

financial statements

166	<i>Directors' Report</i>
169	<i>Balance Sheet</i>
170	<i>Income Statement</i>
171	<i>Statement of Changes in Equity</i>
173	<i>Cash Flow Statement</i>
175	<i>Notes to the Financial Statements</i>
213	<i>Statement by Directors</i>
213	<i>Statutory Declaration</i>
214	<i>Report of the Auditors</i>

directors' report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and Company for year ended 31 December 2005.

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.

The principal activities of the subsidiary, Cagamas MBS Berhad ("CMBS"), consist of the purchases of Conventional and Islamic mortgage assets from the Government of Malaysia ("GOM") and the issue of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS") to finance the purchases.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit before taxation and zakat	456,765	150,112
Taxation	(127,761)	(41,938)
Zakat	(1,164)	(1,164)
	<hr/>	<hr/>
Net profit for the year	327,840	107,010
	<hr/>	<hr/>

DIVIDENDS

The dividends paid by the Company since 31 December 2004 are as follows:

	RM'000	RM'000
In respect of the year ended 31 December 2004, as shown in the Directors' report of that year,		
a final gross dividend of 10 sen per share on 150,000,000 ordinary shares, less income tax, paid on 13 April 2005	10,800	10,800
In respect of the year ended 31 December 2005,		
an interim gross dividend of 5 sen per share on 150,000,000 ordinary shares, less income tax, paid on 7 October 2005	5,400	5,400
	<hr/>	<hr/>
	16,200	16,200
	<hr/>	<hr/>

The Directors now recommend the payment of a final dividend of 10 sen per share, less income tax, on 150,000,000 ordinary shares amounting to RM10,800,000 for the year ended 31 December 2005 which, subject to approval of members at the forthcoming Annual General Meeting of the Company, will be paid on 9 May 2006 to shareholders registered on the Company's Register of Members as at the close of business on 14 April 2006.

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
Dato' Sri Tay Ah Lek
Tan Sri 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
YM Tunku Afwida Tunku A. Malek
Abdul Karim Md Lassim
Tang Wing Chew

(appointed on 3.1.2006)

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:

Dato' Ooi Sang Kuang
Dato' Mohd Razif Abdul Kadir
Tan Sri Dato' Azman Hashim
Dato' Albert Yeoh Beow Tit

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

Tang Wing Chew

DIRECTORS' BENEFITS

During and at the end of the financial 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 27 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.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

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 financial 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.

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 year in which this report is made.

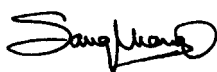
RELATED-PARTY TRANSACTIONS

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 21 March 2006.



DATO' OOI SANG KUANG
CHAIRMAN



DATO' SRI TAY AH LEK
DIRECTOR

balance sheet

as at 31 December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
ASSETS					
Cash and short-term funds	4	1,790,591	307,229	1,397,068	209,608
Deposits and placements with financial institutions	5	–	65,000	–	65,000
Amounts due from counter parties	6	21,177,837	25,297,137	21,177,837	25,297,137
Mortgage assets	7	3,348,266	1,524,753	–	–
Islamic mortgage assets	8	2,080,171	–	–	–
Investment securities	9	621,503	432,279	621,503	432,279
Islamic financing debts	10	2,682,146	2,211,227	2,682,146	2,211,227
Tax recoverable		936	4,163	936	4,163
Other assets	11	299,865	93,061	42,470	50,203
Investment in subsidiary company	32	–	–	–*	–*
Property and equipment	12	6,201	6,983	6,201	6,983
Intangible asset	13	9,486	6,121	9,486	6,121
Amount due from a subsidiary		–	–	794	573
TOTAL ASSETS		32,017,002	29,947,953	25,938,441	28,283,294
LIABILITIES					
Unsecured bearer bonds	14	24,359,536	26,737,353	24,359,536	26,737,353
Residential mortgage-backed securities	15	3,615,000	1,555,000	–	–
Islamic residential mortgage-backed securities	16	2,050,000	–	–	–
Deferred taxation	17	81,050	27,476	16,642	13,743
Other liabilities	18	274,196	302,544	214,931	275,676
TOTAL LIABILITIES		30,379,782	28,622,373	24,591,109	27,026,772
SHARE CAPITAL	19	150,000	150,000	150,000	150,000
RESERVES	20	1,487,220	1,175,580	1,197,332	1,106,522
SHAREHOLDERS' FUNDS		1,637,220	1,325,580	1,347,332	1,256,522
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		32,017,002	29,947,953	25,938,441	28,283,294
NET TANGIBLE ASSETS PER SHARE (RM)	29	10.91	8.84	8.98	8.38

* Investment in subsidiary company of RM2

income statement

for the year ended 31 December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
INTEREST INCOME	21	1,229,365	1,231,145	959,033	1,119,133
INCOME FROM ISLAMIC ASSETS	22	158,529	-	-	-
INTEREST EXPENSE	23	(889,370)	(954,429)	(814,483)	(940,737)
PROFIT ATTRIBUTABLE TO ISLAMIC BONDHOLDERS	24	(37,217)	-	-	-
ISLAMIC OPERATIONS INCOME	40	5,844	3,664	5,844	3,664
NON-INTEREST INCOME	25	11,355	10,644	14,652	11,217
NET INCOME		478,506	291,024	165,046	193,277
ADMINISTRATION AND GENERAL EXPENSES		(15,911)	(7,281)	(9,104)	(5,392)
PERSONNEL COST		(5,830)	(4,589)	(5,830)	(4,589)
PROFIT BEFORE TAXATION AND ZAKAT	26	456,765	279,154	150,112	183,296
TAXATION	28	(127,761)	(78,366)	(41,938)	(51,566)
ZAKAT		(1,164)	(464)	(1,164)	(464)
NET PROFIT FOR THE YEAR		327,840 *	200,324 *	107,010	131,266
EARNINGS PER SHARE (SEN)	29	218.6	133.5	71.3	87.5
DIVIDEND PER SHARE (SEN)	30	15	15	15	15

* As set out in Note 41 to the financial statements, net profit for the year includes profit for CMBS of RM220,830,000 (2004:RM69,058,000) that may be subject to a discretionary bonus fee to the GOM after full settlement of the bonds.

statement of changes in equity

for the year ended 31 December 2005

	<i>Issued and fully paid ordinary shares of RM1 each</i>		<i>Distributable</i>		
	<i>Number of Shares '000</i>	<i>Nominal Value RM'000</i>	<i>Retained Earnings RM'000</i>	<i>Other Reserve RM'000</i>	<i>Total RM'000</i>
Group					
Balance as at 1 January 2004	150,000	150,000	986,056	–	1,136,056
Net profit for the year	–	–	200,324	–	200,324
Transfer to other reserve	–	–	(69,058)	69,058	–
Dividends for the 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	69,058	1,325,580
Net profit for the year	–	–	327,840	–	327,840
Transfer to other reserve	–	–	(220,830)	220,830	–
Dividends for the year ended:					
31 December 2004					
– final dividend of 10 sen per share, less income tax	–	–	(10,800)	–	(10,800)
31 December 2005					
– interim dividend of 5 sen per share, less income tax	–	–	(5,400)	–	(5,400)
Balance as at 31 December 2005	150,000	150,000	1,197,332	289,888*	1,637,220

* As set out in Note 41 to the financial statements, other reserve relates to retained earnings of CMBS that may be subject to a discretionary bonus fee to the GOM after full settlement of the bonds.

*statement of changes in equity**for the year ended 31 December 2005*

<i>Company</i>	<i>Issued and fully paid ordinary shares of RM1 each</i>		<i>Distributable</i>	
	<i>Number of Shares '000</i>	<i>Nominal Value RM'000</i>	<i>Retained Earnings RM'000</i>	<i>Total RM'000</i>
<i>Balance as at 1 January 2004</i>	150,000	150,000	986,056	1,136,056
<i>Net profit for the year</i>	–	–	131,266	131,266
<i>Dividends for the year ended:</i>				
<i>31 December 2003</i>				
– <i>final dividend of 5 sen per share, less income tax</i>	–	–	(5,400)	(5,400)
<i>31 December 2004</i>				
– <i>interim dividend of 5 sen per share, less income tax</i>	–	–	(5,400)	(5,400)
<i>Balance as at 31 December 2004</i>	150,000	150,000	1,106,522	1,256,522
<i>Net profit for the year</i>	–	–	107,010	107,010
<i>Dividends for the year ended:</i>				
<i>31 December 2004</i>				
– <i>final dividend of 10 sen per share, less income tax</i>	–	–	(10,800)	(10,800)
<i>31 December 2005</i>				
– <i>interim dividend of 5 sen per share, less income tax</i>	–	–	(5,400)	(5,400)
<i>Balance as at 31 December 2005</i>	150,000	150,000	1,197,332	1,347,332

