

9. ACCOUNTANTS' REPORT



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The Board of Directors
AEON Credit Service (M) Berhad
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16 October 2007

Dear Sirs

AEON Credit Service (M) Berhad (“AEON Credit” or “the Company”) Accountants’ Report

This report has been prepared by Messrs. KPMG, an approved company auditor, for inclusion in the Prospectus of AEON Credit to be dated 16 November 2007 in connection with the listing of AEON Credit on the Main Board of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing”) and should not be relied upon for any other purposes.

1. General information

1.1 Background

AEON Credit was incorporated in Malaysia under the Companies Act, 1965 on 6 December 1996 as a private limited company under the name of ACS Credit Service (M) Sdn Bhd. It changed its name to AEON Credit Service (M) Sdn Bhd on 23 September 2002. It was converted into a public limited company on 9 February 2007 and has since assumed its present name.

AEON Credit is principally engaged in the provision of easy payment schemes and personal financing scheme based on Islamic principles. During the financial year ended 20 February 2006, AEON Credit has obtained the approval from Bank Negara Malaysia to issue credit cards under international brand names and has commenced operations of the credit card business.

1.2 Share capital

At the date of incorporation, AEON Credit’s authorised and issued and fully paid-up share capital was RM2.00 comprising two ordinary shares of RM1.00 each.

Subsequently, the issued and fully paid-up capital as at 20 July 2007 was increased to RM49,000,000 comprising 98,000,000 ordinary shares of RM0.50 each as follows:

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1.2 Share capital (continued)

Date of issue	Number of shares	Purpose	Ordinary shares	Cumulative non-convertible redeemable preference shares ("CNCRPS")		Non-cumulative non-convertible redeemable preference shares ("NCNCRPS")		Non-cumulative convertible redeemable preference shares ("NCCRPS")		Issued and fully paid-up capital (Cumulative)
				RM	RM	RM	RM	RM	RM	
6 December 1996	2*	At incorporation	2	-	-	-	-	-	2	
4 August 1997	999,998*	Increase in working capital	999,998	-	-	-	-	-	1,000,000	
17 August 2001	3,000,000*	Increase in working capital	-	3,000,000	-	-	-	-	4,000,000	
10 February 2003	3,000,000*	CNCRPS amended to NCNCRPS	-	(3,000,000)	3,000,000	-	-	-	4,000,000	
14 September 2005	3,000,000*	NCNCRPS amended to NCCRPS	-	-	(3,000,000)	3,000,000	-	-	4,000,000	
14 September 2005	3,000,000*	NCCRPS converted to ordinary shares	3,000,000	-	-	-	(3,000,000)	-	4,000,000	
15 September 2005	8,000,000*	Increase in working capital	8,000,000	-	-	-	-	-	12,000,000	
29 December 2006	1,000,000*	Increase in working capital	1,000,000	-	-	-	-	-	13,000,000	
29 December 2006	13,000,000#	Share split	-	-	-	-	-	-	13,000,000	
30 December 2006	52,000,000#	2:1 Bonus issue	26,000,000	-	-	-	-	-	39,000,000	
22 January 2007	20,000,000#	Increase in working capital	10,000,000	-	-	-	-	-	49,000,000	
		Total	49,000,000	-	-	-	-	-	-	

* Denotes ordinary shares at par value of RM1.00 each

Denotes ordinary shares at par value of RM0.50 each

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1.2 Share capital (continued)

Pursuant to the listing and quotation of the entire issued and paid-up capital of AEON Credit on the Main Board of Bursa Securities ("Listing Scheme"), the issued and paid-up share capital of AEON Credit will be as follows:

Listing Scheme	Number of ordinary shares	Total number of ordinary shares	Issue price per ordinary share RM	Purpose	Total issued and paid-up share capital RM
Public Issue	22,000,000	120,000,000	2.50	Issued pursuant to the public issue.	60,000,000

Upon completion of the public issue, the issued and paid-up capital of AEON Credit will be increased to RM60,000,000 comprising 120,000,000 ordinary shares of RM0.50 each.

1.3 Increase in share capital

1.3.1 Offer for sale

In conjunction with the listing of AEON Credit, AEON Credit Service Co., Ltd will undertake an offer for sale of 20,000,000 AEON Credit Shares at an offer price of RM2.50 to Bumiputera investors approved by the Ministry of International Trade and Industry ("MITI").

