



## AEON Credit Service (M) Berhad

(412767-V)

### Notes to the interim financial report for the quarter ended 20 May 2010

#### A DISCLOSURE REQUIREMENTS AS PER FINANCIAL REPORTING STANDARDS ("FRS") 134: INTERIM FINANCIAL REPORTING

##### 1 Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standard Board ("MASB"), and Paragraph 9.22 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements.

The interim financial report should be read in conjunction with the audited financial statements for the financial year ended 20 February 2010.

##### 2 Change in accounting policies

The significant accounting policies adopted are consistent with the audited financial statements for the financial year ended 20 February 2010 except for the adoption of the following Financial Reporting Standards ("FRS"), amendments to FRS, IC Interpretation that are effective for the Company's financial year beginning 21 February 2010:

- FRS 8, Operating Segments
- FRS 7, Financial Instruments: Disclosures
- FRS 101, Presentation of Financial Statements
- FRS 123, Borrowing Costs (revised)
- FRS 139, Financial Instruments: Recognition and Measurement
- Amendments to FRS 7, Financial Instruments: Disclosures
- Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives
- Amendments to FRS 139, Financial Instruments: Recognition and Measurement
  - Reclassification of Financial Assets
  - Collective Assessment of Impairment for Banking Institutions
- Improvements to FRSs (2009)
- IC Interpretation 9, Reassessment of Embedded Derivatives
- IC Interpretation 10, Interim Financial Reporting and Impairment
- IC Interpretation 13, Customer Loyalty Programmes

The adoption of the above FRS, amendments to FRS and IC Interpretations did not have any material financial impact on the financial statements of the Company, except for the adoption of FRS 139 and amendments to FRS 139 as disclosed below.

The adoption of FRS 139 has resulted in the following changes in the Company's accounting policies:

##### (a) Impairment of Loans

Prior to 21 February 2010, the Company provided for allowance for doubtful debts for all debts contractually past due for approximately 2 months. The allowance for doubtful debts is provided based on expected cash flows taking into consideration the historical loss rates. In addition, for debts contractually past due for approximately 3 months, allowance for doubtful debts is made after taking into consideration the estimated realisable value from the collateral recovered from customers or the amount recoverable from insurance.

Under FRS 139, the Company assesses at each balance sheet date whether there is objective evidence that loans and financing are impaired. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred



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after the initial recognition of the asset and prior to the balance sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

For loans and financing, the Company first assesses whether objective evidence of impairment exists individually for loans and financing that are individually significant, and individually or collectively for loans and financing that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loans and financing, whether significant or not, it includes the asset in a group of loans and financing with similar credit risk characteristics and collectively assesses them for impairment.

Loan impairment is calculated as the difference between the carrying amount and the present value of future expected cash flows discounted at the original effective interest rate ('EIR') of loans and financing. The carrying amount of the loans and financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

The Company addresses impairment of loans and financing via either individually assessed allowance or collectively assessed allowance.

(i) **Individually assessed allowance**

The Company determines the allowance appropriate for each individual significant loans and financing on an individual basis. The allowances are established based primarily on estimates of the realisable value of the collateral to secure the loans and financing and are measured as the difference between the carrying amount of the loans and financing and the present value of the expected future cash flows discounted at original EIR of the loans and financing.

All other loans and financing that have been individually evaluated, but not considered to be individually impaired are assessed collectively for impairment.

(ii) **Collectively assessed allowance**

Based on the collective assessment allowance requirement under FRS 139, collective allowances are maintained to reduce the carrying amount of portfolios of similar loans and financing to their estimated recoverable amounts at the balance sheet date. For the purposes of a collective evaluation of impairment, exposures that are assessed collectively are placed into pools of similar loans and financing with similar credit risk.

As a result of the adoption of loan impairment basis under FRS 139 as explained above, the Company has adjusted the following against retained profits as at 21 February 2010:

- (i) Write back of specific allowance of RM3,292,000 (net after tax);
- (ii) Recognition of opening collective assessment allowance and individual assessment allowance totaling RM5,430,000 (net after tax).

(b) **Recognition of Income**

Prior to 21 February 2010, income from easy payment schemes and personal financing schemes were recognised in the income statement based on the Sum of Digits method over the duration of financing period. FRS 139 requires interest income to be recognised on a Effective Interest Rate (EIR) basis. The EIR is the rate that exactly discounts the estimated future cash



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receipts through the expected life of the loan or, when appropriate, a shorter period to the net carrying amount of the loan.

The adoption of the EIR basis has resulted in an adjustment of RM7,744,000 (net after tax) to reduce the opening retained profits of the Company.