cash flow statement

for the year ended 31 December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
OPERATING ACTIVITIES					
Net profit for the year		327,840	200,324	107,010	131,266
Adjustments for investment items and items not involving the movement of cash and cash equivalents:					
Amortisation of premium on investment securities		821	756	821	756
Amortisation of premium less accretion of discount on Islamic debt securities		2,751	1,909	2,751	1,909
Accretion of discount on mortgage assets		(107,741)	(49,046)	-	-
Accretion of discount on Islamic mortgage assets		(73,242)	-	-	-
Income from Islamic debt securities		(11,311)	(10,573)	(11,311)	(10,573)
Interest income		(1,122,445)	(1,182,855)	(959,854)	(1,119,889)
Income from Islamic assets		(85,287)	-	-	-
Other non-operating income		(3,341)	(633)	(3,341)	(633)
Interest expense		889,370	954,429	814,483	940,737
Profit attributable to Islamic bondholders		37,217	-	-	-
Depreciation of property and equipment		1,739	903	1,739	903
Gain on sale of property and equipment		-	(11)	-	(11)
Taxation		127,761	78,366	41,938	51,566
Zakat		1,164	464	1,164	464
Operating profit before working capital changes		(14,704)	(5,967)	(4,600)	(3,505)
Decrease in amounts due from counter parties		4,119,300	1,134,286	4,119,300	1,134,286
Increase in Islamic financing debts		(470,919)	(1,303,538)	(470,919)	(1,303,538)
Increase in mortgage assets		(1,715,771)	(1,475,707)	-	-
Increase in Islamic mortgage assets		(2,006,930)	-	-	-
Decrease/(Increase) in other assets		(77,308)	(4,920)	(1,778)	(5,494)
(Decrease)/Increase in unsecured bearer bonds		(2,377,817)	304,105	(2,377,817)	304,105
Increase in residential mortgage-backed securities		2,060,000	1,555,000	-	-
Increase in Islamic residential mortgage-backed securities		2,050,000	-	-	-
(Decrease)/Increase in other liabilities		(1,839)	1,636	(1,818)	1,528
Cash generated from operations		1,564,012	204,895	1,262,368	127,382
Interest received		1,047,287	1,131,915	966,759	1,111,807
Income received from Islamic assets		28,567	-	-	-
Interest paid		(942,407)	(939,065)	(872,997)	(939,065)
Profit attributed to Islamic bondholders		(23,613)	-	-	-
Payment of zakat		(440)	(266)	(440)	(266)
Payment of taxation		(61,990)	(50,400)	(40,176)	(50,400)
Net cash generated from operating activities		1,611,416	347,079	1,315,514	249,458

The notes on pages 175 to 212 form an integral part of these financial statements.

cash flow statement*for the year ended 31 December 2005 (continued)*

	<i>Note</i>	Group		Company	
		2005	2004	2005	2004
		RM'000	RM'000	RM'000	RM'000
INVESTING ACTIVITIES					
<i>Purchase of:</i>					
<i>Investments</i>		(251,407)	(71,547)	(251,407)	(71,547)
<i>Property and equipment</i>		(957)	(2,787)	(957)	(2,787)
<i>Income received from Islamic debt securities</i>		5,588	6,625	5,588	6,625
<i>Gain from disposal of property and equipment</i>		–	11	–	11
<i>Redemption of investments</i>		69,922	30,000	69,922	30,000
<i>Net cash utilised in investing activities</i>		<u>(176,854)</u>	<u>(37,698)</u>	<u>(176,854)</u>	<u>(37,698)</u>
FINANCING ACTIVITIES					
<i>Payment of dividends</i>		(16,200)	(10,800)	(16,200)	(10,800)
<i>Net cash utilised in financing activities</i>		<u>(16,200)</u>	<u>(10,800)</u>	<u>(16,200)</u>	<u>(10,800)</u>
<i>Net increase in cash and cash equivalents</i>		1,418,362	298,581	1,122,460	200,960
<i>Cash and cash equivalents as at beginning of the year</i>		<u>372,229</u>	<u>73,648</u>	<u>274,608</u>	<u>73,648</u>
<i>Cash and cash equivalents as at end of the year</i>		<u>1,790,591</u>	<u>372,229</u>	<u>1,397,068</u>	<u>274,608</u>
<i>Analysis of cash and cash equivalents:</i>					
<i>Cash and short-term funds</i>	4	1,790,591	307,229	1,397,068	209,608
<i>Deposits and placements with financial institutions</i>	5	–	65,000	–	65,000
		<u>1,790,591</u>	<u>372,229</u>	<u>1,397,068</u>	<u>274,608</u>

1 GENERAL INFORMATION

The principal activities of the Company consist of the 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.

The principal activities of the subsidiary, CMBS consist of purchases of Conventional and Islamic mortgage assets from the GOM and the issue of RMBS and IRMBS to finance the purchases.

The number of employees in the Group and Company at the end of the year was 68 (2004: 54).

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

The following accounting policies have been used consistently in dealing with items which are considered material in relation to financial statements.

(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 Malaysian Accounting Standards Board ("MASB") approved accounting standards in Malaysia and the provisions of the Companies Act, 1965, in all material aspects.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

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 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) Conventional and Islamic mortgage assets

Conventional and Islamic mortgage assets are acquired by the subsidiary from the GOM at fair values. The originator acts as servicer and remits the principal and interest/profit from the mortgage assets to the subsidiary at specified intervals 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. Interest income/income on mortgage assets is recognised on an accrual basis and computed at the respective interest/profit 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 term 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 year 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 year from acquisition to maturity of the investments.

(f) Investment in subsidiary company

Investment in the subsidiary company is shown at cost less any impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

(g) Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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) Property and equipment and depreciation (continued)

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(h) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

Repair and maintenance are charged to the income statement during the year in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. Major renovations are depreciated over the remaining useful life of the related asset.

(h) Impairment of assets

Property and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

The impairment loss is charged to the income statement. Any subsequent increase in recoverable amount is recognised in the income statement.

(i) Revenue recognition

Interest income and income on Islamic assets are recognised on an accrual basis. As for Islamic operations, income is accounted for on an accrual basis of accounting. Accretion of discounts is recognised on an effective yield basis.

(j) 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.

(k) Income taxes

Current tax expense is determined according to Malaysian tax laws and include all taxes based upon the taxable profits.

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.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses or tax credits can be utilised.

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

(l) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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.

(n) 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 income over the year of the agreement. Losses and gains on early termination of IRS are taken to the income statement.

(o) 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.

(p) Zakat

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

(q) Employee benefits

(i) Short-term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the year 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 year to which they relate. Once the contributions have been paid, the Group and Company have no further payment obligations.

(r) Intangible asset

Costs on the issuance of RMBS and IRMBS are capitalised and amortised using the straight line method over the tenure of the RMBS and IRMBS.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(h) on impairment of assets.

(s) RMBS and IRMBS

RMBS and IRMBS were issued to fund the purchase of mortgage assets from the GOM. As at balance sheet date, RMBS and IRMBS are stated at their nominal values.

Interest expense on RMBS and profit attributable to IRMBS are recognised on an accrual basis and computed at the respective interest/profit rates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy note associated with each item.

The carrying amounts of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity year of less than one year are assumed to approximate their fair values.

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.

In 2005, Cagamas significantly strengthened its risk management resources and embarked on a comprehensive programme to upgrade its risk management practices and capabilities. The Company streamlined risk management according to its business activities, and enhanced key controls to ensure effectiveness of risk management and its independence from risk taking activities.

Going forward, the Company will continue to develop its human resources, review existing processes and introduce new approaches in line with the best practices in risk management. It is the Company's aim to create strong risk awareness amongst both its front-line and back office staff, where risks are systematically managed and the levels of risk taking are closely aligned to the risk appetite and risk-reward requirements set by the Board of Directors.

Risk Management Structure

The Board of Directors has the ultimate responsibility for management of risks associated with the Company's operations and activities. The Board of Directors sets the risk appetite and tolerance level that are consistent with the Company's overall business objectives and desired risk profile. The Board of Directors also reviews and approves all significant risk management policies and risk exposures.

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

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

The Chief Risk Officer reports independently to the Board Risk Committee and assists the Board Risk Committee in the development of strategies and policies as well as ensuring that the infrastructure, resources and systems are in place for effective risk management.

The Risk Management Unit is independent of other departments and units involved in risk-taking activities. It is responsible for reporting risk exposures independently and coordinating the management of risks on an enterprise-wide basis.

Risks Faced by the Company

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

3 RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Purchase With Recourse

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

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

(a) Credit Risk

Credit risk is the possibility that a borrower or counterparty fails to fulfill its financial obligations when they fall due. Credit risk arises in on-balance sheet form such as lending and investments, and in off balance sheet form from guarantees and treasury hedging activities.