1.3.2 Public Issue

Public issue of 22,000,000 new AEON Credit Shares at an issue price of RM2.50 per AEON Credit Share. The Public Issue involves the following:

- 6,000,000 AEON Credit Shares to be made available for application by the Malaysian public, whereby 30% of the 6,000,000 AEON Credit Shares will be set aside for Bumiputera investors;
- 15,500,000 AEON Credit Shares to be made available for application by the Bumiputera investors approved by MITI; and
- 500,000 AEON Credit Shares to be made available for application by eligible Directors, employees and business associates of AEON Credit.

1.3.3 Listing and quotation

Listing of and quotation for AEON Credit's entire enlarged issued and paid-up share capital of RM60,000,000 comprising 120,000,000 AEON Credit Shares on the Official List of the Main Board of Bursa Securities.

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1.3 Increase in share capital (continued)

1.3.3 Listing and quotation (continued)

Estimated listing expenses of RM3 million will be set-off against the share premium account of AEON Credit.

1.4 Financial statements and auditors

The financial year end of AEON Credit is 20 February.

The financial statements of AEON Credit since its incorporation were audited by Messrs. KPMG and were not subject to any qualification.

1.4.1 Accounting policies and standards

This report is prepared on a basis consistent with the accounting policies adopted by AEON Credit as disclosed in Section 2.6 of this Report, and the information presented in this Report has been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board.

1.5 Dividends

Details of dividends declared and paid by AEON Credit for the past three (3) financial years ended 20 February 2007, where relevant are as follows:

<i>Financial year ended</i>	<i>Ordinary shares of RM0.50 each</i>	<i>Type of dividend</i>	<i>Gross dividend rate %</i>	<i>Tax rate %</i>	<i>Net dividend RM</i>
20 February 2007	98,000,000	Final	9.32	27.00	3,333,764
<i>Financial year ended</i>	<i>Ordinary shares of RM1.00 each</i>	<i>Type of dividend</i>	<i>Gross dividend rate %</i>	<i>Tax rate %</i>	<i>Net dividend RM</i>
20 February 2007	12,000,000	Interim	17.81	27.00	1,560,000
<i>Financial year ended</i>	<i>Ordinary shares of RM1.00 each</i>	<i>Type of dividend</i>	<i>Gross dividend rate %</i>	<i>Tax rate %</i>	<i>Net dividend RM</i>
20 February 2006	12,000,000	Final	31.94	28.00	2,760,000
<i>Financial year ended</i>	<i>Redeemable preference shares of RM1.00 each</i>		<i>Gross dividend rate %</i>	<i>Tax rate %</i>	<i>Net dividend RM</i>
20 February 2005	3,000,000		10.35	28.00	223,560

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2. Summarised results

The summarised income statements of AEON Credit based on the audited financial statements for the past three (3) financial years ended 20 February 2005, 2006 and 2007 and five (5)-month period ended 20 July 2007 are as follows:

	Note	Financial year ended ("FYE")			(Unaudited) (Audited)	
		20 February			5-month period ended	
		← 2005	2006 →	2007	← 2006	2007 →
		RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	2.1.1	43,574	69,119	116,043	42,781	58,170
Staff costs	2.1.2	(13,186)	(21,552)	(35,170)	(13,969)	(18,155)
Depreciation of plant and equipment		(2,188)	(4,314)	(9,048)	(3,512)	(4,187)
Operating expenses		(19,087)	(29,013)	(51,415)	(19,447)	(26,294)
Other income		7,572	13,794	25,156	8,426	13,589
Operating profit		16,685	28,034	45,566	14,279	23,123
Finance costs	2.1.3	(5,082)	(8,741)	(18,021)	(6,132)	(9,126)
Profit before tax	2.1.1	11,603	19,293	27,545	8,147	13,997
Tax expense	2.1.4	(3,397)	(5,787)	(7,843)	(2,446)	(3,804)
Profit for the year/period	2.1.1	8,206	13,506	19,702	5,701	10,193
Effective tax rate (%)	2.1.4	29.28	30.00	28.47	30.02	27.18
Gross profit margin (%)		N/A	N/A	N/A	N/A	N/A
Pre-tax profit margin (%)		26.63	27.91	23.74	19.04	24.06
Net profit margin (%)		18.83	19.54	16.98	13.33	17.52
Net Tangible Assets ("NTA") per ordinary share (RM)		25.50	5.23	1.06	5.48	1.13
Current ratio (times)		1.59	2.19	1.92	2.10	1.85
Gearing ratio (times)		5.95	3.95	4.06	5.32	4.12
Interest/profit coverage ratio (times)		3.28	3.21	2.53	2.33	2.53
Gross dividend rate (%)						
- Ordinary shares - Interim		-	-	17.81	-	-
- Final		-	31.94	9.32	-	-
- Redeemable preference shares		10.35	-	-	-	-
After tax returns on shareholders' funds (%)		32.18	21.51	18.91	8.67	9.18
Number of ordinary shares of RM1.00 each in issue at year end ('000)	2.1.5	1,000	12,000	-	12,000	-