#### (c) Hedge Accounting

##### Cash Flow Hedge

The Company uses derivative financial instruments (ie. forward foreign exchange contracts and cross currency swaps) to hedge its exposure against currency exchange rate and interest rate movements for its foreign currency denominated borrowings. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

These hedges are classified as cash flow hedge as to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with the foreign currency denominated borrowings and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income and the ineffective portion is recognized in profit or loss.

Subsequently, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged item, ie the foreign currency denominated borrowings, cash flows affect profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercise, the hedge is no longer highly effective or the hedge designation is revoked.

#### (d) Credit card origination cost

Prior to 21 February 2010, credit card origination costs were charged to the Income Statement in the period when the costs were incurred.

Under FRS 139, credit card origination costs are deferred and amortised over 18 months from month of card issuance. The remaining deferred costs incurred in respect of cards which are not activated within 60 days after card issuance and cards which are cancelled are immediately written off.

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The changes of the above accounting policies arising from the initial adoption of FRS 139 have been applied prospectively and have resulted in the following overall adjustments to the opening shareholders' equity of the Company:

	As at 21 February 2010	Effect of adoption of FRS 139	Restated as at 21 February 2010
	RM'000	RM'000	RM'000
<b>Statement of Financial Position</b>			
<b>Assets</b>			
Derivative financial instrument	-	4,712	4,712
Trade Receivables (Non-current portion)	360,704	(8,975)	351,729
Trade Receivables (Current portion)	585,569	(4,200)	581,369
	<u>946,273</u>	<u>(8,463)</u>	<u>937,810</u>
<b>Liabilities</b>			
Borrowings (Non-current portion)	460,041	4,847	464,888
Deferred tax liabilities	1,782	(496)	1,286
Borrowings (Current portion)	246,631	(1,030)	245,601
Derivative financial instrument	-	26	26
Current tax liabilities	6,824	(2,581)	4,243
	<u>715,278</u>	<u>766</u>	<u>716,044</u>
<b>Equity</b>			
Retained earnings	134,315	(9,881)	124,434
Hedging reserve	-	652	652
	<u>134,315</u>	<u>(9,229)</u>	<u>125,086</u>

**3 Auditors' Report on the Preceding Annual Financial Statements**

There was no qualification in the audit report on the preceding audited annual financial statements.

**4 Seasonal or Cyclical Factors**

The Company normally benefits from the traditionally higher levels of consumer spending during festive seasons in Malaysia.

**5 Unusual Items**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.



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**6 Changes in Estimates**

There were no material changes in the nature and amount of estimates reported in prior interim period or prior financial years that have a material effect in the current quarter under review.

**7 Issuance, Cancellation, Repurchase, Resale and Repayment of Debt and Equity Securities**

There was no issuance, cancellation, repurchase, resale or repayment of debt and equity securities during the interim period under review except as disclosed in the Cash Flow Statement.

**8 Dividends Paid**

There was no dividend paid during the quarter under review.

**9 Segmental Reporting**

The Company is principally engaged in the provision of easy payment schemes, personal financing schemes and credit card business. As all the activities are categorised under consumer financing business, no segmental analysis is prepared.

**10 Valuation of Property, Plant and Equipment**

There was no revaluation of property, plant and equipment at the end of reporting quarter.

**11 Subsequent Events**

There were no material events subsequent to the end of the current quarter under review up to the date of this report, which is likely to substantially affect the results of the quarter under review.

**12 Changes in the Composition of the Company**

There were no changes in the composition of the Company during the quarter under review, including business combination, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

**13 Contingent Liabilities and Contingent Assets**

The Company did not have any contingent liabilities, either secured or unsecured, or contingent assets as at 20 May 2010 and at the date of this announcement.

**14 Capital Commitments**

Capital commitments for plant and equipment not provided for as at 20 May 2010 are as follows:

	RM'000
Authorised and contracted for	5,114
Authorised but not contracted for	-
	<hr/>
	5,114



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**B ADDITIONAL INFORMATION REQUIRED BY THE BURSA SECURITIES MAIN MARKET LISTING REQUIREMENTS**

**1 Performance Review**

For the current quarter ended 20 May 2010, the Company's revenue of RM53.025 million represents growth of 2.9% or RM1.488 million from the corresponding quarter in the preceding year. The Company's easy payment business for financing of consumer durables and motorcycles continued to register growth in revenue on the back of growth in trade receivables over the past year. Revenues from the credit card operations and personal financing schemes were maintained at almost similar level as in the previous year.

The Company recorded profit before tax of RM17.701 million for the current quarter, an increase of 8.1% or RM1.328 million from the corresponding quarter in the previous year due to the above factors. The Company recorded profit after tax of RM13.202 million for the quarter ended 20 May 2010, representing growth of 8.2% or RM1.002 million from corresponding quarter in the preceding year.

