accretion of discount of investment securities	7,803	2,747	10,550
	<u>8,531</u>	<u>3,088</u>	<u>11,619</u>
Deferred tax assets			
Temporary difference relating to amortisation of premium of investment securities	943	171	1,114
	<u>943</u>	<u>171</u>	<u>1,114</u>

16 OTHER LIABILITIES

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Zakat	476	476	278
Income attributable to bondholders	8,128	8,128	9,315
Accrued interest payables on unsecured bearer bonds and notes	260,261	260,261	258,739
Accrued interest payables on residential mortgage-backed securities	13,692	-	-
Other payables	19,987	6,811	4,983
	<u>302,544</u>	<u>275,676</u>	<u>273,315</u>

17 SHARE CAPITAL

Ordinary shares of RM1 each:

Authorised:

Balance as at beginning and end of the year	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
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Issued and fully paid up:

Balance as at beginning and end of the year	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
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18 RESERVES

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Retained earnings	1,175,580	1,106,522	986,056

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to pay dividends out of its entire retained earnings as at 31 December 2004. The Company also has tax exempt income under Section 12 of the Income Tax (Amendments) Act, 1999 which can be paid out as tax exempt dividends.

19 INTEREST INCOME

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Amounts due from counter parties relating to:			
Mortgage loans	627,126	627,126	618,528
Hire purchase and leasing debts	468,634	468,634	431,281
Mortgage assets	62,791	-	-
Investment securities	4,134	4,134	3,567
Deposits and placements with financial institutions	15,637	15,463	2,208
Interest rate swaps (Note 31)	4,483	4,483	5,612
Others	49	49	54
	<u>1,182,854</u>	<u>1,119,889</u>	<u>1,061,250</u>
Amortisation of premium less accretion of discount	48,291	(756)	(554)
	<u>1,231,145</u>	<u>1,119,133</u>	<u>1,060,696</u>

20 INTEREST EXPENSE

Unsecured bearer bonds	905,244	905,244	804,653
Unsecured bearer notes	27,700	27,700	59,913
Residential mortgage-backed securities	13,692	-	-
Deposits and placements of financial institutions	3,497	3,497	8,058
Interest rate swaps (Note 31)	4,296	4,296	150
	<u>954,429</u>	<u>940,737</u>	<u>872,774</u>

21 NON-INTEREST INCOME

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
<i>Investment Income:</i>			
Income from Islamic debt securities	10,573	10,573	9,883
<i>Other Income:</i>			
Other non-operating income	60	633	54
Gain on disposal of property and equipment	11	11	26
	10,644	11,217	9,963

22 PROFIT BEFORE TAXATION AND ZAKAT

The following items have been charged in arriving at profit before taxation and zakat:

Directors' remuneration (Note 23)	174	174	115
Rental of premises	526	526	526
Hire of equipment	162	162	152
Auditors' remuneration	75	75	60
Depreciation of property and equipment	903	903	856
<i>Personnel cost:</i>			
Salary and allowances	2,985	2,985	2,407
Bonus	955	955	687
Overtime	14	14	16
Defined contribution plan (EPF)	616	616	507
SOCSO	19	19	18
	174	174	115

Included in the Directors' remuneration and Auditors' remuneration are amounts of RM17,732 and RM10,000 respectively which have been absorbed by the Company on behalf of its subsidiary, Cagamas MBS Berhad.

23 DIRECTORS' REMUNERATION

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
<i>Forms of remuneration in aggregate for all Directors charged to the profit for the year are as follows:</i>			
Fees	112	112	85
Other remuneration	62	62	30
	174	174	115

24 TAXATION

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
(a) Tax charge for the year			
Current tax	61,395	48,328	51,028
Deferred taxation (Note 15)	16,971	3,238	2,917
	<u>78,366</u>	<u>51,566</u>	<u>53,945</u>

(b) Reconciliation of income tax expense

The tax on the Group's and Company's profit before taxation differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:

	Group 2004 RM'000	Company 2004 RM'000	2003 RM'000
Profit before taxation	279,154	183,296	192,512
Tax calculated at tax rate of 20%	100	–	–
Tax calculated at tax rate of 28% (2003: 28%)	78,023	51,323	53,903
Expenses not deductible for tax purposes	330	330	136
Expenses allowed for double deductions	(8)	(8)	(1)
Capital expenses allowed for deduction	(79)	(79)	(93)
Tax charge	<u>78,366</u>	<u>51,566</u>	<u>53,945</u>

(c) Reconciliation between the average effective tax rate and the statutory income tax rate.

The average effective tax rate of the Group and Company differs from the statutory income tax rate of Malaysia as follows:

	Group 2004 %	Company 2004 %	2003 %
Statutory income tax rate of Malaysia	28	28	28
Expenses not deductible for tax purposes	1	1	–
Expenses allowed for double deductions	–	–	–
Capital expenses allowed for deduction	–	–	–
Average effective tax rate	<u>29</u>	<u>29</u>	<u>28</u>

25 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM1,325,580,000 of the Group and RM1,256,522,000 (2003: RM1,136,056,000) of the Company respectively by the 150,000,000 shares of the Group and Company in issue.