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2. Summarised results (continued)

	Note	Financial year ended ("FYE")			(Unaudited) (Audited)	
		20 February			5-month period ended	
		← 2005	2006	→ 2007	← 2006	→ 2007
		RM'000	RM'000	RM'000	RM'000	
Number of ordinary shares of RM0.50 each in issue at year end ('000)	2.1.5	-	-	98,000	-	98,000
Number of non-cumulative non-convertible redeemable preference shares of RM1.00 each ("NCNCRPS") ('000)		3,000	-	-	-	-
Earnings per share						
- Gross (sen)	2.1.6	17.58*	27.26*	34.98	10.58*	14.28
- Net (sen)	2.1.6	12.43*	19.08*	25.02	7.40*	10.40

* These have been recomputed to take into account the retrospective effect of FRS 133, Earnings Per Share, in respect of bonus issue and share split.

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2.1 Notes to summary of results

2.1.1 Revenue, profit before taxation and profit after taxation

Revenue for the financial years and periods under review comprise the following:

	FYE			(Unaudited) (Audited) 5-month period ended	
	← 2005 RM'000	20 February 2006 RM'000	→ 2007 RM'000	← 2006 RM'000	→ 2007 RM'000
Revenue					
General Easy Payment ("GEP") scheme interest revenue	31,251	39,923	48,350	19,179	21,464
Conventional Motorcycle Easy Payment ("MEP") scheme interest revenue	3,196	1,158	244	161	52
Islamic MEP scheme revenue	5,052	20,892	40,913	14,140	22,886
Personal Financing ("PF") scheme revenue	4,075	7,056	9,627	3,787	5,129
Credit card revenue	-	90	16,909	5,514	8,639
Total revenue	43,574	69,119	116,043	42,781	58,170
Growth rate for GEP (%)	9.98	27.75	21.11	25.29	11.91
Total growth rate (%)	39.01	58.62	67.89	72.05	35.97

(GEP scheme interest revenue for the year ended 20 February 2004: RM28,415k)

(GEP scheme interest revenue for the 5-month period ended 20 July 2005: RM15,308k)

(Total revenue for the year ended 20 February 2004: RM31,345k)

(Total revenue for the 5-month period ended 20 July 2005: RM24,866k)

Revenue increased over the financial years 2005 to 2007 was mainly due to the introduction of the MEP scheme, PF scheme and credit card business.

Breakdown of PBT and PAT for the five (5)-month period ended 20 July 2007 and 2006 by products is as follow:-

	20 July 2007		20 July 2006	
	PBT RM'000	PAT RM'000	PBT RM'000	PAT RM'000
GEP, MEP and PF	20,680	15,056	14,030	9,981
Credit card	(6,683)	(4,863)	(5,883)	(4,280)
	13,997	10,193	8,147	5,701

Note 1: The above breakdown of PBT and PAT by products is based on management accounts.

Note 2: Breakdown of PBT and PAT by individual product, i.e. GEP, MEP and PF is not available.

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2.1 Notes to summary of results (continued)

2.1.2 Staff costs

	FYE			(Unaudited) (Audited)	
	20 February			5-month period ended	
	← 2005	2006 →	2007	← 2006	2007 →
	RM'000	RM'000	RM'000	RM'000	RM'000
Salaries, bonuses and allowances	10,976	17,996	30,214	11,882	15,473
Welfare expense	799	1,073	1,051	449	598
Defined contribution plan					
- Employees' Provident Fund	1,000	1,775	2,847	1,119	1,429
Social Insurance (SOCISO)	123	218	322	128	157
Other personnel expenses	288	490	736	391	498
	13,186	21,552	35,170	13,969	18,155

2.1.3 Finance costs

	FYE			(Unaudited) (Audited)	
	20 February			5-month period ended	
	← 2005	2006 →	2007	← 2006	2007 →
	RM'000	RM'000	RM'000	RM'000	RM'000
Comprised the following:					
- Bank overdrafts	163	146	153	59	40
- Revolving credits	2,010	2,056	6,084	2,779	2,782
- Term loans/financing and medium term notes	2,909	6,539	11,784	3,294	6,304
	5,082	8,741	18,021	6,132	9,126

