

Financial Statements



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Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2003.

PRINCIPAL ACTIVITIES

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.

There has been no significant change in the nature of these activities during the year.

FINANCIAL RESULTS

	RM'000
Profit before taxation and zakat	192,512
Taxation	(53,945)
Zakat	(277)
	<hr/>
Net profit for the year	138,290
Retained earnings brought forward	1,014,266
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Profits available for appropriation	1,152,556
Final dividend (net of income tax of 28%) for financial year ended 31 December 2002	(16,200)
Special dividend (tax exempt) for financial year ended 31 December 2002	(139,500)
Interim dividend (net of income tax of 28%) for financial year ended 31 December 2003	(10,800)
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Retained earnings carried forward	986,056
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DIVIDENDS

The dividends paid by the Company since 31 December 2002 are as follows:

	RM'000
<i>In respect of the financial year ended 31 December 2002, as shown in the Directors' report of that year,</i>	
<i>a final gross dividend of 15 sen per share on 150,000,000 ordinary shares, less income tax, paid on 14 April 2003</i>	16,200
<i>a special gross dividend of 93 sen per share on 150,000,000 ordinary shares, tax exempt, paid on 14 April 2003</i>	139,500
<i>In respect of the financial year ended 31 December 2003, an interim gross dividend of 10 sen per share on 150,000,000 ordinary shares, less income tax, paid on 1 October 2003</i>	10,800
	<hr/>
	166,500
	<hr/>

DIVIDENDS (Continued)

The Directors now recommend the payment of a final gross dividend of 5 sen per share, less income tax, on 150,000,000 ordinary shares amounting to RM5,400,000 for the financial year ended 31 December 2003 which, subject to approval of members at the forthcoming Annual General Meeting of the Company, will be paid on 13 April 2004 to shareholders registered on the Company's Register of Members as at the close of business on 22 March 2004.

RESERVES AND PROVISIONS

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

DIRECTORS

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

Dato' Ooi Sang Kuang (Chairman)

Tan Sri Dato' Azman Hashim

Datuk Tay Ah Lek

Dato' Tan Teong Hean

Datuk Amirsham A. Aziz

Mohamed Azmi Mahmood

Md Agil Mohd Natt

Dato' Mohd Razif Abdul Kadir

Dr. Rozali Mohamed Ali

Dato' Wan Ismail Abdul Rahman

Dato' Albert Yeoh Beow Tit

(appointed on 16.9.2003)

Zarir Jal Cama

(appointed on 16.9.2003)

Shayne Keith Nelson

(appointed on 29.10.2003)

Michael Andrew Hague

(resigned on 11.2.2004)

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

Dr. Rozali Mohamed Ali

Dato' Tan Teong Hean

Tan Sri Dato' Azman Hashim

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

Dato' Albert Yeoh Beow Tit

Zarir Jal Cama

Shayne Keith Nelson

DIRECTORS' BENEFITS

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

Since the end of the previous year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration disclosed in Note 19 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 Company had been written down to an amount which they might be expected so to realise.*

At the date of this report, the Directors are not aware of any circumstances:

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

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the Directors, will or may substantially affect the ability of the 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 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 Company which has arisen since the end of the year.*

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (Continued)

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

In the opinion of the Directors,

- (a) the results of the 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 Company for the financial year in which this report is made.*

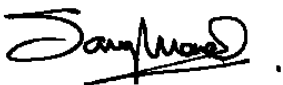
RELATED-PARTY TRANSACTIONS

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

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 26 February 2004.



DATO' OOI SANG KUANG
CHAIRMAN



TAN SRI DATO' AZMAN HASHIM
DIRECTOR

Balance Sheet

As at 31 December 2003

	Note	2003 RM'000	2002 RM'000
ASSETS			
Cash and short-term funds	4	73,648	60,900
Amounts due from counter parties	5	26,431,423	25,330,082
Investment securities	6	382,825	224,644
Islamic financing debts	7	907,689	703,390
Tax recoverable		1,455	11,964
Other assets	8	50,983	47,951
Fixed assets	9	5,101	4,204
TOTAL ASSETS		27,853,124	26,383,135
LIABILITIES			
Unsecured bearer bonds and notes	10	26,433,248	24,940,165
Deferred taxation	11	10,505	7,588
Other liabilities	12	273,315	271,116
TOTAL LIABILITIES		26,717,068	25,218,869
SHARE CAPITAL	13	150,000	150,000
RESERVES	14	986,056	1,014,266
SHAREHOLDERS' FUNDS		1,136,056	1,164,266
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		27,853,124	26,383,135
NET TANGIBLE ASSETS PER SHARE (RM)	21	7.57	7.76

The notes on pages 156 to 183 form an integral part of these financial statements.

Income Statement

For the financial year ended 31 December 2003

	Note	2003 RM'000	2002 RM'000
INTEREST INCOME	15	1,060,696	1,146,321
INTEREST EXPENSE	16	(872,774)	(941,443)
NET INTEREST INCOME		187,922	204,878
ISLAMIC OPERATIONS INCOME	31	2,519	1,388
NON-INTEREST INCOME	17	9,963	9,339
NET INCOME		200,404	215,605
ADMINISTRATION AND GENERAL EXPENSES		(4,257)	(4,426)
PERSONNEL COST		(3,635)	(3,675)
PROFIT BEFORE TAXATION AND ZAKAT	18	192,512	207,504
TAXATION	20	(53,945)	(57,196)
ZAKAT		(277)	(254)
NET PROFIT FOR THE YEAR		138,290	150,054
EARNINGS PER SHARE (SEN)	21	92.2	100.0
DIVIDEND PER SHARE (SEN)	22	15	118

The notes on pages 156 to 183 form an integral part of these financial statements.