The Company manages its credit risk by screening borrowers and counterparties, stipulates prudent eligibility criteria and conducts due diligence on loans to be purchased. The Company has in place an internal rating system which sets out the maximum credit limit permissible for each category of rating. The credit limits are reviewed periodically and are determined based on a combination of external ratings, internal credit assessment and business requirements. All credit exposures are monitored on a regular basis and non-compliance is independently reported to Management and the Board of Directors for immediate remedy.

(b) Market Risk

Market risk is the potential loss arising from adverse movements of market prices and rates. The Company's market risk exposure is limited to interest/profit rate risk only as the Company is not engaged in any equity, foreign exchange or commodity trading activities.

The Company controls its market risk exposure by imposing threshold limits. The limits are set based on the Company's risk appetite and the risk-return relationship. These limits are regularly reviewed and monitored. The Company has an Asset Liability Management System which provides tools such as duration gap analysis, interest/profit sensitivity analysis and income simulations under different scenarios to monitor the interest/profit rate risk.

The Company also uses derivative instruments such as interest rate swaps to manage and hedge its market risk exposure against fluctuations in interest rates.

(c) Liquidity Risk

Liquidity risk arises when the Company does not have sufficient funds to meet its financial obligations when they fall due.

The Company mitigates its liquidity risk by matching the timing of purchases of loans and debts with issuance of debt securities. The Company plans its cash flow and monitors closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times. In addition, the Company sets aside considerable reserve liquidity to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial market.

(d) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Company has established and maintained comprehensive internal controls, systems and procedures that are subject to regular audit and review by both internal and external auditors. The Company has in place an established Business Continuity Plan to minimise the impact of any disaster and reduce the time to restore operations. The Company conducts tests on its critical systems and processes on a regular basis.

3 RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)**(d) Operational Risk (continued)**

The Company has improved its system infrastructure 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 receives alerts on breaches of limits.

Purchase Without Recourse

The rights of the bondholders are limited to the specific asset pool and there is no recourse to the other asset pools, or to the Company's wholly owned subsidiary, CMBS or the Company.

Cagamas, as the Transaction Administrator and Administrator, administers and accounts for all receipts and payments and undertakes reconciliations as required. Pending payments of bond coupon and principal redemptions, available funds are reinvested according to the specifications of the Trust Deed. Cash flow statement and investment holdings for each pool are provided to the trustee periodically.

4 CASH AND SHORT-TERM FUNDS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash and balances with banks and other financial institutions	441	311	378	308
Money at call and deposits placements maturing within one month	1,202,270	229,668	808,810	132,050
Mudharabah money at call and deposits placements maturing within one month	587,880	77,250	587,880	77,250
	<u>1,790,591</u>	<u>307,229</u>	<u>1,397,068</u>	<u>209,608</u>

5 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed bank	<u>–</u>	<u>65,000</u>	<u>–</u>	<u>65,000</u>
---------------	----------	---------------	----------	---------------

6 AMOUNTS DUE FROM COUNTER PARTIES

Relating to:

Mortgage loans	11,442,712	13,564,967	11,442,712	13,564,967
Hire purchase and leasing debts	9,735,125	11,732,170	9,735,125	11,732,170
	<u>21,177,837</u>	<u>25,297,137</u>	<u>21,177,837</u>	<u>25,297,137</u>

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

Maturing within one year	6,570,844	6,384,940	6,570,844	6,384,940
One year to three years	10,806,877	13,118,941	10,806,877	13,118,941
Three years to five years	2,775,023	4,210,860	2,775,023	4,210,860
More than five years	1,025,093	1,582,396	1,025,093	1,582,396
	<u>21,177,837</u>	<u>25,297,137</u>	<u>21,177,837</u>	<u>25,297,137</u>

7 MORTGAGE ASSETS

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<i>Mortgage assets:</i>				
<i>Portfolio 2004-1</i>	1,258,706	1,524,753	-	-
<i>Portfolio 2005-2</i>	2,089,560	-	-	-
	<u>3,348,266</u>	<u>1,524,753</u>	<u>-</u>	<u>-</u>

The maturity structure of the mortgage assets is as follows:

<i>Maturing within one year</i>	268,580	267,953	-	-
<i>One year to three years</i>	574,795	317,662	-	-
<i>Three years to five years</i>	509,600	333,591	-	-
<i>More than five years</i>	3,108,472	963,313	-	-
	<u>4,461,447</u>	<u>1,882,519</u>	<u>-</u>	<u>-</u>
<i>Unaccreted discount</i>	(1,113,181)	(357,766)	-	-
	<u>3,348,266</u>	<u>1,524,753</u>	<u>-</u>	<u>-</u>

8 ISLAMIC MORTGAGE ASSETS

<i>Islamic mortgage assets:</i>				
<i>Portfolio 2005-1</i>	2,080,171	-	-	-
	<u>2,080,171</u>	<u>-</u>	<u>-</u>	<u>-</u>

The maturity structure of the Islamic mortgage assets is as follows:

<i>Maturing within one year</i>	100,198	-	-	-
<i>One year to three years</i>	212,434	-	-	-
<i>Three years to five years</i>	228,813	-	-	-
<i>More than five years</i>	2,275,637	-	-	-
	<u>2,817,082</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Unaccreted discount</i>	(736,911)	-	-	-
	<u>2,080,171</u>	<u>-</u>	<u>-</u>	<u>-</u>

9 INVESTMENT SECURITIES

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Malaysian Government securities	235,145	34,806	235,145	34,806
Khazanah bonds	114,164	114,164	114,164	114,164
Private debt securities	16,091	31,118	16,091	31,118
Islamic debt securities	206,192	211,404	206,192	211,404
	<u>571,592</u>	<u>391,492</u>	<u>571,592</u>	<u>391,492</u>
Amortisation of premium less accretion of discount	49,911	40,787	49,911	40,787
	<u>621,503</u>	<u>432,279</u>	<u>621,503</u>	<u>432,279</u>

Market value of investment securities
is as follows:

Malaysian Government securities	230,497	32,370	230,497	32,370
Khazanah bonds	193,989	188,454	193,989	188,454
Private debt securities	15,399	30,857	15,399	30,857
Islamic debt securities	202,320	210,467	202,320	210,467
	<u>642,205</u>	<u>462,148</u>	<u>642,205</u>	<u>462,148</u>

The maturity structure of investment securities
is as follows:

Maturing within one year	145,755	40,525	145,755	40,525
One year to three years	120,335	246,934	120,335	246,934
Three years to five years	155,085	144,820	155,085	144,820
More than five years	200,328	-	200,328	-
	<u>621,503</u>	<u>432,279</u>	<u>621,503</u>	<u>432,279</u>

10 ISLAMIC FINANCING DEBTS

Islamic house financing debts	654,577	704,401	654,577	704,401
Islamic hire purchase debts	2,027,569	1,506,826	2,027,569	1,506,826
	<u>2,682,146</u>	<u>2,211,227</u>	<u>2,682,146</u>	<u>2,211,227</u>

The maturity structure of Islamic financing
debts is as follows:

Maturing within one year	1,155,813	342,727	1,155,813	342,727
One year to three years	1,123,186	1,078,142	1,123,186	1,078,142
Three years to five years	403,147	790,358	403,147	790,358
More than five years	-	-	-	-
	<u>2,682,146</u>	<u>2,211,227</u>	<u>2,682,146</u>	<u>2,211,227</u>

11 OTHER ASSETS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Accrued interest receivables	157,224	82,285	32,301	39,427
Mortgage assets repurchased	75,751	–	–	–
Staff loans and financing	2,704	3,441	2,704	3,441
Deposits	203	144	203	144
Prepayments	360	165	360	165
Income receivables	56,720	–	–	–
Other receivables	6,903	7,026	6,902	7,026
	<u>299,865</u>	<u>93,061</u>	<u>42,470</u>	<u>50,203</u>

12 PROPERTY AND EQUIPMENT**Group and Company**

	As at 1.1.2005 RM'000	Additions RM'000	Disposals RM'000	As at 31.12.2005 RM'000
Cost				
Office equipment	10,041	875	–	10,916
Furniture and fittings	631	82	–	713
Motor vehicles	968	–	–	968
	<u>11,640</u>	<u>957</u>	<u>–</u>	<u>12,597</u>

Accumulated Depreciation

Office equipment	3,766	1,529	–	5,295
Furniture and fittings	322	53	–	375
Motor vehicles	569	157	–	726
	<u>4,657</u>	<u>1,739</u>	<u>–</u>	<u>6,396</u>

Net Book Value

Office equipment				5,621
Furniture and fittings				338
Motor vehicles				242
				<u>6,201</u>