**2 Material Change in Profit before Taxation of Current Quarter Compared with Preceding Quarter**

The Company registered a profit before taxation of RM17.701 million for the current quarter compared with profit before taxation of RM18.666 million in the preceding quarter ended 20 February 2010.

The profit before tax recorded was marginally lower compared to the preceding quarter, mainly attributable to the increase in certain operating expenses.

**3 Current Year Prospects**

The Malaysian economy registered a strong growth of 10.1% in the first quarter of 2010, led by continued expansion in domestic demand and stronger external demand. Going forward, growth is expected to be sustained, supported by the continued expansion in domestic and external demand. Accordingly, the Company expects to maintain growth in performance based on its business strategy.

**4 Taxation**

	<b>Individual quarter</b>		<b>Cumulative quarter</b>	
	<b>3 months ended</b>	<b>3 months ended</b>	<b>3 months ended</b>	<b>3 months ended</b>
	<b><u>20.05.2010</u></b>	<b><u>20.05.2009</u></b>	<b><u>20.05.2010</u></b>	<b><u>20.05.2009</u></b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>In respect of current period:</b>				
- Current tax	4,571	4,955	4,571	4,955
- Deferred tax	(72)	(782)	(72)	(782)
	4,499	4,173	4,499	4,173

The Company's effective tax rate is higher than the statutory tax rate as certain expenses are not deductible for tax purpose.

**5 Profits/(Losses) on Sale of Unquoted Investments and/or Properties**

There were no sales of unquoted investments or properties during the quarter under review.



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#### 6 Quoted Investments

There were no purchases or disposals of quoted securities during the quarter under review, and there were no investments in quoted shares as at the end of the quarter.

#### 7 Status of Corporate Proposal

There were no corporate proposals announced or pending completion as at the date of this report.

#### 8 Borrowings

The borrowings of the Company as at 20 May 2010 comprised the following:

	Secured RM'000	Unsecured RM'000	Total RM'000
Non-Current :			
- Term loans	-	181,978	181,978
- Medium term notes	-	178,861	178,861
- Asset backed medium term notes	81,250	-	81,250
	81,250	360,839	442,089
Current :			
- Revolving credits/Term loans	-	60,103	60,103
- Medium term notes	-	119,982	119,982
- Asset backed medium term notes	68,750	-	68,750
	68,750	180,085	248,835
 Total	150,000	540,924	690,924

The borrowings were denominated in the following currencies:

	Secured RM'000 Equivalent	Unsecured RM'000 Equivalent	Total RM'000 Equivalent	
Ringgit Malaysia	150,000	389,842	539,842	
United States Dollar	-	30,320	30,320	(Equivalent to USD 9.279 million)
Japanese Yen	-	120,762	120,762	(Equivalent to JPY 3.390 billion)
	150,000	540,924	690,924	

The bank overdrafts, revolving credits and term loans of the Company are mostly provided on the basis of standby letters of credit from offshore financial institutions in favour of domestic banks providing the facilities or on clean basis.

The asset backed medium term notes are secured against a pool of consumer financing receivables.



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**9 Material Litigation**

As at date of this announcement, the Company is not engaged in any material litigation which in the opinion of the Board of Directors will have a material effect on the financial position or business of the Company.

**10 Dividend**

- a) (i) A final dividend has been approved by shareholders for the year ended 20 February 2010;  
(ii) Amount per share – 12.00 sen less income tax of 25% (previous corresponding period – 11.34 sen per share less tax at 25%);  
(ii) Date payable – 13 July 2010  
(iii) In respect of deposited securities, entitlement to dividend will be determined based on the record of the depositors as at 29 June 2010.
- b) The total dividends for the financial year ended 20 February 2010 is 22.50 sen per share less tax at 25%, including the final dividend approved by shareholders and interim dividend paid on 20 October 2009 of 10.50 sen per share less tax at 25%.

**11 Earnings per Share**

	Individual quarter		Cumulative quarter	
	3 months ended <u>20.05.2010</u> '000	3 months ended <u>20.05.2009</u> '000	3 months ended <u>20.05.2010</u> '000	3 months ended <u>20.05.2009</u> '000
Net profit attributable to equity holders	13,202	12,200	13,202	12,200
Weighted average number of ordinary shares in issue (unit)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	11.00	10.17	11.00	10.17

Basic Earnings per share for the quarter and year to date is calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the period.

The Company does not have in issue any financial instruments or other contract that may entitle its holder to ordinary shares and therefore dilutive to its basic earnings per share.

**12 Authorisation for Issue**

The interim financial report was authorised for issue by the Board of Directors of the Company in accordance with a resolution of the Directors on 15 June 2010.

By order of the Board  
15 June 2010