Statement of Changes in Equity

For the financial year ended 31 December 2003

	Issued and fully paid ordinary shares of RM1 each		Distributable	
	Number of Shares RM'000	Nominal Value RM'000	Retained Earnings RM'000	Total RM'000
Balance as at 1 January 2002	150,000	150,000	885,812	1,035,812
Net profit for the year	–	–	150,054	150,054
<i>Dividends for the financial year ended:</i>				
31 December 2001				
– final dividend of 10 sen per share, less income tax	–	–	(10,800)	(10,800)
31 December 2002				
– interim dividend of 10 sen per share, less income tax	–	–	(10,800)	(10,800)
Balance as at 31 December 2002	150,000	150,000	1,014,266	1,164,266
Net profit for the year	–	–	138,290	138,290
<i>Dividends for the financial year ended:</i>				
31 December 2002				
– final dividend of 15 sen per share, less income tax	–	–	(16,200)	(16,200)
– special dividend of 93 sen per share, tax exempt	–	–	(139,500)	(139,500)
31 December 2003				
– interim dividend of 10 sen per share, less income tax	–	–	(10,800)	(10,800)
Balance as at 31 December 2003	150,000	150,000	986,056	1,136,056

The notes on pages 156 to 183 form an integral part of these financial statements.

Cash Flow Statement

For the financial year ended 31 December 2003

	2003 RM'000	2002 RM'000
OPERATING ACTIVITIES		
Net profit for the year	138,290	150,054
<i>Adjustments for investment items and items not involving the movement of cash and cash equivalents:</i>		
Amortisation of premium on Malaysian Government securities	554	380
Amortisation of premium less accretion of discount on Islamic debt securities	1,243	106
Income accrued from Islamic debt securities	(14,492)	(10,398)
Interest income accrued from investments	(3,567)	(2,634)
Interest income accrued from interest rate swaps	(5,612)	(14,324)
Depreciation of fixed assets	856	754
Gain on disposal of fixed assets	(26)	(53)
Taxation	53,945	57,196
Zakat	277	254
Operating profit before working capital changes	171,468	181,335
Increase in amounts due from counter parties	(1,101,342)	(3,207,296)
Increase in Islamic financing debts	(204,299)	(560,436)
Decrease/(increase) in other assets	9,502	(663)
Increase in unsecured bearer bonds and notes	1,493,083	3,423,654
Increase in other liabilities	2,175	11,731
Cash generated from/(utilised in) operations	370,587	(151,675)
Payment of zakat	(253)	(77)
Payment of taxation	(52,514)	(42,152)
Net cash generated from/(utilised in) operating activities	317,820	(193,904)
INVESTING ACTIVITIES		
Purchase of:		
Investments	(150,095)	(51,350)
Fixed assets	(1,753)	(2,347)
Income received from Islamic debt securities	2,718	586
Interest income received from investments	2,943	2,634
Interest income received from interest rate swaps	7,589	14,088
Proceeds from disposal of fixed assets	26	68
Net cash utilised in investing activities	(138,572)	(36,321)

Cash Flow Statement

For the financial year ended 31 December 2003 (Continued)

	2003 RM'000	2002 RM'000
FINANCING ACTIVITIES		
<i>Payment of dividends</i>	<u>(166,500)</u>	<u>(21,600)</u>
<i>Net cash utilised in financing activities</i>	<u>(166,500)</u>	<u>(21,600)</u>
<i>Net increase/(decrease) in cash and cash equivalents</i>	12,748	(251,825)
<i>Cash and cash equivalents as at beginning of the year</i>	<u>60,900</u>	<u>312,725</u>
<i>Cash and cash equivalents as at end of the year</i>	<u>73,648</u>	<u>60,900</u>
<i>Analysis of cash and cash equivalents:</i>		
<i>Cash and short-term funds</i>	<u>73,648</u>	<u>60,900</u>

The notes on pages 156 to 183 form an integral part of these financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

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

There has been no significant change in the nature of these activities during the year.

The number of employees in the Company at the end of the year was 53 (2002: 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

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

(a) Basis of preparation

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

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

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

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

(b) 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Investments

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

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

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

(d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

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

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

(e) Income recognition

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

(f) Premium and discount on unsecured bearer bonds issued by the Company

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.

(g) Discount on unsecured bearer notes issued by the Company

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

(h) Deferred taxation

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Cash and cash equivalents

For the purposes of the cashflow 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.

(j) 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.

(k) Interest rate swaps

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

(l) Provisions

Provisions are recognised when the Company has 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.

(m) Zakat

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

(n) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits

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

3 RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company is subject to four major areas of risk which comprise market risk, liquidity risk, credit risk and operational risk. The Company's primary objective of risk management is to effectively manage and link risks with reward in order to maximise the Company's shareholders' value as well as to ensure that the Company is able to sustain its performance.

The Board of Directors (Board) has approved the Risk Management Framework which sets out, amongst others, the roles and responsibilities of parties involved in the management of risks. The Board assumes the ultimate responsibility for management of risks. The Board sets the risk appetite and tolerance level that are consistent with the Company's overall business objectives and desired risk profile. The Board also regularly reviews and approves all significant risk management policies and risk exposures.