	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
	<u>8,926</u>	<u>2,787</u>	<u>(73)</u>	<u>11,640</u>

Accumulated Depreciation

Office equipment	3,160	674	(68)	3,766
Furniture and fittings	269	53	–	322
Motor vehicles	396	176	(3)	569
	<u>3,825</u>	<u>903</u>	<u>(71)</u>	<u>4,657</u>

Net Book Value

Office equipment				6,275
Furniture and fittings				309
Motor vehicles				399
				<u>6,983</u>

13 INTANGIBLE ASSET

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Net Book Value				
As at beginning of the year	6,121	–	6,121	–
Capitalised during the year	4,123	6,245	4,123	6,245
Amortisation charged	(758)	(124)	(758)	(124)
As at end of the year	<u>9,486</u>	<u>6,121</u>	<u>9,486</u>	<u>6,121</u>

14 UNSECURED BEARER BONDS

Group and Company		2005		2004	
	Year of Maturity	Amount Outstanding RM'000	Effective/Profit Rate %	Amount Outstanding RM'000	Effective/Profit Rate %
(a) Fixed Rate Bonds	2005	–	–	4,935,000	3.132 – 5.449
	2006	10,102,000	3.060 – 3.928	10,102,000	3.060 – 3.928
	2007	5,580,000	3.253 – 4.351	4,965,000	3.253 – 4.351
	2008	4,315,000	3.122 – 4.114	3,450,000	3.114 – 4.114
	2009	710,000	3.870 – 4.080	550,000	4.080
	2011	220,000	3.912	220,000	3.912
		<u>20,927,000</u>		<u>24,222,000</u>	
Add: Unaccreted premium		3,008		8,825	
Less: Unamortised discount		(25,508)		(41,830)	
		<u>20,904,500</u>		<u>24,188,995</u>	
(b) Sanadat Mudharabah Cagamas	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>930,000</u>	
(c) Sanadat Cagamas					
(i) Primary Bonds	2006	600,000	3.150 – 3.250	600,000	3.150 – 3.250
	2007	700,000	3.509 – 3.650	700,000	3.509 – 3.650
	2009	300,000	4.225	300,000	4.225
		<u>1,600,000</u>		<u>1,600,000</u>	
(ii) Secondary Bonds	2005	–	–	56,902	–
	2006	56,902	–	56,902	–
	2007	37,802	–	37,802	–
	2008	12,675	–	12,675	–
	2009	12,675	–	12,675	–
		<u>1,720,054</u>		<u>1,776,956</u>	
Less: Unamortised deferred expenses		(101,687)		(158,589)	
Less: Unamortised discount		(6)		(9)	
		<u>1,618,361</u>		<u>1,618,358</u>	
(d) Bithaman Ajil Islamic Securities					
(i) Primary Bonds	2007	845,000	3.200 – 3.300	–	–
	2008	55,000	3.350 – 3.600	–	–
		<u>900,000</u>		<u>–</u>	
(ii) Secondary Bonds	2006	29,777	–	–	–
	2007	24,173	–	–	–
	2008	959	–	–	–
		<u>954,909</u>		<u>–</u>	
Less: Unamortised deferred expenses		(48,234)		–	
		<u>906,675</u>		<u>–</u>	
Unsecured bearer bonds		<u>24,359,536</u>		<u>26,737,353</u>	

14 UNSECURED BEARER BONDS (CONTINUED)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<i>The maturity structure of unsecured bearer bonds is as follows:</i>				
<i>Maturing within one year</i>	10,903,656	4,933,226	10,903,656	4,933,226
<i>One year to three years</i>	12,173,917	17,135,210	12,173,917	17,135,210
<i>Three years to five years</i>	1,061,965	4,448,920	1,061,965	4,448,920
<i>More than five years</i>	219,998	219,997	219,998	219,997
	<u>24,359,536</u>	<u>26,737,353</u>	<u>24,359,536</u>	<u>26,737,353</u>

(a) Fixed Rate Bonds

The fixed rate bonds are redeemable at par on the due dates, unless previously redeemed, together with the accrued interest where applicable.

(b) Sanadat Mudharabah Cagamas

Sanadat Mudharabah Cagamas are issued based on profit-sharing basis and are redeemable at par on the due dates unless there is principal diminution.

(c) Sanadat Cagamas

Sanadat Cagamas are issued under the Islamic principle of Bai' Bithaman Ajil with non-detachable secondary bonds. The non-detachable secondary bonds are redeemable on the due dates.

(d) Bithaman Ajil Islamic Securities

Bithaman Ajil Islamic Securities are issued under the Islamic principle of Bai' Bithaman Ajil with non-detachable secondary bonds. The non-detachable secondary bonds are redeemable on the due dates.

15 RESIDENTIAL MORTGAGE-BACKED SECURITIES

	Year of Maturity	2005		2004		
		Amount Outstanding RM'000	Effective Rate %	Amount Outstanding RM'000	Effective Rate %	
RMBS	2007	580,000	3.700	580,000	3.700	
	2008	225,000	4.100	–	–	
	2009	340,000	4.300	340,000	4.300	
	2010	250,000	4.440	–	–	
	2011	290,000	4.950	290,000	4.950	
	2012	270,000	4.710	–	–	
	2014	345,000	5.500	345,000	5.500	
	2015	320,000	5.100	–	–	
	2017	345,000	5.340	–	–	
	2020	385,000	5.650	–	–	
	2025	265,000	5.920	–	–	
			<u>3,615,000</u>		<u>1,555,000</u>	

15 RESIDENTIAL MORTGAGE-BACKED SECURITIES (CONTINUED)

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<i>The maturity structure of the RMBS is as follows:</i>				
<i>One year to three years</i>	805,000	580,000	–	–
<i>Three years to five years</i>	590,000	340,000	–	–
<i>More than five years</i>	2,220,000	635,000	–	–
	<u>3,615,000</u>	<u>1,555,000</u>	<u>–</u>	<u>–</u>

The RMBS have the following features:

- The subsidiary has an option to redeem partially the RMBS subject to the terms and conditions of each transaction.*
- The RMBS' interest coupon is payable quarterly in arrears.*
- The RMBS are constituted by a Trust Deed made between the subsidiary and the Trustee, to act for the benefit of the bondholders.*
- The RMBS constitute direct, unconditional, unsubordinated and secured obligations of the subsidiary and rank pari passu without discrimination, preference or priority among themselves, but are subject to payments preferred under law and the Issue Documents.*
- 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.*

16 ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES

	Year of Maturity	2005		2004	
		Amount Outstanding	Profit Rate	Amount Outstanding	Profit Rate
		RM'000	%	RM'000	%
<i>IRMBS</i>	2008	250,000	3.410	–	–
	2010	215,000	3.840	–	–
	2012	260,000	4.240	–	–
	2015	515,000	4.710	–	–
	2017	410,000	5.010	–	–
	2020	400,000	5.270	–	–
		<u>2,050,000</u>		<u>–</u>	

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<i>The maturity structure of the IRMBS is as follows:</i>				
<i>One year to three years</i>	250,000	–	–	–
<i>Three years to five years</i>	215,000	–	–	–
<i>More than five years</i>	1,585,000	–	–	–
	<u>2,050,000</u>	<u>–</u>	<u>–</u>	<u>–</u>

16 ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES (CONTINUED)

The IRMBS have the following features:

- (a) The subsidiary has an option to redeem partially the IRMBS subject to the terms and conditions of the transaction.
- (b) The IRMBS' profit is distributable quarterly in arrears.
- (c) The IRMBS are constituted by a Trust Deed made between the subsidiary and the Trustee, to act for the benefit of the bondholders.
- (d) The IRMBS constitute direct, unconditional, unsubordinated and secured obligations of the subsidiary and rank *pari passu* without discrimination, preference or priority among themselves, but are subject to payments preferred under law and the Issue Documents.
- (e) The IRMBS are issued on a limited recourse basis. Holders of the IRMBS will be limited in their recourse to the underlying Islamic mortgage assets, the related collections and the proceeds from the enforcement of other securities related to the Islamic mortgage assets.