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2.1 Notes to summary of results (continued)

2.1.4 Tax expense

	FYE			(Unaudited) (Audited) 5-month period ended	
	← 20 February →		→	← 20 July →	→
	2005	2006	2007	2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Current tax expense	3,373	4,186	7,081	2,446	4,531
Deferred tax expense					
Origination and reversal of temporary differences	24	1,601	762	-	(727)
	<u>3,397</u>	<u>5,787</u>	<u>7,843</u>	<u>2,446</u>	<u>3,804</u>
Effective tax rate (%)	29.28	30.00	28.47	30.02	27.18
Statutory tax rate (%)	28.00	28.00	27.00	27.00	26.00

The overall effective tax rate throughout the financial years and periods under review was higher than the statutory tax rate as certain expenses were not deductible for tax purposes.

2.1.5 Share capital

For the five (5)-month period ended 20 July 2007, there were no changes in the issued and paid up capital of AEON Credit.

2.1.6 Earnings per share

The gross and net earnings per ordinary share of AEON Credit for 20 February 2005, 2006 and 2007 is calculated based on the PBT and PAT respectively over the weighted average number of ordinary shares of 66,000,000, 70,770,000 and 78,734,000 ordinary shares respectively.

The gross and net earnings per ordinary share of AEON Credit for 20 July 2006 and 2007 are calculated based on the PBT and PAT respectively over the weighted average number of ordinary shares of 77,000,000 and 98,000,000 ordinary shares respectively.

2.1.7 Extraordinary and exceptional items

There were no extraordinary or exceptional items during the financial years and periods under review.

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2.2 Summarised balance sheets

The summarised balance sheets of AEON Credit based on the audited financial statements for the past three (3) financial years ended 20 February 2005, 2006 and 2007 and five (5)-month period ended 20 July 2007 are as follows:

	Note	← As at 20 February →			As at 20 July
		2005	2006	2007	2007
		RM'000	RM'000	RM'000	RM'000
Assets					
Plant and equipment	2.3.1	6,459	18,119	23,367	22,885
Investment	2.3.2	-	1,026	1,026	1,026
Receivables	2.3.3	63,235	119,396	168,486	192,918
Deferred tax assets	2.3.6	201	-	-	-
Total non-current assets		69,895	138,541	192,879	216,829
Receivables, deposits and prepayments	2.3.3	123,758	198,357	376,536	395,965
Cash and bank balances		423	778	2,072	2,255
Total current assets		124,181	199,135	378,608	398,220
Total assets		194,076	337,676	571,487	615,049
Equity					
Share capital	2.3.4	4,000	12,000	49,000	49,000
Share premium		3,900	19,900	15,000	15,000
Retained earnings		17,601	30,883	40,165	47,024
Total equity attributable to shareholders of the Company		25,501	62,783	104,165	111,024
Liabilities					
Borrowings (unsecured)	2.3.5	90,700	182,500	268,246	287,070
Deferred tax liabilities	2.3.6	-	1,400	2,162	1,435
Total non-current liabilities		90,700	183,900	270,408	288,505
Payables and accruals	2.3.7	15,709	25,276	39,548	39,306
Borrowings (unsecured)	2.3.5	61,041	65,602	154,539	170,653
Taxation		1,125	115	2,827	5,561
Total current liabilities		77,875	90,993	196,914	215,520
Total liabilities		168,575	274,893	467,322	504,025
Total equity and liabilities		194,076	337,676	571,487	615,049
NTA per share (RM) ¹		25.50	5.23	1.06	1.13

¹ The NTA per share is computed by taking shareholders' funds divided by number of ordinary shares in issue. The number of ordinary shares in issue as at 20 February 2005, 2006, 2007 and 20 July 2007 were 1,000,000, 12,000,000, 98,000,000 and 98,000,000 ordinary shares respectively.