3 RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

During the year, the Board approved the establishment of a new Board Committee, namely the Board Risk Committee (BRC). The BRC is responsible for overseeing the management of risks associated with the Company's operations and activities.

The BRC is assisted by the Risk Management Unit (RMU), which was set up in December 2001, with the objectives to oversee and independently report the Company's risk exposures to the Board and to coordinate the management of risks on an enterprise-wide basis. The RMU is independent of other departments and units involved in risk-taking activities.

The risks faced by the Company and the strategies adopted by the Company in managing these risks are as follows:

(a) Market risk

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

The Company also faces the risk of funding mismatch between its assets and its liabilities. Despite their contractual maturity, the average life of the assets depends on the actual rate of prepayment. The assets portfolio of the Company has a shorter average life if the rate of prepayment is high. As a result of funding mismatch, the Company will be subject to the risk of having to reinvest at lower rates or to borrow at higher rates.

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

In December 2001, the Board approved the Treasury Management Policy (TMP) as a framework within which the Company's exposure to various treasury risks are managed. The TMP sets out, inter alia, the structure and functions of the Treasury Department, policies regarding liquidity management, funding and investments, the management of risks relevant to treasury activities, authorised transactions and limits for treasury activities.

In line with the Company's plan to establish an enterprise-wide approach to managing risk and having identified market risk as the primary risk faced by the Company, the Board approved the Market Risk Policy in August 2003. The Market Risk Policy sets out, inter alia, the definition and types of market risk, the strategy and policies in the management of market risk and the roles and responsibilities of parties involved in the management of market risk.

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

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

3 RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

(b) Liquidity risk

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

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

(c) Credit risk

The Company purchases loans and debts on with recourse basis. The Company is subject to credit risk when a counter party defaults on its payments to the Company, which may result in the Company having to replace the transaction with a different counter party or borrow from the inter-bank money market. Most of the Company's purchases of loans and debts are from financial institutions which are supervised by Bank Negara Malaysia. Hence, the likelihood of default by the selling institutions is minimised. The Company's loans and debts are also subject to an annual audit to ensure that the loans and debts purchased are of the quality required by Cagamas.

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

The Company mitigates its credit risk through credit policies and limits approved by the Board. The parameters in setting credit limits are reviewed by the Board from time to time. The credit limits for counter parties for purchases of loans and debts, investments and money market transactions are regularly reviewed and monitored. There are strict guidelines and limits on permitted investments and these investments are restricted to high quality papers. The primary objective of investments is to manage the Company's funds by optimising the return on investments, within the constraints of safety and liquidity, to match the benchmark set by the Board. It is the Company's policy to liquidate its investments only under limited circumstances and within a reasonable time period as specified in the Company's TMP.

(d) Operational risk

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

The Company mitigates its operational risk by having comprehensive internal controls, systems and procedures that are reviewed on a regular basis and are subjected to regular audits by the Internal Auditors. The Company has also set in place a comprehensive Business Continuity Plan (BCP) to minimise the impact from potential internal and external disaster disruptions to the Company's operations. The BCP is updated on a regular basis to be in line with changes in business processes and tested to ensure that the BCP remains relevant.

The Company is in the final stages of implementing an integrated Treasury Management System and Loans Processing System to enhance efficiency, processing and reporting capabilities and to minimise the likelihood of errors due to manual processes. The systems have built-in controls and validations that will enable the Company to maintain and monitor limits and to receive alerts on any breach of limits.

4 CASH AND SHORT-TERM FUNDS

	2003 RM'000	2002 RM'000
Cash and balances with banks and other financial institutions	548	77
Money at call and deposit placements maturing within one month	60,480	48,540
Mudharabah money at call and deposit placements maturing within one month	12,620	12,283
	<u>73,648</u>	<u>60,900</u>

5 AMOUNTS DUE FROM COUNTER PARTIES

Relating to:		
Mortgage loans	15,195,597	14,816,756
Hire purchase and leasing debts	11,235,826	10,513,326
	<u>26,431,423</u>	<u>25,330,082</u>

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

Maturing within one year	5,993,855	8,676,095
One year to three years	11,960,205	9,978,801
Three years to five years	6,752,401	5,589,929
More than five years	1,724,962	1,085,257
	<u>26,431,423</u>	<u>25,330,082</u>

6 INVESTMENT SECURITIES

Malaysian Government securities	34,806	34,806
Khazanah bonds	114,164	114,164
Private debt securities	31,118	-
Islamic debt securities	170,327	51,350
	<u>350,415</u>	<u>200,320</u>
Amortisation of premium less accretion of discount	32,410	24,324
	<u>382,825</u>	<u>224,644</u>

Market value of investment securities is as follows:

Malaysian Government securities	33,349	35,157
Khazanah bonds	170,462	176,444
Private debt securities	30,440	-
Islamic debt securities	167,889	52,255
	<u>402,140</u>	<u>263,856</u>

6 INVESTMENT SECURITIES (Continued)

	2003	2002
	RM'000	RM'000
<i>The maturity structure of investment securities is as follows:</i>		
<i>Maturing within one year</i>	25,508	–
<i>One year to three years</i>	163,565	10,401
<i>Three years to five years</i>	60,527	89,104
<i>More than five years</i>	100,815	100,815
	<u>350,415</u>	<u>200,320</u>

7 ISLAMIC FINANCING DEBTS

<i>Islamic house financing debts</i>	344,463	244,505
<i>Islamic hire purchase debts</i>	563,226	458,885
	<u>907,689</u>	<u>703,390</u>