17 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		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Deferred tax liabilities	82,619	28,833	18,211	15,100
Deferred tax assets	(1,569)	(1,357)	(1,569)	(1,357)
	<u>81,050</u>	<u>27,476</u>	<u>16,642</u>	<u>13,743</u>

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

Balance as at beginning of the year	27,476	10,505	13,743	10,505
Charged to income statement	53,574	16,971	2,899	3,238
Balance as at end of the year	<u>81,050</u>	<u>27,476</u>	<u>16,642</u>	<u>13,743</u>

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

Group	As at 1.1.2005 RM'000	Charged to Income Statement RM'000	As at 31.12.2005 RM'000
Deferred tax liabilities			
Excess of capital allowances over depreciation on property and equipment	1,589	57	1,646
Temporary difference relating to accretion of discount of investment securities and mortgage assets	27,244	53,729	80,973
	<u>28,833</u>	<u>53,786</u>	<u>82,619</u>
Deferred tax assets			
Temporary difference relating to amortisation of premium of investment securities	1,357	212	1,569

17 DEFERRED TAXATION (CONTINUED)

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

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

Company	As at 1.1.2005 RM'000	Charged to Income Statement RM'000	As at 31.12.2005 RM'000
Deferred tax liabilities			
<i>Excess of capital allowances over depreciation on property and equipment</i>	1,589	57	1,646
<i>Temporary difference relating to accretion of discount of investment securities</i>	13,511	3,054	16,565
	<u>15,100</u>	<u>3,111</u>	<u>18,211</u>
Deferred tax assets			
<i>Temporary difference relating to amortisation of premium of investment securities</i>	1,357	212	1,569
	<u>1,357</u>	<u>212</u>	<u>1,569</u>
Company			
	As at 1.1.2004 RM'000	Charged to Income Statement RM'000	As at 31.12.2004 RM'000
Deferred tax liabilities			
<i>Excess of capital allowances over depreciation on property and equipment</i>	1,069	520	1,589
<i>Temporary difference relating to accretion of discount of investment securities</i>	10,550	2,961	13,511
	<u>11,619</u>	<u>3,481</u>	<u>15,100</u>
Deferred tax assets			
<i>Temporary difference relating to amortisation of premium of investment securities</i>	1,114	243	1,357
	<u>1,114</u>	<u>243</u>	<u>1,357</u>

18 OTHER LIABILITIES

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Zakat	1,200	476	1,200	476
Income attributable to bondholders	7,751	8,128	7,751	8,128
Accrued interest payables on:				
Unsecured bearer bonds	201,389	260,261	201,389	260,261
Residential mortgage-backed securities	19,169	13,692	-	-
Profit attributable to:				
Islamic residential mortgage-backed securities	13,604	-	-	-
Other payables	31,083	19,987	4,591	6,811
	<u>274,196</u>	<u>302,544</u>	<u>214,931</u>	<u>275,676</u>

19 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>	<u>500,000</u>
---	----------------	----------------	----------------	----------------

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>	<u>150,000</u>
---	----------------	----------------	----------------	----------------

20 RESERVES

Retained earnings	<u>1,487,220</u>	<u>1,175,580</u>	<u>1,197,332</u>	<u>1,106,522</u>
-------------------	------------------	------------------	------------------	------------------

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 2005. 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.

21 INTEREST INCOME

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Interest income from:				
Amounts due from counter parties relating to:				
Mortgage loans	523,912	627,126	523,912	627,126
Hire purchase and leasing debts	418,937	468,634	418,937	468,634
Mortgage assets	153,450	62,791	-	-
Mortgage assets repurchased	3,283	-	-	-
Investment securities	5,254	4,134	5,254	4,134
Deposits and placements with financial institutions	9,560	15,579	9,097	15,463
Interest rate swaps (Note 34)	2,605	4,483	2,605	4,483
Repurchase agreements	5,395	58	-	-
Others	49	49	49	49
	<u>1,122,445</u>	<u>1,182,854</u>	<u>959,854</u>	<u>1,119,889</u>
Amortisation of premium less accretion of discount	<u>106,920</u>	<u>48,291</u>	<u>(821)</u>	<u>(756)</u>
	<u>1,229,365</u>	<u>1,231,145</u>	<u>959,033</u>	<u>1,119,133</u>

22 INCOME FROM ISLAMIC ASSETS

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<i>Income from:</i>				
Islamic mortgage assets	85,001	–	–	–
Islamic repurchase agreement	286	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	85,287	–	–	–
Accretion of discount	73,242	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	158,529	–	–	–

23 INTEREST EXPENSE

<i>Interest expense on:</i>				
Unsecured bearer bonds	806,875	905,244	806,875	905,244
Unsecured bearer notes	–	27,700	–	27,700
Residential mortgage-backed securities	74,887	13,692	–	–
Deposits and placements of financial institutions	2,627	3,497	2,627	3,497
Interest rate swaps (Note 34)	4,981	4,296	4,981	4,296
	<hr/>	<hr/>	<hr/>	<hr/>
	889,370	954,429	814,483	940,737

24 PROFIT ATTRIBUTABLE TO ISLAMIC BONDHOLDERS

<i>Profit attributable to:</i>				
Islamic residential mortgage-backed securities	37,217	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	37,217	–	–	–

25 NON-INTEREST INCOME

<i>Investment Income:</i>				
Income from Islamic debt securities	11,311	10,573	11,311	10,573
<i>Other Income:</i>				
Other non-operating income	44	60	3,341	633
Gain on disposal of property and equipment	–	11	–	11
	<hr/>	<hr/>	<hr/>	<hr/>
	11,355	10,644	14,652	11,217

26 PROFIT BEFORE TAXATION AND ZAKAT

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

Directors' remuneration (Note 27)	326	174	326	174
Rental of premises	622	526	622	526
Hire of equipment	180	162	180	162
Auditors' remuneration:				
Audit fee	85	75	85	75
Non-audit fee	94	–	94	–
Depreciation of property and equipment	1,739	903	1,739	903
Personnel cost:				
Salary and allowances	3,947	2,985	3,947	2,985
Bonus	1,012	955	1,012	955
Overtime	20	14	20	14
Defined contribution plan (EPF)	825	616	825	616
SOCSO	26	19	26	19

Included in the Directors' remuneration and Auditors' remuneration are amounts of RM74,750 and RM20,000 respectively (2004: RM17,732 and RM10,000 respectively) which have been absorbed by the Company on behalf of its subsidiary, CMBS.

27 DIRECTORS' REMUNERATION

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<i>Forms of remuneration in aggregate for all Directors charged to the profit for the year are as follows:</i>				
Fees	195	112	195	112
Other remuneration	131	62	131	62
	<u>326</u>	<u>174</u>	<u>326</u>	<u>174</u>

28 TAXATION(a) *Tax charge for the year*

Current tax	74,187	61,395	39,039	48,328
Deferred taxation (Note 17)	53,574	16,971	2,899	3,238
	<u>127,761</u>	<u>78,366</u>	<u>41,938</u>	<u>51,566</u>

(b) *Reconciliation of income tax expense*

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

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	456,765	279,154	150,112	183,296
Tax calculated at tax rate of 20%	100	100	-	-
Tax calculated at tax rate of 28% (2004: 28%)	127,755	78,023	42,032	51,323
Expenses not deductible for tax purposes	(94)	330	(94)	330
Expenses allowed for double deductions	-	(8)	-	(8)
Capital expenses allowed for deduction	-	(79)	-	(79)
Tax charge	<u>127,761</u>	<u>78,366</u>	<u>41,938</u>	<u>51,566</u>

29 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM1,637,220,000 of the Group and RM1,347,332,000 of the Company respectively (2004: RM1,325,580,000 and RM1,256,522,000 for the Group and 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 year of RM327,840,000 of the Group and RM107,010,000 of the Company respectively (2004: RM200,324,000 and RM131,266,000 for the Group and Company respectively) by the 150,000,000 shares of the Group and Company in issue.

30 DIVIDENDS

Dividends paid and proposed are as follows:

	Group and Company			
	2005		2004	
	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	5	5,400
Final dividend proposed/paid	10	10,800	10	10,800
	15	16,200	15	16,200

At the forthcoming Annual General Meeting on 25 April 2006, a final gross dividend of 10 sen per share, less income tax (2004: a final gross dividend of 10 sen per share, less income tax) in respect of the year ended 31 December 2005, amounting to RM10,800,000 (2004: RM10,800,000) 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 year ending 31 December 2006 when approved by shareholders.

31 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.

	2005 RM'000
Transaction administrator and administrator fees receivable from a subsidiary company	794

32 INVESTMENTS IN SUBSIDIARY COMPANY

The subsidiary company of Cagamas Berhad is as follows:

Name	Principal Activity	Interest in equity held by Cagamas Berhad	
		2005	2004
Cagamas MBS Berhad	Securitisation of Government's mortgage assets	100%	100%

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.

	2005 RM	2004 RM
Investment in subsidiary company: Unquoted shares at cost	2	2

33 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
2006	363
2007	174
	537

34 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.