Earnings per share is calculated by dividing the net profit for the financial year of RM200,324,000 of the Group and RM131,266,000 (2003: RM138,290,000) of the Company respectively by the 150,000,000 shares of the Group and Company in issue.

26 DIVIDENDS

Dividends paid and proposed are as follows:

	Group and Company			
	2004		2003	
	Gross per share sen	Amount of dividend net of tax RM'000	Gross per share sen	Amount of dividend net of tax RM'000
Interim dividend paid	5	5,400	10	10,800
Final dividend proposed/paid	10	10,800	5	5,400
	<u>15</u>	<u>16,200</u>	<u>15</u>	<u>16,200</u>

At the forthcoming Annual General Meeting on 25 April 2005, a final gross dividend of 10 sen per share, less income tax (2003: a final gross dividend of 5 sen per share, less income tax) in respect of the financial year ended 31 December 2004, amounting to RM10,800,000 (2003: RM5,400,000) will be proposed for shareholders' approval. These financial statements do not reflect the final dividend which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2005 when approved by shareholders.

27 RELATED PARTY TRANSACTIONS

The related party and its relationship with the Company is as follows:

Related party	Relationship
Cagamas MBS Berhad	Subsidiary

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below is a significant related party transaction which is conducted in the normal course of business.

	2004 RM'000
Transaction administrator and administrator fees receivable from a subsidiary company	<u>573</u>

28 INVESTMENTS IN SUBSIDIARY COMPANY

The subsidiary company of Cagamas Berhad is as follows:

Name	Principal Activity	Interest in equity held by Cagamas Berhad	
		2004 RM	2003 RM
Cagamas MBS Berhad	Securitisation of Government's mortgage assets	100%	
Investments in subsidiary company: Unquoted shares at cost		<u>2</u>	<u>–</u>

29 CAPITAL COMMITMENTS

	Group and Company	
	2004 RM'000	2003 RM'000
Capital expenditure: Authorised and contracted for	<u>–</u>	<u>1,997</u>
Analysed as follows: Property and equipment	<u>–</u>	<u>1,997</u>

30 LEASE COMMITMENTS

The Group and Company have lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments is as follows:

Year	RM'000
2005	840
2006	369
	<u>1,209</u>

31 INTEREST RATE SWAPS

Interest Rate Swaps (IRS) are used as hedging tools to support issuance of fixed rate bonds to fund floating rate purchases of mortgage loans. By entering into IRS, the Company is protected from adverse movements in interest rates since the Company pays the floating rate receipts from its floating rate purchases to and receives fixed rate payments from the swap counter parties. These fixed rate payments will then be utilised to pay interest on the fixed rate bonds issued.

The IRS are also used to hedge the Company's issuance of debt securities in a rising interest rate environment. In the first leg of the transaction, the Company pays fixed rate interest and receives floating rate payments from the swap counter parties. On issuance of the debt securities, the Company unwinds the IRS transaction by taking an opposite position for the same amounts as in the first leg of the transaction. The IRS protects Company in a rising interest rate environment since the Company will be receiving higher fixed rate as compared to the fixed rate that the Company is required to pay the swap counter parties in the first leg of the transaction.

31 INTEREST RATE SWAPS (continued)

The remaining terms and notional principal amounts of the outstanding IRS of the Group and Company at the balance sheet date were:

	2004 RM'000	2003 RM'000
Maturing within one year	91,000	267,000
One year to three years	600,000	391,000
	691,000	658,000

32 INTEREST RATE RISK

The table below summarises the Group's and Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates and adjustments are made to factor in expected repayments of amounts due from counter parties. The IRS are stated at net notional amounts. As interest rates and yield curves change over time, the Group or Company may be exposed to loss in earnings due to the effects of movements in interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

Group

	Effective Interest Rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non- interest bearing RM'000	Transactions based on Islamic principles RM'000	Total RM'000
2004								
Cash and short-term funds	2.68	229,668	-	-	-	304	77,257	307,229
Deposits and placements with financial institutions	-	-	-	-	-	-	65,000	65,000
Amounts due from counter parties:								
Fixed rate portfolio	4.16	6,449,988	12,827,124	4,236,277	1,470,068	-	-	24,983,457
Floating rate portfolio	3.06	313,680	-	-	-	-	-	313,680
Mortgage assets	4.00	3,127	81,899	276,979	1,520,514	(357,766)	-	1,524,753
Investment securities	5.45	-	61,248	-	-	-	371,031	432,279
Islamic financing debts	-	-	-	-	-	-	2,211,227	2,211,227
Other assets	3.06	3	4	109	1,717	99,866	8,629	110,328
Total assets		6,996,466	12,970,275	4,513,365	2,992,299	(257,596)	2,733,144	29,947,953
Unsecured bearer bonds and notes	3.64	4,933,226	15,061,564	3,974,208	219,997	-	2,548,358	26,737,353
Residential mortgage backed securities	4.46	-	580,000	340,000	635,000	-	-	1,555,000
Other liabilities	-	-	-	-	-	321,416	8,604	330,020
Total liabilities		4,933,226	15,641,564	4,314,208	854,997	321,416	2,556,962	28,622,373
Shareholders' funds		-	-	-	-	1,325,580	-	1,325,580
Total liabilities and shareholders' funds		4,933,226	15,641,564	4,314,208	854,997	1,646,996	2,556,962	29,947,953