The maturity structure of Islamic financing debts is as follows:

<i>Maturing within one year</i>	246,735	81,862
<i>One year to three years</i>	342,960	298,676
<i>Three years to five years</i>	279,672	281,866
<i>More than five years</i>	38,322	40,986
	<u>907,689</u>	<u>703,390</u>

8 OTHER ASSETS

<i>Accrued interest receivables</i>	43,385	43,748
<i>Staff loans and financing</i>	3,658	3,400
<i>Deposits</i>	144	144
<i>Prepayments</i>	149	83
<i>Other receivables</i>	3,647	576
	<u>50,983</u>	<u>47,951</u>

9 FIXED ASSETS

	As at 1.1.2003 RM'000	Additions RM'000	Disposals RM'000	As at 31.12.2003 RM'000
Cost				
Office equipment	5,836	1,752	(90)	7,498
Furniture and fittings	619	1	–	620
Motor vehicles	861	–	(53)	808
	<u>7,316</u>	<u>1,753</u>	<u>(143)</u>	<u>8,926</u>
Accumulated depreciation				
Office equipment	2,610	640	(90)	3,160
Furniture and fittings	217	52	–	269
Motor vehicles	285	164	(53)	396
	<u>3,112</u>	<u>856</u>	<u>(143)</u>	<u>3,825</u>
Net book value				
Office equipment				4,338
Furniture and fittings				351
Motor vehicles				412
				<u>5,101</u>
	As at 1.1.2002 RM'000	Additions RM'000	Disposals RM'000	As at 31.12.2002 RM'000
Cost				
Office equipment	3,986	1,933	(83)	5,836
Furniture and fittings	556	114	(51)	619
Motor vehicles	709	299	(147)	861
	<u>5,251</u>	<u>2,346</u>	<u>(281)</u>	<u>7,316</u>
Accumulated depreciation				
Office equipment	2,114	576	(80)	2,610
Furniture and fittings	210	45	(38)	217
Motor vehicles	299	133	(147)	285
	<u>2,623</u>	<u>754</u>	<u>(265)</u>	<u>3,112</u>
Net book value				
Office equipment				3,226
Furniture and fittings				402
Motor vehicles				576
				<u>4,204</u>

10 UNSECURED BEARER BONDS AND NOTES

	2003		2002	
<i>Year of Maturity</i>	<i>Amount Outstanding RM'000</i>	<i>Effective Rates %</i>	<i>Amount Outstanding RM'000</i>	<i>Effective Rates %</i>
<i>Fixed rate bonds</i>				
2003	–	–	5,152,000	3.131 - 4.894
2004	7,022,000	3.133 - 6.054	7,022,000	3.133 - 6.054
2005	4,935,000	3.132 - 5.449	3,925,000	3.132 - 5.449
2006	9,487,000	3.060 - 3.928	4,482,000	3.104 - 3.928
2007	1,040,000	3.253 - 4.351	1,040,000	3.253 - 4.351
2008	1,850,000	3.114 - 3.122	–	–
2011	220,000	3.912	220,000	3.912
	<u>24,554,000</u>		<u>21,841,000</u>	
<i>Add: Unaccreted premium</i>	7,424		4,728	
<i>Less: Unamortised discount</i>	(54,327)		(8,760)	
	<u>24,507,097</u>		<u>21,836,968</u>	
<i>Sanadat Mudharabah Cagamas</i>				
2004	144,000	–	144,000	–
2006	200,000	–	–	–
2007	560,000	–	560,000	–
2008	120,000	–	–	–
2009	50,000	–	50,000	–
	<u>1,074,000</u>		<u>754,000</u>	
<i>Short-term notes</i>				
2003	–	–	2,375,000	2.735 - 2.901
2004	875,000	3.036	–	–
	<u>875,000</u>		<u>2,375,000</u>	
<i>Less: Unamortised discount</i>	(22,849)		(25,803)	
	<u>852,151</u>		<u>2,349,197</u>	
<i>Unsecured bearer bonds and notes</i>	<u>26,433,248</u>		<u>24,940,165</u>	

10 UNSECURED BEARER BONDS AND NOTES (Continued)

	2003 RM'000	2002 RM'000
<i>The maturity structure of unsecured bearer bonds and notes is as follows:</i>		
Maturing within one year	8,018,796	7,500,680
One year to three years	14,601,565	11,088,432
Three years to five years	3,542,890	6,081,056
More than five years	269,997	269,997
	<u>26,433,248</u>	<u>24,940,165</u>

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

11 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:

	2003 RM'000	2002 RM'000
Deferred tax liabilities	11,619	8,531
Deferred tax assets	(1,114)	(943)
	<u>10,505</u>	<u>7,588</u>

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

Balance as at beginning of the year	7,588	4,820
Charged to income statement	2,917	2,768
Balance as at end of the year	<u>10,505</u>	<u>7,588</u>