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

	2005 RM'000	2004 RM'000
Maturing within one year	600,000	91,000
One year to three years	40,000	600,000
Three years to five years	250,000	-
	890,000	691,000

35 INTEREST/PROFIT 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/profit 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/profit rates on the structure of the balance sheet. Sensitivity to interest/profit rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

35 INTEREST/PROFIT RATE RISK (CONTINUED)

<i>Group</i>	<i>Effective interest/profit Rate</i>	<i>Within one year</i>	<i>One year to three years</i>	<i>Three years to five years</i>	<i>More than five years</i>	<i>Non- interest bearing</i>	<i>Transactions based on Islamic principles</i>	<i>Total</i>
	<i>%</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
2005								
Cash and short-term funds	3.00	1,167,400	-	-	-	383	622,808	1,790,591
Amounts due from counter parties:								
Fixed rate portfolio	4.03	7,686,683	10,267,966	2,372,567	716,340	-	-	21,043,556
Floating rate portfolio	3.04	134,281	-	-	-	-	-	134,281
Mortgage assets	4.00	268,580	574,795	509,600	3,108,472	(1,113,181)	-	3,348,266
Islamic mortgage assets	4.00	-	-	-	-	-	2,080,171	2,080,171
Investment securities	4.13	35,211	10,306	-	200,328	-	375,658	621,503
Islamic financing debts	3.81	-	-	-	-	-	2,682,146	2,682,146
Other assets	3.18	8,705	17,705	13,420	37,585	231,154	7,919	316,488
Total assets		9,300,860	10,870,772	2,895,587	4,062,725	(881,644)	5,768,702	32,017,002
Unsecured bearer bonds and notes	3.61	10,097,413	9,879,837	707,252	219,998	-	3,455,036	24,359,536
RMBS	4.74	-	805,000	590,000	2,220,000	-	-	3,615,000
IRMBS	4.57	-	-	-	-	-	2,050,000	2,050,000
Other liabilities	-	-	-	-	-	346,074	9,172	355,246
Total liabilities		10,097,413	10,684,837	1,297,252	2,439,998	346,074	5,514,208	30,379,782
Shareholders' funds		-	-	-	-	1,637,220	-	1,637,220
Total liabilities and shareholders' funds		10,097,413	10,684,837	1,297,252	2,439,998	1,983,294	5,514,208	32,017,002
On-balance sheet interest/profit sensitivity gap		(796,553)	185,935	1,598,335	1,622,727			
Off-balance sheet interest/profit sensitivity gap		590,000	(40,000)	(390,000)	(160,000)			
Total interest/profit sensitivity gap		(206,553)	145,935	1,208,335	1,462,727			
Cumulative gap		(206,553)	(60,618)	1,147,717	2,610,444			

35 INTEREST/PROFIT RATE RISK (CONTINUED)

<i>Group</i>	<i>Effective interest/profit Rate</i>	<i>Within one year</i>	<i>One year to three years</i>	<i>Three years to five years</i>	<i>More than five years</i>	<i>Non- interest bearing</i>	<i>Transactions based on Islamic principles</i>	<i>Total</i>
	<i>%</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
2004								
Cash and short-term funds	2.68	229,668	-	-	-	304	77,257	307,229
Deposits and placements with financial institutions	2.79	-	-	-	-	-	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	3.93	-	-	-	-	-	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
<i>Unsecured bearer bonds and notes</i>	3.64	4,933,226	15,061,564	3,974,208	219,997	-	2,548,358	26,737,353
RMBS	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
<i>On-balance sheet interest/profit sensitivity gap</i>		2,063,240	(2,671,289)	199,157	2,137,302			
<i>Off-balance sheet interest/profit sensitivity gap</i>		-	-	-	-			
Total interest/profit 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			

35 INTEREST/PROFIT RATE RISK (CONTINUED)

<i>Company</i>	<i>Effective interest/profit Rate</i>	<i>Within one year</i>	<i>One year to three years</i>	<i>Three years to five years</i>	<i>More than five years</i>	<i>Non- interest bearing</i>	<i>Transactions based on Islamic principles</i>	<i>Total</i>
	<i>%</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
2005								
Cash and short-term funds	3.06	808,810	-	-	-	366	587,892	1,397,068
Amounts due from counter parties:								
Fixed rate portfolio	4.03	7,686,683	10,267,966	2,372,567	716,340	-	-	21,043,556
Floating rate portfolio	3.04	134,281	-	-	-	-	-	134,281
Investment securities	4.13	35,211	10,306	-	200,328	-	375,658	621,503
Islamic financing debts	3.81	-	-	-	-	-	2,682,146	2,682,146
Other assets	3.18	-	1	304	1,359	50,304	7,919	59,887
Total assets		8,664,985	10,278,273	2,372,871	918,027	50,670	3,653,615	25,938,441
Unsecured bearer bonds and notes	3.61	10,097,413	9,879,837	707,252	219,998	-	3,455,036	24,359,536
Other liabilities	-	-	-	-	-	222,401	9,172	231,573
Total liabilities		10,097,413	9,879,837	707,252	219,998	222,401	3,464,208	24,591,109
Shareholders' funds		-	-	-	-	1,347,332	-	1,347,332
Total liabilities and shareholders' funds		10,097,413	9,879,837	707,252	219,998	1,569,733	3,464,208	25,938,441
On-balance sheet interest/profit sensitivity gap		(1,432,428)	398,436	1,665,619	698,029			
Off-balance sheet interest/profit sensitivity gap		590,000	(40,000)	(390,000)	(160,000)			
Total interest/profit sensitivity gap		(842,428)	358,436	1,275,619	538,029			
Cumulative gap		(842,428)	(483,992)	791,627	1,329,656			

35 INTEREST/PROFIT RATE RISK (CONTINUED)

<i>Company</i>	<i>Effective interest/profit Rate</i>	<i>Within one year</i>	<i>One year to three years</i>	<i>Three years to five years</i>	<i>More than five years</i>	<i>Non-interest bearing</i>	<i>Transactions based on Islamic principles</i>	<i>Total</i>
	<i>%</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
2004								
Cash and short-term funds	2.69	132,050	-	-	-	301	77,257	209,608
Deposits and placements with financial institutions	2.79	-	-	-	-	-	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	3.93	-	-	-	-	-	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/profit sensitivity gap		1,962,495	(2,173,188)	262,178	1,251,788			
Off-balance sheet interest/profit sensitivity gap		-	-	-	-			
Total interest/profit 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			

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/profit rate sensitive assets, liabilities and off-balance sheet items by time bands. A positive interest/profit rate sensitivity gap exists when more interest/profit sensitive assets than interest/profit sensitive liabilities reprice or mature during a given time period. Similarly, a negative interest/profit rate sensitivity gap exists when more interest/profit sensitive liabilities than interest/profit sensitive assets reprice or mature during a given time period. Any negative interest/profit rate sensitivity gap is to be funded by the Company's shareholders' funds, unsecured bearer notes or money market borrowings.

For decision-making purposes, the Group and Company manage their exposure to interest/profit rate risk. The Company sets limits on the sensitivity of the Company's forecasted net interest income/income at risk to projected changes in interest/profit rates over a one-year, three-year and five-year horizon. The Company also undertakes duration analysis before deciding on the size and tenure 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.

36 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	Amounts due from counter parties	Mortgage assets	Islamic 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
2005										
Government bodies	16	-	3,348,266	2,080,171	404,184	-	259,548	6,092,185	-	6,092,185
Financial Institutions:										
Commercial banks	1,735,574	20,872,078	-	-	-	2,578,261	33,922	25,219,835	-	25,219,835
Merchant banks	-	123,580	-	-	-	-	304	123,884	11,406	135,290
Discount house	55,000	-	-	-	-	-	23	55,023	-	55,023
Communication, electricity, gas and water	-	182,179	-	-	151,437	103,885	2,782	440,283	-	440,283
Transportation	-	-	-	-	20,393	-	93	20,486	-	20,486
Leasing	-	-	-	-	15,075	-	240	15,315	-	15,315
Construction	-	-	-	-	25,334	-	527	25,861	-	25,861
Others	1	-	-	-	5,080	-	19,049	24,130	-	24,130
Total	1,790,591	21,177,837	3,348,266	2,080,171	621,503	2,682,146	316,488	32,017,002	11,406	32,028,408

	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

36 CREDIT RISK (CONTINUED)**Company**

	Cash and short-term funds	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
2005								
Government bodies	16	-	404,184	-	2,830	407,030	-	407,030
Financial Institutions:								
Commercial banks	1,342,051	20,872,078	-	2,578,261	33,255	24,825,645	-	24,825,645
Merchant banks	-	123,580	-	-	304	123,884	11,406	135,290
Discount house	55,000	-	-	-	23	55,023	-	55,023
Communication, electricity, gas and water	-	182,179	151,437	103,885	2,782	440,283	-	440,283
Transportation	-	-	20,393	-	93	20,486	-	20,486
Leasing	-	-	15,075	-	240	15,315	-	15,315
Construction	-	-	25,334	-	527	25,861	-	25,861
Others	1	-	5,080	-	19,833	24,914	-	24,914
Total	1,397,068	21,177,837	621,503	2,682,146	59,887	25,938,441	11,406	25,949,847

	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

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.