32 INTEREST RATE RISK (continued)

Group

	Effective Interest Rate	Within one year	One year to three years	Three years to five years	More than five years	Non-interest bearing	Transactions based on Islamic principles	Total
	%	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2004								
On-balance sheet interest sensitivity gap		2,063,240	(2,671,289)	199,157	2,137,302			
Interest rate swaps interest sensitivity gap		—	—	—	—			
Total interest sensitivity gap		2,063,240	(2,671,289)	199,157	2,137,302			
Cumulative gap		2,063,240	(608,049)	(408,892)	1,728,410			

Company

2004

Cash and short-term funds	2.69	132,050	—	—	—	301	77,257	209,608
Deposits and placements with financial institutions	—	—	—	—	—	—	65,000	65,000
Amounts due from counter parties:								
Fixed rate portfolio	4.16	6,449,988	12,827,124	4,236,277	1,470,068	—	—	24,983,457
Floating rate portfolio	3.06	313,680	—	—	—	—	—	313,680
Investment securities	5.45	—	61,248	—	—	—	371,031	432,279
Islamic financing debts	—	—	—	—	—	—	2,211,227	2,211,227
Other assets	3.06	3	4	109	1,717	57,586	8,624	68,043
Total assets		6,895,721	12,888,376	4,236,386	1,471,785	57,887	2,733,139	28,283,294
Unsecured bearer bonds and notes	3.64	4,933,226	15,061,564	3,974,208	219,997	—	2,548,358	26,737,353
Other liabilities	—	—	—	—	—	280,815	8,604	289,419
Total liabilities		4,933,226	15,061,564	3,974,208	219,997	280,815	2,556,962	27,026,772
Shareholders' funds		—	—	—	—	1,256,522	—	1,256,522
Total liabilities and shareholders' funds		4,933,226	15,061,564	3,974,208	219,997	1,537,337	2,556,962	28,283,294
On-balance sheet interest sensitivity gap		1,962,495	(2,173,188)	262,178	1,251,788			
Interest rate swaps interest sensitivity gap		—	—	—	—			
Total interest sensitivity gap		1,962,495	(2,173,188)	262,178	1,251,788			
Cumulative gap		1,962,495	(210,693)	51,485	1,303,273			

32 INTEREST RATE RISK (continued)

Company

	Effective Interest Rate	Within one year	One year to three years	Three years to five years	More than five years	Non- interest bearing	Transactions based on Islamic principles	Total
	%	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2003								
Cash and short-term funds	2.73	60,480	–	–	–	542	12,626	73,648
Amounts due from counter parties:								
Fixed rate portfolio	4.19	6,188,306	11,908,586	6,388,287	1,350,058	–	–	25,835,237
Floating rate portfolio	3.07	596,186	–	–	–	–	–	596,186
Investment securities	5.45	–	51,138	10,868	–	–	320,819	382,825
Islamic financing debts	–	–	–	–	–	–	907,689	907,689
Other assets	3.01	–	16	3	1,702	53,922	1,896	57,539
Total assets		6,844,972	11,959,740	6,399,158	1,351,760	54,464	1,243,030	27,853,124
Unsecured bearer bonds and notes	3.58	7,874,796	14,401,565	2,862,890	219,997	–	1,074,000	26,433,248
Other liabilities	–	–	–	–	–	274,227	9,593	283,820
Total liabilities		7,874,796	14,401,565	2,862,890	219,997	274,227	1,083,593	26,717,068
Shareholders' funds		–	–	–	–	1,136,056	–	1,136,056
Total liabilities and shareholders' funds		7,874,796	14,401,565	2,862,890	219,997	1,410,283	1,083,593	27,853,124
On-balance sheet interest sensitivity gap		(1,029,824)	(2,441,825)	3,536,268	1,131,763			
Interest rate swaps interest sensitivity gap		209,000	(209,000)	–	–			
Total interest sensitivity gap		(820,824)	(2,650,825)	3,536,268	1,131,763			
Cumulative gap		(820,824)	(3,471,649)	64,619	1,196,382			

The table represents a static position which provides an indication of the potential impact on the Group's and Company's balance sheet through gap analysis of the interest rate sensitive assets, liabilities and off-balance sheet items by time bands. A positive interest rate sensitivity gap exists when more interest sensitive assets than interest sensitive liabilities reprice or mature during a given time period. Similarly, a negative interest rate sensitivity gap exists when more interest sensitive liabilities than interest sensitive assets reprice or mature during a given time period. Any negative interest rate sensitivity gap is to be funded by the Company's shareholders' funds, unsecured bearer notes or money market borrowings.

32 INTEREST RATE RISK (continued)

For decision-making purposes, the Group and Company manage their exposure to interest rate risk. The Company sets limits on the sensitivity of the Company's forecasted net interest income at risk to projected changes in interest rates over a one-year, three-year and five-year horizon. The Company also undertakes duration analysis before deciding on the size and tenor of the debt securities to be issued to ensure that the Company's assets and liabilities are closely matched within the tolerance limit set by the Board.