11 DEFERRED TAXATION (Continued)

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

	As at 1.1.2003 RM'000	Charged to Income Statement RM'000	As at 31.12.2003 RM'000
Deferred tax liabilities			
<i>Excess of capital allowances over depreciation on fixed assets</i>	728	341	1,069
<i>Temporary difference relating to accretion of discount of investment securities</i>	7,803	2,747	10,550
	<u>8,531</u>	<u>3,088</u>	<u>11,619</u>
Deferred tax assets			
<i>Temporary difference relating to amortisation of premium of investment securities</i>	943	171	1,114
	<u>943</u>	<u>171</u>	<u>1,114</u>
	As at 1.1.2002 RM'000	Charged to Income Statement RM'000	As at 31.12.2002 RM'000
Deferred tax liabilities			
<i>Excess of capital allowances over depreciation on fixed assets</i>	460	268	728
<i>Temporary difference relating to accretion of discount of investment securities</i>	5,195	2,608	7,803
	<u>5,655</u>	<u>2,876</u>	<u>8,531</u>
Deferred tax assets			
<i>Temporary difference relating to amortisation of premium of investment securities</i>	835	108	943
	<u>835</u>	<u>108</u>	<u>943</u>

12 OTHER LIABILITIES

	2003 RM'000	2002 RM'000
Zakat	278	254
Income attributable to Islamic bondholders	9,315	5,832
Accrued interest on unsecured bearer bonds and notes	258,739	258,704
Other payables	4,983	6,326
	<u>273,315</u>	<u>271,116</u>

13 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>
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Issued and fully paid-up:

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

Retained earnings	<u>986,056</u>	<u>1,014,266</u>
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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 2003. 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.

15 INTEREST INCOME

	2003 RM'000	2002 RM'000
Amounts due from counter parties relating to:		
Mortgage loans	618,528	739,875
Hire purchase and leasing debts	431,281	387,979
Investment securities	3,567	2,580
Money market instruments	2,208	1,889
Interest rate swaps (Note 25)	5,612	14,324
Others	54	54
	<u>1,061,250</u>	<u>1,146,701</u>
Amortisation of premium	(554)	(380)
	<u>1,060,696</u>	<u>1,146,321</u>

16 INTEREST EXPENSE

	2003 RM'000	2002 RM'000
<i>Unsecured bearer bonds</i>	804,653	857,653
<i>Unsecured bearer notes</i>	59,913	76,543
<i>Deposits and placements of financial institutions</i>	8,058	7,247
<i>Interest rate swaps (Note 25)</i>	150	–
	<u>872,774</u>	<u>941,443</u>

17 NON-INTEREST INCOME

<i>Investment Income:</i>		
<i>Income from Islamic debt securities</i>	9,883	9,239
<i>Other Income:</i>		
<i>Other non-operating income</i>	54	47
<i>Gain on disposal of fixed assets</i>	26	53
	<u>9,963</u>	<u>9,339</u>

18 PROFIT BEFORE TAXATION AND ZAKAT

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

<i>Directors' remuneration (Note 19)</i>	115	125
<i>Rental of premises</i>	526	526
<i>Hire of equipment</i>	152	78
<i>Auditors' remuneration:</i>		
<i>Statutory audit services</i>	60	40
<i>Other services</i>	–	22
<i>Depreciation</i>	856	754
	<u>1,515</u>	<u>1,555</u>

19 DIRECTORS' REMUNERATION

Forms of remuneration in aggregate for all Directors charged to the profit for the year are as follows:

<i>Fees</i>	85	89
<i>Other remuneration</i>	30	36
	<u>115</u>	<u>125</u>

20 TAXATION

	2003 RM'000	2002 RM'000
(a) Tax charge for the year		
<i>In respect of current year:</i>		
Current tax	51,028	55,500
Deferred tax	2,917	2,768
	<u>53,945</u>	<u>58,268</u>
<i>In respect of prior years:</i>		
Over provision	–	(1,072)
	<u>53,945</u>	<u>57,196</u>

(b) Reconciliation of income tax expense

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

	2003 RM'000	2002 RM'000
Profit before taxation	192,512	207,504
Tax calculated at a tax rate of 28% (2002: 28%)	53,903	58,101
Prior years' over provision	–	(1,072)
Expenses not deductible for tax purposes	136	169
Expenses allowed for double deductions	(1)	(2)
Capital expenses allowed for deduction	(93)	–
Tax charge	<u>53,945</u>	<u>57,196</u>

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

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

	2003 %	2002 %
Statutory income tax rate of Malaysia	28	28
Prior years' over provision	–	(1)
Expenses not deductible for tax purposes	–	–
Expenses allowed for double deductions	–	–
Capital expenses allowed for deduction	–	–
Average effective tax rate	<u>28</u>	<u>27</u>

21 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM1,136,056,000 (2002: RM1,164,266,000) by the 150,000,000 shares of the Company in issue.

Earnings per share is calculated by dividing the net profit for the financial year of RM138,290,000 (2002: RM150,054,000) by the 150,000,000 shares of the Company in issue.

22 DIVIDENDS

Dividends paid and proposed are as follows:

	2003		2002	
	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	10	10,800	10	10,800
Final dividend proposed	5	5,400	15	16,200
Special dividend proposed	–	–	93	139,500
	<u>15</u>	<u>16,200</u>	<u>118</u>	<u>166,500</u>

At the forthcoming Annual General Meeting on 30 March 2004, a final gross dividend of 5 sen per share, less income tax (2002: a final gross dividend of 15 sen per share, less income tax, and a special gross dividend of 93 sen per share, tax exempt) in respect of the financial year ended 31 December 2003, amounting to RM5,400,000 (2002: RM155,700,000) will be proposed for shareholders' approval. These financial statements do not reflect the final dividend which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2004 when approved by shareholders.