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2.3 Notes to summarised balance sheets

2.3.1 Plant and equipment

	← As at 20 February →			As at 20 July
	2005	2006	2007	2007
	RM'000	RM'000	RM'000	RM'000
Net book value				
Office equipment	1,314	1,790	1,923	1,722
Computer equipment and software	3,379	11,681	15,831	15,696
Motor vehicles	229	480	869	767
Furniture and fittings	160	612	833	802
Renovation	1,377	3,556	3,911	3,898
	6,459	18,119	23,367	22,885

2.3.2 Investment

	← As at 20 February →			As at 20 July
	2005	2006	2007	2007
	RM'000	RM'000	RM'000	RM'000
Unquoted shares outside Malaysia	-	1,026	1,026	1,026
Share of NTA	-	1,107	1,112	1,133

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2.3 Notes to summarised balance sheets (continued)

2.3.3 Receivables, deposits and prepayments

	← As at 20 February →			As at 20 July
	2005	2006	2007	2007
	RM'000	RM'000	RM'000	RM'000
Non-current				
Trade				
Trade receivables	63,235	119,396	168,486	192,918
Current				
Trade				
Trade receivables	235,327	399,744	674,970	728,381
Less: Unearned carrying charges	(46,228)	(76,630)	(118,945)	(127,986)
Allowance for doubtful debts	(4,759)	(8,484)	(15,764)	(16,231)
	184,340	314,630	540,261	584,164
Less: Trade receivables (Non-current portion)	(63,235)	(119,396)	(168,486)	(192,918)
Trade receivables (Current portion)	121,105	195,234	371,775	391,246
Non-trade				
Other receivables, deposits and prepayments	2,653	3,123	4,761	4,719
	123,758	198,357	376,536	395,965
Trade receivables turnover period (days)	323	357	307	334

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2.3 Notes to summarised balance sheets (continued)

2.3.3 Receivables, deposits and prepayments (continued)

The ageing analysis of AEON Credit's trade receivables based on its accounting records as at 20 July 2007 is as follows:

	← As at 20 July 2007 →						Total RM'000
	Current RM'000	Overdue 1 > 18 days RM'000	Overdue 2 > 48 days RM'000	Overdue 3 > 78 days RM'000	Overdue 4 > 108 days RM'000	Overdue 5 > 138 days RM'000	
Trade receivables							
Easy Payment and Personal Finance	413,283	27,573	9,301	2,911	2,197	3,921	459,186
Credit card	123,053	7,869	3,090	1,373	1,400	2,535	139,320
Total receivables	536,336	35,442	12,391	4,284	3,597	6,456	598,506
Add: Unearned carrying charges							127,986
Add: Accrued revenue							5,125
Less: Deposits received							(3,236)
							728,381
% of total receivables	89.61	5.92	2.07	0.72	0.60	1.08	100.00

Terms of financing: The financing period for GEP, MEP and PF schemes ranges from three (3) months to forty-eight (48) months. Meanwhile, credit cardholders are required to pay at least 5% of the total monthly transactions' amount or RM50, whichever the higher, as minimum payment by the due date every month.

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2.3 Notes to summarised balance sheets (continued)

2.3.4 Share capital

	← As at 20 February →			As at 20 July
	2005	2006	2007	2007
	RM'000	RM'000	RM'000	RM'000
Authorised				
Ordinary shares				
Opening balance	1,000	1,000	12,000	60,000
Created during the financial year	-	8,000	48,000	-
Conversion of Non-Cumulative Convertible Redeemable Preference Shares of RM1.00 each ("NCCRPS")	-	3,000	-	-
	1,000	12,000	60,000*	60,000
Non-Cumulative Non-Convertible Redeemable Preference Shares of RM1.00 each ("NCNCRPS")				
Opening balance	3,000	3,000	-	-
Conversion to NCCRPS	-	(3,000)	-	-
	3,000	-	-	-
NCCRPS				
Opening balance	-	-	-	-
Conversion from NCNCRPS	-	3,000	-	-
Conversion to ordinary shares of RM1.00 each	-	(3,000)	-	-
	-	-	-	-
Closing balance	4,000	12,000	60,000	60,000

* During the year, the authorised share capital of the Company was amended from RM60,000,000 divided into 60,000,000 ordinary shares of RM1.00 each into RM60,000,000 divided into 120,000,000 ordinary shares of RM0.50 each.