33 CREDIT RISK

The Group's counter parties are mainly the GOM and the financial institutions in Malaysia, which are governed by the Banking and Financial Institutions Act, 1989 and are subject to periodic reviews by Bank Negara Malaysia. The table below summarises the Group's and Company's exposure to credit risk as at the balance sheet date:

Group

	Cash and short term funds	Deposits and placements with financial institutions	Amounts due from counter parties	Mortgage assets	Investment securities	Islamic financing debts	Other assets	Total on-balance sheet items	Interest rate swaps	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2004										
Government bodies	16	–	–	1,524,753	193,015	–	47,530	1,765,314	–	1,765,314
Financial Institutions:										
Commercial banks	300,213	65,000	11,658,361	–	–	594,224	20,970	12,638,768	–	12,638,768
Finance companies	–	–	13,206,379	–	–	1,506,827	19,951	14,733,157	–	14,733,157
Merchant banks	7,000	–	199,364	–	–	–	705	207,069	3,599	210,668
Communication, electricity, gas and water	–	–	233,033	–	153,301	110,176	2,896	499,406	–	499,406
Transportation	–	–	–	–	5,052	–	22	5,074	–	5,074
Leasing	–	–	–	–	15,155	–	242	15,397	–	15,397
Construction	–	–	–	–	45,701	–	864	46,565	–	46,565
Others	–	–	–	–	20,055	–	17,148	37,203	–	37,203
Total	307,229	65,000	25,297,137	1,524,753	432,279	2,211,227	110,328	29,947,953	3,599	29,951,552

33 CREDIT RISK (continued)

Company

	Cash and short term funds	Deposits and placements with financial institutions	Amounts due from counter parties	Investment securities	Islamic financing debts	Other assets	Total on-balance sheet items	Interest rate swaps	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2004									
Government bodies	16	-	-	193,015	-	5,288	198,319	-	198,319
Financial Institutions:									
Commercial banks	202,592	65,000	11,658,361	-	594,224	20,927	12,541,104	-	12,541,104
Finance companies	-	-	13,206,379	-	1,506,827	19,951	14,733,157	-	14,733,157
Merchant banks	7,000	-	199,364	-	-	705	207,069	3,599	210,668
Communication, electricity, gas and water	-	-	233,033	153,301	110,176	2,896	499,406	-	499,406
Transportation	-	-	-	5,052	-	22	5,074	-	5,074
Leasing	-	-	-	15,155	-	242	15,397	-	15,397
Construction	-	-	-	45,701	-	864	46,565	-	46,565
Others	-	-	-	20,055	-	17,148	37,203	-	37,203
Total	209,608	65,000	25,297,137	432,279	2,211,227	68,043	28,283,294	3,599	28,286,893
2003									
Government bodies	6	-	-	182,876	-	2,008	84,890	-	184,890
Financial Institutions:									
Commercial banks	73,641	-	12,985,857	-	228,292	23,344	13,311,134	829	13,311,963
Finance companies	-	-	12,910,273	-	563,226	18,656	13,492,155	-	13,492,155
Merchant banks	-	-	237,190	-	-	777	237,967	8,904	246,871
Communication, electricity, gas and water	-	-	298,103	118,615	116,171	2,337	535,226	-	535,226
Transportation	-	-	-	10,102	-	40	10,142	-	10,142
Leasing	-	-	-	15,232	-	244	15,476	-	15,476
Construction	-	-	-	35,898	-	788	36,686	-	36,686
Others	1	-	-	20,102	-	9,345	29,448	-	29,448
Total	73,648	-	26,431,423	382,825	907,689	57,539	27,853,124	9,733	27,862,857

The credit risk concentration for IRS is based on the credit equivalent amounts as stated in Bank Negara Malaysia's circular dated 14 March 1997.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values. In addition, fair value information for non-financial assets and liabilities such as property and equipment are excluded, as they do not fall within the scope of MASB 24, which requires the fair value information to be disclosed.

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The estimated fair values of the Group's and Company's financial instruments approximated their book values except for the following:

Group

	2004	
	Carrying Value RM'000	Fair Value RM'000
Assets		
Amounts due from counter parties	25,297,137	25,257,436
Mortgage assets	1,524,753	1,550,694
Investment securities	432,279	462,148
Islamic financing debts	2,211,227	2,192,417
	<u>29,465,396</u>	<u>29,462,695</u>
Liabilities		
Unsecured bearer bonds and notes	26,737,353	26,893,796
Residential mortgage-backed securities	1,555,000	1,575,000
	<u>28,292,353</u>	<u>28,468,796</u>
	Notional Value RM'000	Fair Value RM'000
Derivatives		
Interest rate swaps	<u>691,000</u>	<u>3,338</u>

34 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Company

	2004		2003	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Assets				
Amounts due from counter parties	25,297,137	25,257,436	26,431,423	27,637,668
Investment securities	432,279	462,148	382,825	402,140
Islamic financing debts	2,211,227	2,192,417	907,689	985,968
	<u>27,940,643</u>	<u>27,912,001</u>	<u>27,721,937</u>	<u>29,025,776</u>
Liabilities				
Unsecured bearer bonds and notes	<u>26,737,353</u>	<u>26,893,796</u>	<u>26,433,248</u>	<u>26,368,480</u>
	Notional Value RM'000	Fair Value RM'000	Notional Value RM'000	Fair Value RM'000
Derivatives				
Interest rate swaps	<u>691,000</u>	<u>3,338</u>	<u>658,000</u>	<u>2,156</u>

The following methods and assumptions were used to estimate the fair value of financial instruments as at the balance sheet date:

(a) Cash and short-term funds

The carrying amount of cash and short-term funds is used as reasonable estimate of fair values as the maturity is less than or equal to a month.