23 CAPITAL COMMITMENTS

	2003 RM'000	2002 RM'000
Capital expenditure: Authorised and contracted for	<u>1,997</u>	<u>3,693</u>
Analysed as follows: Fixed assets	<u>1,997</u>	<u>3,693</u>

24 LEASE COMMITMENTS

The Company has 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
2004	617
2005	526
2006	131
	<hr/>
	1,274
	<hr/>

25 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 the 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 Company at the balance sheet date were:

	2003	2002
	RM'000	RM'000
Maturing within one year	267,000	614,000
One year to three years	391,000	358,000
	<hr/>	<hr/>
	658,000	972,000
	<hr/>	<hr/>

26 INTEREST RATE RISK

The table below summarises the 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 interest rate swaps are stated at net notional amounts. As interest rates and yield curves change over time, the Company may be exposed to loss in earnings due to the effects of movements in interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

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

26 INTEREST RATE RISK (Continued)

	Effective interest rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest bearing RM'000	Transactions based on Islamic principles RM'000	Total RM'000
2002								
Cash and short-term funds	2.73	48,540	–	–	–	73	12,287	60,900
Amounts due from counter parties:								
Fixed rate portfolio	4.45	6,918,282	9,212,915	5,368,994	1,015,878	–	–	22,516,069
Floating rate portfolio	3.21	2,814,013	–	–	–	–	–	2,814,013
Investment securities	6.93	–	–	31,442	–	–	193,202	224,644
Islamic financing debts	–	–	–	–	–	–	703,390	703,390
Other assets	3.05	2	69	31	1,542	60,206	2,269	64,119
Total assets		9,780,837	9,212,984	5,400,467	1,017,420	60,279	911,148	26,383,135
Unsecured bearer bonds and notes	3.75	7,500,680	10,944,432	5,521,056	219,997	–	754,000	24,940,165
Other liabilities	–	–	–	–	–	272,618	6,086	278,704
Total liabilities		7,500,680	10,944,432	5,521,056	219,997	272,618	760,086	25,218,869
Shareholders' funds		–	–	–	–	1,164,266	–	1,164,266
Total liabilities and shareholders' funds		7,500,680	10,944,432	5,521,056	219,997	1,436,884	760,086	26,383,135
On-balance sheet interest sensitivity gap		2,280,157	(1,731,448)	(120,589)	797,423			
Interest rate swaps interest sensitivity gap		(358,000)	358,000	–	–			
Total interest sensitivity gap		1,922,157	(1,373,448)	(120,589)	797,423			
Cumulative gap		1,922,157	548,709	428,120	1,225,543			

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

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

The interest rate swaps that the Company has entered into to hedge the Company's issuance of debt securities in a rising interest rate environment has resulted in a net unrecognised gain amounting to RM493,000 as at balance sheet date.

27 CREDIT RISK

The Company's counter parties are mainly 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 Company's exposure to credit risk as at the balance sheet date:

	Cash and short-term funds RM'000	Amounts due from counter parties RM'000	Investment securities RM'000	Islamic financing debts RM'000	Other assets RM'000	Total on-balance sheet items RM'000	Interest rate swaps RM'000	Total RM'000
2003								
Government bodies	6	–	182,876	–	2,008	184,890	–	184,890
<i>Financial institutions:</i>								
Commercial banks	73,641	12,985,857	–	228,292	23,344	13,311,134	829	13,311,963
Finance companies	–	12,910,273	–	563,226	18,656	13,492,155	–	13,492,155
Merchant banks	–	237,190	–	–	777	237,967	8,904	246,871
Communication, electricity, gas and water	–	298,103	118,615	116,171	2,337	535,226	–	535,226
Transportation	–	–	10,102	–	40	10,142	–	10,142
Leasing	–	–	15,232	–	244	15,476	–	15,476
Construction	–	–	35,898	–	788	36,686	–	36,686
Others	1	–	20,102	–	9,345	29,448	–	29,448
Total	73,648	26,431,423	382,825	907,689	57,539	27,853,124	9,733	27,862,857
2002								
Government bodies	7	847,404	173,400	–	13,396	1,034,207	–	1,034,207
<i>Financial institutions:</i>								
Commercial banks	12,352	9,888,167	–	244,505	19,389	10,164,413	4,047	10,168,460
Finance companies	–	14,035,894	–	458,885	20,510	14,515,289	–	14,515,289
Merchant banks	–	238,246	–	–	2,022	240,268	7,913	248,181
Discount houses	48,540	–	–	–	4	48,544	–	48,544
Communication, electricity, gas and water	–	320,371	41,075	–	926	362,372	–	362,372
Transportation	–	–	10,169	–	40	10,209	–	10,209
Others	1	–	–	–	7,832	7,833	–	7,833
Total	60,900	25,330,082	224,644	703,390	64,119	26,383,135	11,960	26,395,095

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

28 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 fixed assets are excluded, as they do not fall within the scope of MASB 24, which requires the fair value information to be disclosed.

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

The estimated fair values of the Company's financial instruments are as follows:

	2003		2002	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Assets				
Cash and short-term funds	73,648	73,648	60,900	60,900
Amounts due from counter parties	26,431,423	27,637,668	25,330,082	25,354,896
Investment securities	382,825	402,140	224,644	263,856
Islamic financing debts	907,689	985,968	703,390	710,445
Other financial assets	52,289	52,289	59,832	59,832
Non-financial assets	5,250	–	4,287	–
	<u>27,853,124</u>	<u>29,151,713</u>	<u>26,383,135</u>	<u>26,449,929</u>
Liabilities				
Unsecured bearer bonds and notes	26,433,248	26,368,480	24,940,165	25,228,115
Other financial liabilities	283,820	283,820	278,704	278,704
	<u>26,717,068</u>	<u>26,652,300</u>	<u>25,218,869</u>	<u>25,506,819</u>
	Notional Value RM'000	Fair Value RM'000	Notional Value RM'000	Fair Value RM'000
Derivatives				
Interest rate swaps	658,000	2,156	972,000	6,661

28 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

(a) Cash and short-term funds

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

(b) Amounts due from counter parties

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

(c) Investment securities

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

(d) 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.