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2.3 Notes to summarised balance sheets (continued)

2.3.4 Share capital (continued)

	← As at 20 February →			As at 20 July
	2005	2006	2007	2007
	RM'000	RM'000	RM'000	RM'000
Issued and fully paid				
Ordinary shares				
Opening balance	1,000	1,000	12,000	49,000
Issued during the financial year	-	8,000	11,000	-
Conversion of NCCRPS	-	3,000	-	-
Bonus issue	-	-	26,000	-
	1,000	12,000	49,000**	49,000
NCNCRPS				
Opening balance	3,000	3,000	-	-
Conversion to NCCRPS	-	(3,000)	-	-
	3,000	-	-	-
NCCRPS				
Opening balance	-	-	-	-
Conversion from NCNCRPS	-	3,000	-	-
Conversion to ordinary shares of RM1.00 each	-	(3,000)	-	-
	-	-	-	-
Closing balance	4,000	12,000	49,000	49,000

** During the year, the par value of the existing ordinary shares of RM1.00 each have been subdivided into RM0.50 each.

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2.3 Notes to summarised balance sheets (continued)

2.3.5 Borrowings (unsecured)

	← As at 20 February →			As at 20 July
	2005 RM'000	2006 RM'000	2007 RM'000	2007 RM'000
Non-current				
Long term loans/financing	90,700	182,500	192,500	131,000
Medium term notes	-	-	75,746	156,070
	90,700	182,500	268,246	287,070
Current				
Bank overdrafts	101	163	-	311
Revolving credits	39,640	57,939	95,539	148,832
Short term loans/financing	21,300	7,500	59,000	21,510
	61,041	65,602	154,539	170,653
Interest/profit coverage ratio (times)	3.28	3.21	2.53	2.53
Gearing ratio (times)	5.95	3.95	4.06	4.12

Borrowings are guaranteed by way of:

- i) letter of awareness from the holding company; and/or
- ii) standby letters of credit from various financial institutions.

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
Accountants' Report
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2.3 Notes to summarised balance sheets (continued)

2.3.5 Borrowings (unsecured) (continued)

Details of the medium term notes are as follows:

	As at 20 July 2007 RM'000	As at 20 February 2007 RM'000
Nominal value	160,000	80,000
Discount	(3,662)	(4,052)
Deferred issuance cost	(268)	(202)
	156,070	75,746

The above represents RM100 million of bank guaranteed Islamic Medium Term Notes ("Islamic MTN") and RM60 million of bank guaranteed Medium Term Notes ("Conventional MTN") with the following interest/profit rates and redemption dates:

Medium Term Note	Redemption terms	Interest/Profit rates
Islamic MTN		
RM20 million	Redeemable at par in January 2010	At 3.00% per annum
RM40 million	Redeemable at par in May 2010	At 3.75% per annum
RM40 million	Redeemable at par in January 2012	At 3.00% per annum
Conventional MTN		
RM20 million	Redeemable at par in January 2010	At 3.00% per annum
RM40 million	Redeemable at par in May 2012	At 3.85% per annum

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.3 Notes to summarised balance sheets (continued)

2.3.6 Deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	As at 20 February 2005	As at 20 July 2007	As at 20 February 2005	As at 20 July 2007	As at 20 February 2005	As at 20 July 2007
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Plant and equipment	-	-	(306)	(2,785)	(306)	(2,785)
- capital allowance	507	623	-	-	507	623
Provisions						
Net tax assets/(liabilities)	507	623	(306)	(2,785)	201	(1,435)

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.3 Notes to summarised balance sheets (continued)

2.3.7 Payables and accruals

	← As at 20 February →			As at 20 July
	2005 RM'000	2006 RM'000	2007 RM'000	2007 RM'000
Trade				
Trade payables	8,030	13,223	22,372	19,383
Non-trade				
Other payables and accrued expenses	7,532	11,933	17,049	19,671
Holding company	147	120	127	252
	15,709	25,276	39,548	39,306
Trade payables turnover period (days)	14	15	13	11
Included in trade payables is an amount due to a related party, a company which has certain common directors and shareholders	343	233	262	246
Included in other payables is an amount due to a related party, a company which has certain common directors and shareholders	31	52	38	120

The amount due to holding company is unsecured, non-trade in nature, interest free and repayable on demand.

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.4 Statement of changes in equity

	Notes	Share capital RM'000	Non- distributable Share premium RM'000	Distributable Retained profits RM'000	Total RM'000
21 February 2004		4,000	3,900	9,395	17,295
Profit for the year		-	-	8,206	8,206
<hr/>					
At 20 February 2005/					
21 February 2005		4,000	3,900	17,601	25,501
Issue of shares		8,000	16,000	-	24,000
Profit for the year		-	-	13,506	13,506
Dividends	1.5	-	-	(224)	(224)
<hr/>					
At 20 February 2006/					
21 February 2006		12,000	19,900	30,883	62,783
Issue of shares		11,000	15,000	-	26,000
Bonus issue		26,000	(19,900)	(6,100)	-
Profit for the year		-	-	19,702	19,702
Dividends	1.5	-	-	(4,320)	(4,320)
<hr/>					
At 20 February 2007/					
21 February 2007		49,000	15,000	40,165	104,165
Profit for the period		-	-	10,193	10,193
Dividends	1.5	-	-	(3,334)	(3,334)
<hr/>					
At 20 July 2007		49,000	15,000	47,024	111,024