37 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.

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 carrying amounts of amount due from counter parties and Islamic financing debts of the Company were not reduced to their estimated fair values as the Directors are of the opinion that these financing have been given on a with recourse basis and the amount will be held to maturity.

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

	2005		2004	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Assets				
Amounts due from counter parties	21,177,837	21,167,790	25,297,137	25,257,436
Mortgage assets	3,348,266	3,371,387	1,524,753	1,550,694
Islamic mortgage assets	2,080,171	2,066,365	-	-
Investment securities	621,503	642,205	432,279	462,148
Islamic financing debts	2,682,146	2,639,149	2,211,227	2,192,417
	<u>29,909,923</u>	<u>29,886,896</u>	<u>29,465,396</u>	<u>29,462,695</u>
Liabilities				
Unsecured bearer bonds	24,359,536	24,281,152	26,737,353	26,893,796
RMBS	3,615,000	3,577,308	1,555,000	1,575,000
IRMBS	2,050,000	1,823,992	-	-
	<u>30,024,536</u>	<u>29,682,452</u>	<u>28,292,353</u>	<u>28,468,796</u>

37 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**Group**

	2005		2004	
	Notional Value RM'000	Fair Value RM'000	Notional Value RM'000	Fair Value RM'000
Derivatives				
Interest rate swaps	890,000	2,746	691,000	3,338

Company

	2005		2004	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Assets				
Amounts due from counter parties	21,177,837	21,167,790	25,297,137	25,257,436
Investment securities	621,503	642,205	432,279	462,148
Islamic financing debts	2,682,146	2,639,149	2,211,227	2,192,417
	<u>24,481,486</u>	<u>24,449,144</u>	<u>27,940,643</u>	<u>27,912,001</u>
Liabilities				
Unsecured bearer bonds	24,359,536	24,281,152	26,737,353	26,893,796

	2005		2004	
	Notional Value RM'000	Fair Value RM'000	Notional Value RM'000	Fair Value RM'000
Derivatives				
Interest rate swaps	890,000	2,746	691,000	3,338

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.

37 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) *Conventional and Islamic 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 RMBS/IRMBS 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.

(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/income receivables, other debtors and deposits. The fair value of other financial assets is estimated at their carrying amount.

(g) *Unsecured bearer bonds*

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.

(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) *RMBS and IRMBS*

The estimated fair value of RMBS and IRMBS 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, profit attributable, 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.

38 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.

38 SEGMENT REPORTING (CONTINUED)*(b) Purchase Without Recourse ("PWOR")*

Under the PWOR scheme, CMBS purchases the conventional and Islamic 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.

2005	Purchase with recourse RM'000	Purchase without recourse RM'000	Total RM'000
Revenue			
External revenue	959,033	428,861	1,387,894
<i>Total revenue</i>	<u>959,033</u>	<u>428,861</u>	<u>1,387,894</u>
Results			
Segment results	150,112	306,653	456,765
Unallocated expenses	-	-	-
<i>Profit from operations</i>	<u>150,112</u>	<u>306,653</u>	<u>456,765</u>
Taxation	(41,938)	(85,823)	(127,761)
Zakat	(1,164)	-	(1,164)
<i>Net profit for the year</i>	<u>107,010</u>	<u>220,830</u>	<u>327,840</u>
Net assets			
Segment assets	25,938,441	6,079,354	32,017,795
Unallocated assets	-	-	-
<i>Total assets</i>	<u>25,938,441</u>	<u>6,079,354</u>	<u>32,017,795</u>
<i>Segment liabilities</i>	<u>24,591,109</u>	<u>5,789,467</u>	<u>30,380,576</u>
Unallocated liabilities	-	-	-
<i>Total liabilities</i>	<u>24,591,109</u>	<u>5,789,467</u>	<u>30,380,576</u>
Other information			
Capital expenditure	957	-	957
Depreciation and amortisation	2,560	-	2,560
Other non-cash expenses	-	-	-

38 SEGMENT REPORTING (CONTINUED)

2004	Purchase with recourse RM'000	Purchase without recourse RM'000	Total RM'000
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	-	-	-

39 CAPITAL ADEQUACY

	Company	
	2005 RM'000	2004 RM'000
<i>The capital adequacy ratios are as follows:</i>		
Paid-up capital	150,000	150,000
Other reserves	1,200,231	1,109,760
Tier 1 capital	<u>1,350,231</u>	<u>1,259,760</u>
Total capital base	<u>1,350,231</u>	<u>1,259,760</u>
<i>Capital ratios:</i>		
Core and risk weighted	<u>24.5%</u>	<u>20.6%</u>

39 CAPITAL ADEQUACY (CONTINUED)

	Company	
	2005	2004
	RM'000	RM'000
<i>Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:</i>		
0%	406,456	193,876
10%	55,023	–
20%	24,949,170	27,481,038
50%	32,072	12,939
100%	507,306	601,591
	<hr/>	<hr/>
	25,950,027	28,289,444
	<hr/>	<hr/>
<i>Total risk-weighted assets</i>	5,518,590	6,104,268
	<hr/>	<hr/>

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.

40 ISLAMIC OPERATIONS**BALANCE SHEET AS AT 31 DECEMBER 2005**

		Company	
		2005	2004
	Note	RM'000	RM'000
ASSETS			
Cash and short-term funds	(a)	587,892	77,257
Deposits and placements with financial institutions	(b)	–	65,000
Investment securities	(c)	201,934	208,617
Islamic financing debts	(d)	2,682,146	2,211,227
Receivables		6,893	7,021
Other assets		81,870	80,965
		<hr/>	<hr/>
TOTAL ASSETS		3,560,735	2,650,087
		<hr/>	<hr/>
LIABILITIES			
Unsecured bearer bonds	(e)	3,455,036	2,548,358
Other liabilities	(f)	9,204	8,604
		<hr/>	<hr/>
TOTAL LIABILITIES		3,464,240	2,556,962
		<hr/>	<hr/>
ISLAMIC OPERATIONS' FUNDS		96,495	93,125
		<hr/>	<hr/>
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		3,560,735	2,650,087
		<hr/>	<hr/>

40 ISLAMIC OPERATIONS (CONTINUED)**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	<i>Note</i>	<i>Company</i>	
		2005 RM'000	2004 RM'000
TOTAL INCOME ATTRIBUTABLE INCOME ATTRIBUTABLE TO THE BONDHOLDERS	(g)	111,074 (104,855)	64,202 (60,257)
INCOME ATTRIBUTABLE TO THE SHAREHOLDERS ADMINISTRATION AND GENERAL EXPENSES	(h)	6,219 (375)	3,945 (281)
PROFIT BEFORE TAXATION AND ZAKAT		5,844	3,664
TAXATION		(1,310)	(896)
ZAKAT		(1,164)	(464)
NET PROFIT FOR THE YEAR		<u>3,370</u>	<u>2,304</u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Allocated Capital Funds RM'000	Company Retained Earnings RM'000	Total RM'000
Balance as at 1 January 2004	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	<u>86,015</u>	<u>7,110</u>	<u>93,125</u>
Net profit for the year	-	3,370	3,370
Transferred to Islamic operations	-	-	-
Balance as at 31 December 2005	<u>86,015</u>	<u>10,480</u>	<u>96,495</u>

40 ISLAMIC OPERATIONS (CONTINUED)**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	Company	
		2005 RM'000	2004 RM'000
OPERATING ACTIVITIES			
Net profit for the year		3,370	2,304
<i>Adjustments for investment items and items not involving the movement of cash and cash equivalents:</i>			
<i>Amortisation of premium less accretion of discount on Islamic debt securities</i>		2,751	1,909
<i>Income accrued from Islamic debt securities</i>		(8,446)	(7,298)
<i>Taxation</i>		1,310	896
<i>Zakat</i>		1,164	464
<i>Operating profit/(loss) before working capital charges</i>		149	(1,725)
<i>Increase in Islamic financing debts</i>		(470,919)	(1,303,538)
<i>Increase/(Decrease) in other assets</i>		2,081	(1,844)
<i>Increase in unsecured bearer bonds</i>		906,678	1,474,358
<i>(Increase)/Decrease in other liabilities</i>		1,286	(1,536)
<i>Cash generated from operations</i>		439,275	165,715
<i>Payment of zakat</i>		(440)	(266)
<i>Payment of taxation</i>		(2,720)	(896)
<i>Net cash generated from operating activities</i>		436,115	164,553
INVESTING ACTIVITIES			
<i>Purchase of investments</i>		(51,068)	(71,547)
<i>Redemption of investments</i>		55,000	30,000
<i>Income received from Islamic debt securities</i>		5,588	6,625
<i>Net cash utilised in investing activities</i>		9,520	(34,922)
<i>Net increase in cash and cash equivalents</i>		445,635	129,631
<i>Cash and cash equivalents as at beginning of the year</i>		142,257	12,626
<i>Cash and cash equivalents as at end of the year</i>		587,892	142,257
<i>Analysis of cash and cash equivalents:</i>			
<i>Cash and short-term funds</i>	(a)	587,892	77,257
<i>Deposits and placements with financial institutions</i>	(b)	–	65,000
		587,892	142,257