(e) Other financial assets

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

(f) Unsecured bearer bonds and notes

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

(g) Other financial liabilities

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

(h) 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.

29 SEGMENT REPORTING

The Directors are of the opinion that the Company has only one business activity, which is the purchase of mortgage loans, hire purchase and leasing debts, Islamic house financing debts and Islamic hire purchase debts from primary lenders on with recourse basis. In addition, all its activities are within Malaysia.

30 CAPITAL ADEQUACY

	2003 RM'000	2002 RM'000
<i>The capital adequacy ratios are as follows:</i>		
Paid-up capital	150,000	150,000
Other reserves	988,973	1,017,034
	<hr/>	<hr/>
Tier 1 capital	1,138,973	1,167,034
	<hr/>	<hr/>
Total capital base	1,138,973	1,167,034
	<hr/>	<hr/>
<i>Capital ratios:</i>		
Core capital ratio	18.9%	22.3%
Risk-weighted capital ratio	18.9%	22.3%
	<hr/>	<hr/>
<i>Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:</i>		
0%	183,977	1,022,313
20%	27,040,714	24,968,443
50%	19,875	342,932
100%	618,292	61,407
	<hr/>	<hr/>
	27,862,858	26,395,095
	<hr/>	<hr/>
Total risk-weighted assets	6,036,372	5,226,561
	<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.

31 ISLAMIC OPERATIONS

BALANCE SHEET AS AT 31 DECEMBER 2003

	Note	2003 RM'000	2002 RM'000
ASSETS			
Cash and short-term funds	(a)	12,626	12,287
Investment securities	(b)	168,978	51,244
Islamic financing debts	(c)	907,689	703,390
Receivables		3,645	574
Other assets		26,825	13,800
TOTAL ASSETS		1,119,763	781,295
LIABILITIES			
Unsecured bearer bonds	(d)	1,074,000	754,000
Other liabilities	(e)	9,942	6,288
TOTAL LIABILITIES		1,083,942	760,288
ISLAMIC OPERATIONS' FUNDS		35,821	21,007
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		1,119,763	781,295

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

TOTAL INCOME ATTRIBUTABLE		44,669	25,801
INCOME ATTRIBUTABLE TO THE BONDHOLDERS	(f)	(42,115)	(24,372)
INCOME ATTRIBUTABLE TO THE SHAREHOLDERS	(g)	2,554	1,429
ADMINISTRATION AND GENERAL EXPENSES		(35)	(41)
PROFIT BEFORE TAXATION AND ZAKAT		2,519	1,388
TAXATION		(628)	(318)
ZAKAT		(277)	(254)
NET PROFIT FOR THE YEAR		1,614	816

31 ISLAMIC OPERATIONS (Continued)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Allocated Capital Funds RM'000	Retained Earnings RM'000	Total RM'000
Balance as at 1 January 2002	4,015	2,376	6,391
Net profit for the year	–	816	816
Transferred to Islamic operations	13,800	–	13,800
Balance as at 31 December 2002	17,815	3,192	21,007
Net profit for the year	–	1,614	1,614
Transferred to Islamic operations	13,200	–	13,200
Balance as at 31 December 2003	31,015	4,806	35,821

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	2003 RM'000	2002 RM'000
OPERATING ACTIVITIES		
Net profit for the year	1,614	816
Adjustments for investment items and items not involving the movement of cash and cash equivalents:		
Amortisation of premium less accretion of discount on Islamic debt securities	1,243	106
Income accrued from Islamic debt securities	(4,609)	(1,054)
Taxation	628	318
Zakat	277	254
Operating (loss)/profit before working capital changes	(847)	440
Increase in Islamic financing debts	(204,299)	(560,436)
(Increase)/decrease in other assets	(1,005)	98
Increase in unsecured bearer bonds	320,000	610,000
Increase in other liabilities	3,281	5,245
Cash generated from operations	117,130	55,347
Payment of zakat	(253)	(77)
Payment of taxation	(279)	(171)
Net cash generated from operating activities	116,598	55,099

31 ISLAMIC OPERATIONS (Continued)

CASH FLOW STATEMENT (Continued)

	2003 RM'000	2002 RM'000
INVESTING ACTIVITIES		
Purchase of investments	(118,977)	(51,350)
Income received from Islamic debt securities	2,718	479
Net cash utilised in investing activities	<u>(116,259)</u>	<u>(50,871)</u>
Net increase in cash and cash equivalents	339	4,228
Cash and cash equivalents as at beginning of the year	12,287	8,059
Cash and cash equivalents as at end of the year	<u>12,626</u>	<u>12,287</u>
Analysis of cash and cash equivalents:		
Cash and short-term funds	<u>12,626</u>	<u>12,287</u>
(a) CASH AND SHORT-TERM FUNDS		
Cash and balances with banks and other financial institutions	6	4
Mudharabah money at call and deposit placements maturing within one month	12,620	12,283
	<u>12,626</u>	<u>12,287</u>
(b) INVESTMENT SECURITIES		
Islamic debt securities	170,327	51,350
Amortisation of premium less accretion of discount	(1,349)	(106)
	<u>168,978</u>	<u>51,244</u>
Market value of investment securities is as follows:		
Islamic debt securities	<u>167,807</u>	<u>52,255</u>
The maturity structure of investment securities is as follows:		
Maturing within one year	25,508	—
One year to three years	108,619	10,401
Three years to five years	36,200	40,949
	<u>170,327</u>	<u>51,350</u>