(b) Amounts due from counter parties

The fair value of the fixed rate assets portfolio is based on the present value of estimated future cash flows discounted at the risk-adjusted rates at the balance sheet date. The fair value of the floating rate assets portfolio is based on their carrying amount as the repricing date of the floating rate assets portfolio is not greater than 6 months.

(c) Mortgage assets

The fair value of the mortgage assets is derived at using the present value of future cash flows discounted based on the Cagamas MBS Berhad's weighted average cost of capital (WACC). The WACC is the residential mortgage-backed securities yield to maturity at the balance sheet date.

(d) Investment securities

The fair value of the investment securities is based on the quoted or observable market prices at the balance sheet date.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) *Islamic financing debts*

The fair value of the Islamic financing debts is based on the present value of estimated future cash flows discounted at the risk-adjusted profit rates at the balance sheet date.

(f) *Other financial assets*

Other financial assets include accrued interest receivables, other debtors and deposits. The fair value of other financial assets is estimated at their carrying amount.

(g) *Unsecured bearer bonds and notes*

The estimated fair value of unsecured bearer bonds is based on the estimated future cash flows discounted using current yield curve derived based on the quoted market prices at the balance sheet date. The fair value of unsecured bearer notes is estimated at their carrying amount as notes have maturity of not greater than 12 months.

(h) *Amount due (to)/from a subsidiary company*

The estimated fair value of amount due (to) / from a subsidiary company approximated their book value due to short tenure of less than one year.

(i) *Residential mortgage-backed securities*

The estimated fair value of residential mortgage-backed securities is based on the estimated future cash flows discounted using current yield curve appropriate for the remaining term of maturity.

(j) *Other financial liabilities*

Other financial liabilities include accrued interest payable, creditors and accruals. The fair value of other financial liabilities is estimated at their carrying amount.

(k) *Derivatives*

The estimated fair value of the interest rate swaps is based on the discounted estimated future cash flows using the market interest rate at the balance sheet date.

35 SEGMENT REPORTING

The Group comprises the following business segments:

(a) *Purchase With Recourse (PWR)*

The PWR scheme consists of purchase of mortgage loans, hire purchase and leasing debts and Islamic financing debts from the primary lenders approved by the Company. The loans and debts are acquired with recourse to the primary lenders should the loans and debts fail to comply with agreed prudential criteria.

(b) *Purchase Without Recourse (PWOR)*

Under the PWOR scheme, CMBS purchases the mortgage assets from GOM on an outright basis for the remaining tenure of the mortgage assets. The purchase will be made without recourse to GOM, other than certain warranties to be provided by the seller pertaining to the quality of the mortgage assets.

35 SEGMENT REPORTING (continued)

	Purchase with recourse RM'000	Purchase without recourse RM'000	Total RM'000
2004			
Revenue			
External revenue	1,119,133	112,012	1,231,145
Total revenue	<u>1,119,133</u>	<u>112,012</u>	<u>1,231,145</u>
Results			
Segment results	183,296	95,858	279,154
Unallocated expenses	–	–	–
Profit from operations	183,296	95,858	279,154
Taxation	(51,566)	(26,800)	(78,366)
Zakat	(464)	–	(464)
Net profit for the year	<u>131,266</u>	<u>69,058</u>	<u>200,324</u>
Net assets			
Segment assets	28,283,294	1,664,659	29,947,953
Unallocated assets	–	–	–
Total assets	<u>28,283,294</u>	<u>1,664,659</u>	<u>29,947,953</u>
Segment liabilities	27,026,772	1,595,601	28,622,373
Unallocated liabilities	–	–	–
Total liabilities	<u>27,026,772</u>	<u>1,595,601</u>	<u>28,622,373</u>
Other information			
Capital expenditure	2,789	–	2,789
Depreciation and amortisation	1,659	–	1,659
Other non-cash expenses	–	–	–

36 CAPITAL ADEQUACY

	Company	
	2004	2003
	RM'000	RM'000
<i>The capital adequacy ratios are as follows:</i>		
Paid-up capital	150,000	150,000
Other reserves	1,109,760	988,973
Tier I capital	1,259,760	1,138,973
Total capital base	1,259,760	1,138,973
<i>Capital ratios:</i>		
Core and risk weighted	20.6%	18.9%
<i>Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:</i>		
0%	193,876	183,977
20%	27,481,038	27,040,714
50%	12,939	19,875
100%	601,591	618,292
Total risk-weighted assets	6,104,268	6,036,372

The above capital adequacy ratio calculations are based on the Guidelines issued by Bank Negara Malaysia to the banking institutions. Although the Company is not subject to the above Guidelines, disclosure of the capital adequacy ratios is made on a voluntary basis for information.