40 ISLAMIC OPERATIONS (CONTINUED)**(a) CASH AND SHORT-TERM FUNDS**

	<i>Company</i>	
	2005	2004
	RM'000	RM'000
Cash and balances with banks and other financial institutions	12	7
Mudharabah money at call and deposit placements maturing within one month	587,880	77,250
	<u>587,892</u>	<u>77,257</u>

(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed bank	–	65,000
	<u>–</u>	<u>65,000</u>

(c) INVESTMENT SECURITIES

Islamic debt securities	206,192	211,404
Amortisation of premium less accretion of discount	(4,258)	(2,787)
	<u>201,934</u>	<u>208,617</u>

Market value of investment securities is as follows:

Islamic debt securities	202,320	210,467
	<u>202,320</u>	<u>210,467</u>

The maturity structure of investment securities is as follows:

Maturing within one year	105,396	40,525
One year to three years	96,538	168,092
	<u>201,934</u>	<u>208,617</u>

(d) ISLAMIC FINANCING DEBTS

Islamic house financing debts	654,577	704,401
Islamic hire purchase debts	2,027,569	1,506,826
	<u>2,682,146</u>	<u>2,211,227</u>

The maturity structure of Islamic financing debts is as follows:

Maturing within one year	1,155,813	342,727
One year to three years	1,123,186	1,078,142
Three years to five years	403,147	790,358
More than five years	–	–
	<u>2,682,146</u>	<u>2,211,227</u>

40 ISLAMIC OPERATIONS (CONTINUED)**(e) UNSECURED BEARER BONDS**

	<i>Company</i>	
	2005	2004
	RM'000	RM'000
<i>Sanadat Mudharabah Cagamas</i>	930,000	930,000
<i>Sanadat Cagamas</i>	1,618,361	1,618,358
<i>Bithaman Ajil Islamic Securities</i>	906,675	-
	<u>3,455,036</u>	<u>2,548,358</u>

The maturity structure of unsecured bearer bonds is as follows:

<i>Maturing within one year</i>	806,244	-
<i>One year to three years</i>	2,294,079	2,073,646
<i>Three years to five years</i>	354,713	474,712
	<u>3,455,036</u>	<u>2,548,358</u>

(f) OTHER LIABILITIES

<i>Zakat</i>	1,200	476
<i>Income attributable to bondholders</i>	7,751	8,128
<i>Other liabilities</i>	253	-
	<u>9,204</u>	<u>8,604</u>

(g) INCOME ATTRIBUTABLE TO THE BONDHOLDERS

<i>Income from Islamic financing debts</i>	93,445	51,805
<i>Income from investment securities</i>	7,892	6,787
<i>Income from deposits and placements with financial institutions</i>	3,518	1,665
	<u>104,855</u>	<u>60,257</u>

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

<i>Bai' Al-Dayn</i>	23,303	33,437
<i>Mudharabah</i>	3,516	1,665
<i>Bai' Bithaman Ajil</i>	77,192	24,265
<i>Murabahah</i>	844	890
	<u>104,855</u>	<u>60,257</u>

40 ISLAMIC OPERATIONS (CONTINUED)**(h) INCOME ATTRIBUTABLE TO THE SHAREHOLDERS**

	<i>Company</i>	
	2005	2004
	RM'000	RM'000
<i>Income from Islamic financing debts</i>	374	3,051
<i>Income from investment securities</i>	555	512
<i>Income from deposits and placements with financial institutions</i>	5,290	382
	<u>6,219</u>	<u>3,945</u>
 <i>Income attributable to the shareholders analysed by concepts is as follows:</i>		
<i>Bai' Al-Dayn</i>	374	3,051
<i>Mudharabah</i>	5,291	382
<i>Bai' Bithaman Ajil</i>	445	445
<i>Murabahah</i>	109	67
	<u>6,219</u>	<u>3,945</u>

(i) CAPITAL ADEQUACY

<i>Allocated capital funds</i>	86,015	86,015
<i>Other reserves</i>	10,480	7,110
	<u>96,495</u>	<u>93,125</u>
<i>Tier 1 capital</i>	96,495	93,125
	<u>96,495</u>	<u>93,125</u>
 <i>Capital ratios:</i>		
<i>Core and risk weighted</i>	<u>10.3%</u>	<u>12.1%</u>
 <i>Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:</i>		
0%	81,882	80,972
20%	3,169,957	2,246,950
50%	20,486	5,074
100%	288,410	317,091
	<u>3,560,735</u>	<u>2,650,087</u>
 <i>Total risk-weighted assets</i>	 <u>932,644</u>	 <u>769,017</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.

40 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.

41 DISCRETIONARY BONUS FEE

In the respective Servicing Agreements signed between GOM, CMBS, the Company and the Trustee, CMBS agreed to pay GOM a discretionary bonus fee, out of the retained earnings of CMBS, to be determined by CMBS in respect of the services provided by GOM, after the RMBS/IRMBS have been fully redeemed and all obligations and liabilities of CMBS in respect of the RMBS/IRMBS have been discharged.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 21 March 2006.

43 EVENTS AFTER THE BALANCE SHEET DATE

On 18 January 2006, BNM Sukuk Berhad was incorporated as a wholly-owned subsidiary of the Company for the purpose of undertaking the issue of Islamic securities in accordance with Syariah principles under the auspices of Bank Negara Malaysia. The subsidiary issued its inaugural Sukuk Ijarah of RM400 million in nominal value on 16 February 2006. The main purpose of the issuance is to serve as a tool for monetary policy implementation and for the development of the Malaysian Islamic financial market and to ensure the product is universally accepted. The Company was appointed to facilitate the issuance.

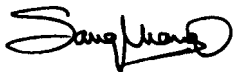
Cagamas SME Berhad was incorporated on 17 February 2006 for the purpose of securitising the small and medium enterprise loans.

statement by directors

pursuant to section 169(15) of the companies act, 1965

We, Dato' Ooi Sang Kuang and Dato' Sri Tay Ah Lek, two of the Directors of Cagamas Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 169 to 212 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 2005 and of the results and cash flows of the Group and Company for the year ended on that date in accordance with Malaysian Accounting Standards Boards ("MASB") 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 21 March 2006.



DATO' OOI SANG KUANG
CHAIRMAN



DATO' SRI TAY AH LEK
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 169 to 212 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 21 March 2006, before me.



AHMAD LAYA
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 169 to 212. 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:

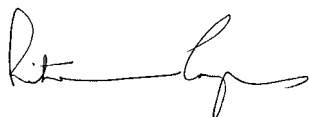
- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and Malaysian Accounting Standards Board ("MASB") approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies 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 2005 and of the results and cash flows of the Group and Company for the year ended on that date;

and

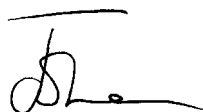
- (b) the accounting and other records and the registers required by the Act to be kept by the Group and Company have been properly kept in accordance with the provisions of the Act.

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

21 March 2006

borang proksi

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 Kesembilan Belas Syarikat, yang akan diadakan di Bilik Persidangan, Tingkat 16, Blok A, Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur pada hari Selasa, 25 April 2006 jam 12.30 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 _____ 2006

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 Nineteenth 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 Tuesday, 25 April 2006 at 12.30 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 Director under Article 19.10 (Resolution No. 5)		
6.	Appointment of Auditors (Resolution No. 6)		

Dated this _____ day of _____ 2006

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

Vision

Cagamas is committed to promoting home ownership in Malaysia by providing financial products that make housing loans more accessible and affordable to Malaysians, especially the lower income group.

We will achieve this objective by:

- Developing the secondary mortgage market through the provision of innovative facilities and efficient service at a competitive cost to the primary home lenders.*
- Enhancing the capital market, particularly the private debt securities market, through widening and deepening the scope of securitisation.*
- Nurturing and maintaining a competent workforce of the highest integrity and professionalism.*
- Using technology to enhance productivity and efficiency.*
- Valuing our staff for their commitment and loyalty.*
- Inculcating a caring and responsible corporate culture.*

We believe that we will:

- Be acknowledged as a leader in providing financial support in the Nation's effort to meet the housing needs of the people.*
- Set the pace for the development of the market for private debt securities in the country.*
- Be acknowledged, nationwide and internationally, as the pioneer and model for mortgage-backed securitisation.*