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.5 Cash flow statements

	FYE			(Unaudited) (Audited) 5-month period ended	
	← 2005 RM'000	20 February 2006 RM'000	→ 2007 RM'000	← 2006 RM'000	→ 2007 RM'000
Cash flows from operating activities					
Profit before tax	11,603	19,293	27,545	8,147	13,997
Adjustments for:					
Depreciation of plant and equipment	2,188	4,314	9,048	3,512	4,187
Gain on disposal of plant and equipment	(25)	-	-	-	-
Finance costs	5,082	8,741	18,021	6,132	9,126
Plant and equipment written off	39	255	-	-	-
Operating profit before working capital changes	18,887	32,603	54,614	17,791	27,310
(Increase)/Decrease in working capital:					
Change in receivables, deposits and prepayments	(74,258)	(130,759)	(227,269)	(109,933)	(43,861)
Change in payables and accruals	5,387	9,277	12,298	6,491	1,045
Cash used in operations	(49,984)	(88,879)	(160,357)	(85,651)	(15,506)
Income taxes paid	(2,416)	(5,196)	(4,369)	(1,241)	(1,796)
Finance costs paid	(4,740)	(8,451)	(16,046)	(4,631)	(10,414)
Net cash used in operating activities	(57,140)	(102,526)	(180,772)	(91,523)	(27,716)
Cash flows from investing activities					
Proceeds from disposal of plant and equipment	25	-	-	-	-
Acquisition of plant and equipment	(6,466)	(16,230)	(14,296)	(7,515)	(3,705)
Acquisition of investments	-	(1,026)	-	-	-
Net cash used in investing activities	(6,441)	(17,256)	(14,296)	(7,515)	(3,705)

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.5 Cash flow statements (continued)

	FYE			(Unaudited) (Audited) 5-month period ended	
	← 2005 RM'000	20 February 2006 RM'000	→ 2007 RM'000	← 2006 RM'000	→ 2007 RM'000
Cash flows from financing activities					
Repayment of bank borrowings	(95,996)	(220,680)	(57,939)	-	(100,194)
Proceeds from term loans/ financing, revolving credits and medium term notes	160,040	316,979	232,784	101,068	134,821
Proceeds from issue of ordinary shares	-	24,000	26,000	-	-
Dividends paid to preference shareholders of the Company	(149)	(224)	-	-	-
Dividends paid to ordinary shareholders of the Company	-	-	(4,320)	(2,760)	(3,334)
Net cash generated from financing activities	63,895	120,075	196,525	98,308	31,293
Net increase/(decrease) in cash and cash equivalents	314	293	1,457	(730)	(128)
Cash and cash equivalents at beginning of year/period	8	322	615	615	2,072
Cash and cash equivalents at end of year/period	322	615	2,072	(115)	1,944

Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	← As at 20 February →			(Unaudited) (Audited) ← As at 20 July →	
	2005 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000
Cash and bank balances	423	778	2,072	825	2,255
Bank overdrafts	(101)	(163)	-	(940)	(311)
	322	615	2,072	(115)	1,944

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.6 Summary of significant accounting policies

The following accounting policies are adopted by the Company and are consistent with those adopted in previous years.

(a) Basis of preparation

(i) Statement of compliance

The financial statements of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board ("MASB"), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965.

The MASB has issued the following Financial Reporting Standards ("FRSs") and Interpretations that are effective for annual periods beginning after 21 February 2007, and that have not been applied in preparing these financial statements:

<u>Standard / Interpretation</u>	<u>Effective date</u>
FRS 139, Financial Instrument: Recognition and Measurement	To be announced
Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation	1 July 2007
IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7, Applying the Restatement Approach Under FRS 129 ₂₀₀₄ Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8, Scope of FRS 2	1 July 2007

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.6 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

<u>Standard / Interpretation</u>	<u>Effective date</u>
FRS 107, Cash Flow Statements	1 July 2007
FRS 111, Construction Contracts	1 July 2007
FRS 112, Income Taxes	1 July 2007
FRS 118, Revenue	1 July 2007
FRS 120, Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 134, Interim Financial Reporting	1 July 2007
FRS 137, Provisions, Contingent Liabilities and Contingent Assets	1 July 2007

The Company plans to apply the above-mentioned FRSs (except for FRS 139 which its effective date has yet to be announced) and Interpretations for the annual period beginning 21 February 2008.