37 ISLAMIC OPERATIONS

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	Group and Company 2004 RM'000	2003 RM'000
ASSETS			
Cash and short-term funds	(a)	77,257	12,626
Deposits and placements with financial institutions	(b)	65,000	–
Investment securities	(c)	208,617	168,978
Islamic financing debts	(d)	2,211,227	907,689
Receivables		7,021	3,645
Other assets		80,965	26,825
TOTAL ASSETS		2,650,087	1,119,763
LIABILITIES			
Unsecured bearer bonds	(e)	2,548,358	1,074,000
Other liabilities	(f)	8,604	9,942
TOTAL LIABILITIES		2,556,962	1,083,942
ISLAMIC OPERATIONS' FUNDS		93,125	35,821
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		2,650,087	1,119,763

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Note	Group and Company 2004 RM'000	2003 RM'000
TOTAL INCOME ATTRIBUTABLE		64,202	44,669
INCOME ATTRIBUTABLE TO THE BONDHOLDERS	(g)	(60,257)	(42,115)
INCOME ATTRIBUTABLE TO THE SHAREHOLDERS	(h)	3,945	2,554
ADMINISTRATION AND GENERAL EXPENSES		(281)	(35)
PROFIT BEFORE TAXATION AND ZAKAT		3,664	2,519
TAXATION		(896)	(628)
ZAKAT		(464)	(277)
NET PROFIT FOR THE YEAR		2,304	1,614

37 ISLAMIC OPERATIONS (continued)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Group and Company		
	Allocated Capital Funds RM'000	Retained Earnings RM'000	Total RM'000
Balance as at 1 January 2003	17,815	3,192	21,007
Net profit for the year	–	1,614	1,614
Transferred to Islamic operations	13,200	–	13,200
Balance as at 31 December 2003	31,015	4,806	35,821
Net profit for the year	–	2,304	2,304
Transferred to Islamic operations	55,000	–	55,000
Balance as at 31 December 2004	86,015	7,110	93,125

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Note	Group and Company	
		2004 RM'000	2003 RM'000
OPERATING ACTIVITIES			
Net profit for the year		2,304	1,614
Adjustments for investment items and items not involving the movement of cash and cash equivalents:			
Amortisation of premium less accretion of discount on Islamic debt securities		1,909	1,243
Income accrued from Islamic debt securities		(7,298)	(4,609)
Taxation		896	628
Zakat		464	277
Operating loss before working capital charges		(1,725)	(847)
Increase in Islamic financing debts		(1,303,538)	(204,299)
Increase in other assets		(1,844)	(1,005)
Increase in unsecured bearer bonds		1,474,358	320,000
(Decrease)/increase in other liabilities		(1,536)	3,281
Cash generated from operations		165,715	117,130
Payment of zakat		(266)	(253)
Payment of taxation		(896)	(279)
Net cash generated from operating activities		164,553	116,598

37 ISLAMIC OPERATIONS (continued)

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)

	Note	Group and Company	
		2004	2003
		RM'000	RM'000
INVESTING ACTIVITIES			
Purchase of investments		(71,547)	(118,977)
Redemption of investments		30,000	–
Income received from Islamic debt securities		6,625	2,718
Net cash utilised in investing activities		(34,922)	(116,259)
Net increase in cash and cash equivalents		129,631	339
Cash and cash equivalents as at beginning of the year		12,626	12,287
Cash and cash equivalents as at the end of the year		142,257	12,626
Analysis of cash and cash equivalents:			
Cash and short-term funds	(a)	77,257	12,626
Deposits and placements with financial institutions	(b)	65,000	–
		142,257	12,626
(a) CASH AND SHORT-TERM FUNDS			
Cash and balances with banks and other financial institutions		7	6
Mudharabah money at call and deposit placements maturing within one month		77,250	12,620
		77,257	12,626
(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS			
Licensed bank		65,000	–

37 ISLAMIC OPERATIONS (continued)

(c) INVESTMENT SECURITIES

	Group and Company	
	2004	2003
	RM'000	RM'000
Islamic debt securities	211,404	170,327
Amortisation of premium less accretion of discount	(2,787)	(1,349)
	<u>208,617</u>	<u>168,978</u>

Market value of investment securities is as follows:

Islamic debt securities	<u>210,467</u>	<u>167,807</u>
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The maturity structure of investment securities is as follows:

Maturing within one year	41,030	25,508
One year to three years	170,374	108,619
Three years to five years	–	36,200
	<u>211,404</u>	<u>170,327</u>

(d) ISLAMIC FINANCING DEBTS

Islamic house financing debts	704,401	344,463
Islamic hire purchase debts	1,506,826	563,226
	<u>2,211,227</u>	<u>907,689</u>

The maturity structure of Islamic financing debts is as follows:

Maturing within one year	342,727	246,735
One year to three years	1,078,142	342,960
Three years to five years	790,358	279,672
More than five years	–	38,322
	<u>2,211,227</u>	<u>907,689</u>

37 ISLAMIC OPERATIONS (continued)

(e) UNSECURED BEARER BONDS

	Group and Company	
	2004	2003
	RM'000	RM'000
Sanadat Mudharabah Cagamas	930,000	1,074,000
Sanadat Cagamas	1,618,358	–
	<u>2,548,358</u>	<u>1,074,000</u>

The maturity structure of unsecured bearer bonds is as follows:

Maturing within one year	–	144,000
One year to three years	2,073,646	200,000
Three years to five years	474,712	680,000
More than five years	–	50,000
	<u>2,548,358</u>	<u>1,074,000</u>

(f) OTHER LIABILITIES

Zakat	476	278
Income attributable to bondholders	8,128	9,315
Other liabilities	–	349
	<u>8,604</u>	<u>9,942</u>

(g) INCOME ATTRIBUTABLE TO THE BONDHOLDERS

Income from Islamic financing debts	51,805	37,848
Income from investment securities	6,787	3,878
Income from deposits placements with financial institutions	1,665	389
	<u>60,257</u>	<u>42,115</u>

Income attributable to the bondholders analysed by concepts is as follows:

Bai Al-Dayn	33,437	37,848
Mudharabah	1,665	389
Bai Bithaman Ajil	24,265	3,548
Murabahah	890	330
	<u>60,257</u>	<u>42,115</u>

37 ISLAMIC OPERATIONS (continued)

(h) INCOME ATTRIBUTABLE TO THE SHAREHOLDERS

	Group and Company	
	2004	2003
	RM'000	RM'000
Income from Islamic financing debts	3,051	2,212
Income from investment securities	512	273
Income from deposit placements with financial institutions	382	69
	<u>3,945</u>	<u>2,554</u>

Income attributable to the shareholders analysed by concepts is as follows:

Bai Al-Dayn	3,051	2,212
Mudharabah	382	69
Bai Bithaman Ajil	445	247
Murabahah	67	26
	<u>3,945</u>	<u>2,554</u>

(i) CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

Allocated capital funds	86,015	31,015
Other reserves	7,110	4,806
	<u>93,125</u>	<u>35,821</u>
Tier 1 capital	93,125	35,821
	<u>93,125</u>	<u>35,821</u>
Total capital base	93,125	35,821
	<u>93,125</u>	<u>35,821</u>
Capital ratios:		
Core and risk weighted	12.1%	8.1%
	<u>12.1%</u>	<u>8.1%</u>

Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:

0%	80,972	26,831
20%	2,246,950	803,893
50%	5,074	10,141
100%	317,091	278,898
	<u>2,650,087</u>	<u>1,119,763</u>
Total risk-weighted assets	769,017	444,747
	<u>769,017</u>	<u>444,747</u>

The above capital adequacy ratio calculations are based on the Guidelines issued by Bank Negara Malaysia to the banking institutions. Although the Company is not subject to the above Guidelines, disclosure of the capital adequacy ratios is made on a voluntary basis for information.

37 ISLAMIC OPERATIONS (continued)

(j) ZAKAT OBLIGATIONS

The Company only pays zakat on its business. The Company does not pay zakat on behalf of the bondholders and shareholders.

(k) SYARIAH ADVISOR

The Company consults an independent Syariah advisor on an ad-hoc basis for all its Islamic products to ensure compliance with Islamic principles. In addition, the Company is required to obtain the approval of the Syariah Council of the regulatory bodies for its Islamic products.

38 COMPARATIVES

There are no comparative figures for the Group as this is the first set of consolidated statutory financial statements.

39 DISCRETIONARY BONUS FEE

In the Servicing Agreement dated 14 October 2004 signed between GOM, CMBS, the Company and Malaysian Trustee Berhad, CMBS agreed to pay GOM a discretionary bonus fee, to be determined by CMBS in respect of the services provided by GOM, after the RMBS have been fully redeemed and all obligations and liabilities of CMBS in respect of the RMBS have been discharged.

40 APPROVAL OF FINANCIAL STATEMENTS

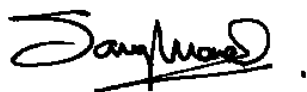
The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 22 March 2005.

Statement by Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Ooi Sang Kuang and Datuk Amirsham A. Aziz, two of the Directors of Cagamas Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 172 to 215 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2004 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 22 March 2005.



DATO' OOI SANG KUANG
CHAIRMAN

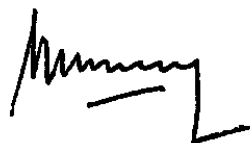


DATUK AMIRSHAM A. AZIZ
DIRECTOR

Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, Kokularupan A/L Narayanasamy, the officer primarily responsible for the financial management of Cagamas Berhad, do solemnly and sincerely declare that the financial statements set out on pages 172 to 215 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.



KOKULARUPAN A/L NARAYANASAMY

Subscribed and solemnly declared by the abovenamed Kokularupan A/L Narayanasamy at Kuala Lumpur in Malaysia on 22 March 2005, before me.



KARAM SINGH AIL SUDAGAR SINGH PMC
COMMISSIONER FOR OATHS

Report of the Auditors

to the members of Cagamas Berhad (Company No: 157931-A)

We have audited the financial statements set out on pages 172 to 215. These financial statements are the responsibility of the Company's 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 to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

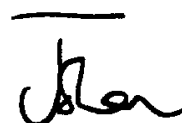
- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
- (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and Company as at 31 December 2004 and of the results and cashflows of the Group and Company for the financial year ended on that date;
- and
- (b) the accounting and other records and the registers required by the Act to be kept by the Group and Company have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the consolidated financial statements and we have received satisfactory information and explanation required by us for those purposes.