31 ISLAMIC OPERATIONS (Continued)

(c) ISLAMIC FINANCING DEBTS

	2003 RM'000	2002 RM'000
Islamic house financing debts	344,463	244,505
Islamic hire purchase debts	563,226	458,885
	<u>907,689</u>	<u>703,390</u>

The maturity structure of Islamic financing debts is as follows:

Maturing within one year	246,735	81,862
One year to three years	342,960	298,676
Three years to five years	279,672	281,866
More than five years	38,322	40,986
	<u>907,689</u>	<u>703,390</u>

(d) UNSECURED BEARER BONDS

Sanadat Mudharabah Cagamas	<u>1,074,000</u>	<u>754,000</u>
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The maturity structure of unsecured bearer bonds is as follows:

Maturing within one year	144,000	–
One year to three years	200,000	144,000
Three years to five years	680,000	560,000
More than five years	50,000	50,000
	<u>1,074,000</u>	<u>754,000</u>

(e) OTHER LIABILITIES

Zakat	278	254
Income attributable to bondholders	9,315	5,832
Other liabilities	349	202
	<u>9,942</u>	<u>6,288</u>

31 ISLAMIC OPERATIONS (Continued)

(f) INCOME ATTRIBUTABLE TO THE BONDHOLDERS

	2003 RM'000	2002 RM'000
<i>Income from Islamic financing debts</i>	37,848	23,416
<i>Income from investment securities</i>	3,878	644
<i>Income from deposit placements</i>	389	312
	<u>42,115</u>	<u>24,372</u>
<i>Income attributable to the bondholders analysed by concepts is as follows:</i>		
<i>Bai Al-Dayn</i>	37,848	23,416
<i>Mudharabah</i>	389	312
<i>Bai Bithaman Ajil</i>	3,548	623
<i>Murabahah</i>	330	21
	<u>42,115</u>	<u>24,372</u>

(g) INCOME ATTRIBUTABLE TO THE SHAREHOLDERS

<i>Income from Islamic financing debts</i>	2,212	1,331
<i>Income from investment securities</i>	273	42
<i>Income from deposit placements</i>	69	56
	<u>2,554</u>	<u>1,429</u>
<i>Income attributable to the shareholders analysed by concepts is as follows:</i>		
<i>Bai Al-Dayn</i>	2,212	1,331
<i>Mudharabah</i>	69	56
<i>Bai Bithaman Ajil</i>	247	40
<i>Murabahah</i>	26	2
	<u>2,554</u>	<u>1,429</u>

(h) CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

<i>Allocated capital funds</i>	31,015	17,815
<i>Other reserves</i>	4,806	3,192
	<u>35,821</u>	<u>21,007</u>
<i>Tier 1 capital</i>	35,821	21,007
	<u>35,821</u>	<u>21,007</u>

31 ISLAMIC OPERATIONS (Continued)

(h) CAPITAL ADEQUACY (Continued)

	2003 RM'000	2002 RM'000
<i>Capital ratios:</i>		
Core capital ratio	8.1%	11.1%
Risk-weighted capital ratio	8.1%	11.1%
<i>Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:</i>		
0%	26,831	13,804
20%	803,893	715,673
50%	10,141	10,209
100%	278,898	41,609
	<u>1,119,763</u>	<u>781,295</u>
Total risk-weighted assets	<u>444,747</u>	<u>189,848</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.

(i) ZAKAT OBLIGATIONS

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

(j) 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.

Statement by Directors

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

We, Dato' Ooi Sang Kuang and Tan Sri Dato' Azman Hashim, two of the Directors of Cagamas Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 151 to 183 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of its results and cash flows for the financial year ended on that date in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 26 February 2004.



DATO' OOI SANG KUANG
CHAIRMAN

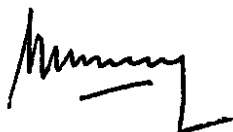


TAN SRI DATO' AZMAN HASHIM
DIRECTOR

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 151 to 183 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 26 February 2004, before me.



TEONG KIAN MENG
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 151 to 183. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion:

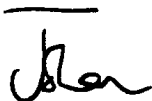
- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of :
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and*
 - (ii) the state of affairs of the Company as at 31 December 2003 and of the results and cashflows of the Company for the financial year ended on that date;**

and

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



PRICEWATERHOUSECOOPERS
(No. AF:1146)
Chartered Accountants



DATO' AHMAD JOHAN BIN MOHAMMAD RASLAN
(No. 1867/9/04(J))
Partner of the firm

26 February 2004

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Borang Proksi

Jumlah Saham

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 Ketujuh Belas Syarikat, yang akan diadakan di Bilik Persidangan, Tingkat 16, Blok A, Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur pada hari Selasa, 30 Mac 2004 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 _____ 2004

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 _____

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 Seventeenth 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, 30 March 2004 and at any adjournment thereof.

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

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

Dated this _____ day of _____ 2004

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