The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in this standard.

The initial application of the above standards and interpretations are not expected to have any material impact on the financial statements of the Company.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(iii) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.6 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(b) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

(i) Plant and equipment

Recognition and measurement

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.6 Summary of significant accounting policies (continued)**(b) Significant accounting policies (continued)****(i) Plant and equipment (continued)*****Depreciation***

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• Office equipment	2 – 5 years
• Computer equipment and software	2 – 5 years
• Motor vehicles	4 – 5 years
• Furniture and fittings	2 – 4 years
• Renovation	2 – 5 years

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(ii) Investments in equity securities

Investments in equity securities are recognised initially at fair value plus attributable transaction costs.

Subsequent to initial recognition, investments in non-current equity securities, are stated at cost less allowance for diminution in value.

Where in the opinion of the Directors, there is a decline other than temporary in the value of non-current equity securities, the allowance for diminution in value is recognised as an expense in the financial year in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.6 Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

(ii) Investments in equity securities (continued)

All investments in equity securities are accounted for using settlement date accounting. Settlement date accounting refers to:

- a) the recognition of an asset on the day it is received by the entity, and
- b) the derecognition on an asset and recognition of any gain or loss on disposal on the date it is delivered.

(iii) Receivables

Trade receivables, Islamic personal financing scheme receivables and credit card receivables are stated at the outstanding unpaid balances net of unearned carrying charges and allowance for doubtful debts.

Allowance for doubtful debts is made at 100% of the debts contractually past due of 3 months and bad debts are written off when the Directors are of the view that the debts are no longer recoverable.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Other receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

(iv) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.6 Summary of significant accounting policies (continued)**(b) Significant accounting policies (continued)****(v) Impairment of assets**

The carrying amounts of assets except for financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(vi) Employee benefits***Short term employee benefits***

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company's contribution to the Employees' Provident Fund is charged to the income statements in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.6 Summary of significant accounting policies (continued)**(b) Significant accounting policies (continued)****(vii) Loans/Financing and borrowings**

Loans/Financing and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans/financing and borrowings using the effective interest/profit method.

(viii) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(ix) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

9. ACCOUNTANTS' REPORT (Cont'd)



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2.6 Summary of significant accounting policies (continued)**(b) Significant accounting policies (continued)****(x) Derivative financial instruments**

The Company uses derivative financial instruments, including forward foreign exchange contracts, to hedge its exposure to foreign exchange risks arising from operational activities.

Derivative financial instruments used for hedging purposes are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

(xi) Revenue***Income from easy payment and personal financing scheme based on Islamic principles***

Income from easy payment and personal financing scheme based on Islamic principles are recognised on an accrual basis. Where an account becomes non-performing, the income is suspended until it is realised on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for a month.

Income from credit card issuance

Income from finance charges, cash advance fees and transaction charges are recognised on an accrual basis. Where an account becomes non-performing, the income is suspended until it is realised on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for a month.

Income from merchant commission and Visa / Master card interchange fees are recognised on an accrual basis.

Interest/Profit income

Interest/Profit income is recognised on an accrual basis based on the sum of digits method. Where an account becomes non-performing, interest is suspended until it is realised on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for a month.

9. ACCOUNTANTS' REPORT (Cont'd)



AEON Credit Service (M) Berhad
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2.6 Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

(xii) Earnings per share

The Company presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

(xiii) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(xiv) Borrowing costs

All borrowing costs are recognised in the income statement using the effective interest/profit method, in the period in which they are incurred.

Cost of issuance of commercial papers / medium term notes are deferred and capitalised as part of the fair value of the commercial papers / medium term notes. The cost of issuance is amortised to the income statement so as to give a constant periodic coupon rate on the outstanding commercial papers / medium term notes at the end of each accounting period.

3. Event subsequent to the balance sheet date

There were no significant events between the date of the last financial statements used in the preparation of the report and the date of the report which will affect materially the contents of this report.

4. Audited financial statements

No audited financial statements have been drawn up for any period subsequent to 20 July 2007.

Yours faithfully,

KPMG
Firm Number: AF 0758
Chartered Accountants

Chong Dee Shiang
Partner
Approval Number: 2782/09/08(J)