The auditors' report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.



PRICEWATERHOUSECOOPERS
(No. AF:1146)
Chartered Accountants



**DATO' AHMAD JOHAN
BIN MOHAMMAD RASLAN**
(No. 1867/09/06(J))
Partner of the firm

22 March 2005

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Jumlah Syer

Saya/Kami _____

(NAMA PENUH DI DALAM HURUF BESAR)

daripada _____

(NAMA SYARIKAT)

dari _____

(ALAMAT PENUH)

sebagai ahli **CAGAMAS BERHAD**, dengan ini melantik Pengerusi bagi Mesyuarat atau

(NAMA PENUH DI DALAM HURUF BESAR)

dari _____

(ALAMAT PENUH)

atau jika beliau tidak dapat hadir _____

(NAMA PENUH DI DALAM HURUF BESAR)

dari _____

(ALAMAT PENUH)

sebagai proksi saya/kami untuk mengundi bagi pihak saya/kami di Mesyuarat Agung Tahunan Kelapan Belas Syarikat, yang akan diadakan di Bilik Persidangan, Tingkat 16, Blok A, Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur pada hari Isnin, 25 April 2005 jam 12.15 tengahari dan pada sebarang penangguhannya.

Proksi saya/kami akan mengundi sama ada dengan mengangkat tangan atau dengan membuang undi dengan menandakan "X" seperti di bawah:

NO.	RESOLUSI BIASA	SETUJU	BANGKANG
1.	Penerimaan Penyata Kewangan yang telah diaudit dan Laporan-Laporan (Resolusi No. 1)		
2.	Pengisytiharan Dividen Akhir (Resolusi No. 2)		
3.	Pembayaran Ganjaran Pengarah (Resolusi No. 3)		
4.	Pelantikan Semula Pengarah di bawah Artikel 19.13 dan 19.14 (Resolusi No. 4)		
5.	Pelantikan Semula Pengarah di bawah Artikel 19.10 (Resolusi No. 5)		
6.	Pelantikan Juruaudit (Resolusi No. 6)		

Pada _____ haribulan _____ 2005

Tandatangan Ahli

Nota

- Seorang ahli yang berhak menghadiri dan mengundi dalam Mesyuarat yang dinyatakan di atas boleh melantik seorang proksi untuk hadir dan mengundi bagi pihaknya. Seorang proksi tidak semestinya seorang ahli Syarikat.
- Sekiranya ahli syarikat adalah sebuah badan korporat, borang proksi ini mestilah dimeterai ataupun ditandatangani oleh wakil mutlaknya yang telah diberikuasa.
- Kesemua borang proksi mestilah diserahkan kepada Pejabat Berdaftar Syarikat di Tingkat 19, Bahagian Barat, Menara Maybank, 100, Jalan Tun Perak, 50050 Kuala Lumpur tidak lewat dari 48 jam sebelum masa yang ditetapkan untuk Mesyuarat berkenaan atau untuk Mesyuarat yang ditangguhkan mengikut mana yang berkenaan.

Dilipat

SETEM

Setiausaha Syarikat
CAGAMAS BERHAD
Tingkat 19, Bahagian Barat
Menara Maybank
100, Jalan Tun Perak
50050 Kuala Lumpur

Dilipat

form of proxy

No. of Shares

I/We _____
(FULL NAME IN BLOCK CAPITALS)

from _____
(NAME OF COMPANY)

of _____
(FULL ADDRESS)

being a member/members of **CAGAMAS BERHAD**, hereby appoint the Chairman of the meeting or

_____ (FULL NAME IN BLOCK CAPITALS)

of _____
(FULL ADDRESS)

or failing him/her _____
(FULL NAME IN BLOCK CAPITALS)

of _____
(FULL ADDRESS)

as my/our proxy to vote for me/us on my/our behalf at the Eighteenth Annual General Meeting of the Company, to be held at the Conference Room, 16th Floor, Block A, Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur on Monday, 25 April 2005 at 12.15 p.m. and at any adjournment thereof.

My/Our Proxy is to vote either on a show of hands or on a poll as indicated below with an "X":

NO.	ORDINARY RESOLUTIONS	FOR	AGAINST
1.	Adoption of Audited Financial Statements and Reports (Resolution No. 1)		
2.	Declaration of Final Dividend (Resolution No. 2)		
3.	Payment of Directors' Remuneration (Resolution No. 3)		
4.	Re-election of Directors under Articles 19.13 and 19.14 (Resolution No. 4)		
5.	Re-election of Directors under Article 19.10 (Resolution No. 5)		
6.	Appointment of Auditors (Resolution No. 6)		

Dated this _____ day of _____ 2005

Signature of Member(s)

Notes

1. A member entitled to attend and vote at the Meeting may appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. In the case where a member is a corporation, this Form of Proxy must be executed under its common seal or under the hand of its attorney.
3. All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at 19th Floor, West Wing, Menara Maybank, 100, Jalan Tun Perak, 50050 Kuala Lumpur not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting as the case may be.

Fold

STAMP

Company Secretary
CAGAMAS BERHAD
19th Floor, West Wing
Menara Maybank
100, Jalan Tun Perak
50050 Kuala Lumpur

Fold