AEON Credit Service (M) Berhad

(Company No. 412767-V)
(Incorporated in Malaysia)

Financial statements for the year ended 28 February 2017

AEON Credit Service (M) Berhad

(Company No. 412767-V)
(Incorporated in Malaysia)

Directors' report for the year ended 28 February 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 28 February 2017.

Ultimate holding corporation

The Directors regard AEON Co., Ltd. which is incorporated in Japan as the ultimate holding corporation, during the financial year and until the date of this report.

Principal activities

The Company is principally engaged in the provision of easy payment schemes, personal financing schemes and issuance of credit cards under the international brand names of Visa and MasterCard. The personal financing schemes and certain easy payment schemes are based on Islamic principles. There has been no significant change in the nature of the principal activities during the financial year.

Results

	RM'000
Profit for the year	265,027

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid:

i) a final ordinary dividend of 29.60 sen per ordinary share, totalling RM42,624,000 in respect of the financial year ended 29 February 2016 on 15 July 2016; and

ii) an interim ordinary dividend of 30.50 sen per ordinary share, totalling RM43,920,000 in respect of the financial year ended 28 February 2017 on 7 November 2016.

The final ordinary dividend recommended by the Directors in respect of the financial year ended 28 February 2017 is 32.50 sen per ordinary share, totalling RM46,800,000. The proposed dividend will be recognised in the subsequent financial year upon approval by the shareholders of the Company at the forthcoming Annual General Meeting.

Company No. 412767-V

Directors of the Company

Directors who served during the financial year until the date of this report are:

Dato' Abdullah bin Mohd Yusof
Kenji Fujita
Datuk Ramli bin Ibrahim
Dato' Md Kamal bin Ismaun
Ng Eng Kiat
Krishnappan A/L S.P.S Singaram
Lee Tyan Jen
Lee Kit Seong
Kiyoaki Takano
Tomokatsu Yoshitoshi (appointed on 30 June 2016)
Jiraporn Kongcharoenwanich (appointed on 30 June 2016)
Koji Hatakeda (appointed on 30 June 2016)
Nuntawat Chotvijit (retired on 21 June 2016)

Directors' interests in shares

The interests and deemed interests in the ordinary shares of the Company and of its related corporations of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	/------------Number of ordinary shares ------------/			
	At 1.3.2016/ Date of appointment #	**Bought**	**Sold**	**At 28.2.2017**
The Company				
Direct interest:				
Dato' Abdullah bin Mohd Yusof	30,180	-	(25,000)	5,180
Datuk Ramli bin Ibrahim	100,000	-	-	100,000
Dato' Md Kamal bin Ismaun	6,000	-	-	6,000
Ng Eng Kiat	12,000	-	-	12,000
Krishnappan A/L S.P.S. Singaram	108,000	-	-	108,000
Lee Tyan Jen	23,774	-	-	23,774
Kiyoaki Takano	36,000	-	-	36,000
Koji Hatakeda #	36,000	-	-	36,000
Deemed interest:				
Dato' Abdullah bin Mohd Yusof				
- others*	51,000	-	-	51,000

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Directors' interests in shares (continued)

	Number of ordinary shares			
	At 1.3.2016	Bought	Sold	At 28.2.2017
Ultimate holding corporation				
AEON Co., Ltd.				
Deemed interest:				
Kiyoaki Takano*	100	-	-	100

	Number of ordinary shares			
	At 1.3.2016	Bought	Sold	At 28.2.2017
Immediate holding corporation				
AEON Financial Service Co., Ltd.				
Direct interest:				
Kiyoaki Takano	6,520	-	-	6,520
Deemed interest:				
Kiyoaki Takano*	1,692	-	-	1,692

	Number of ordinary shares			
	At 1.3.2016	Bought	Sold	At 28.2.2017
Related company				
AEON CO. (M) BHD.				
Direct interest:				
Dato' Abdullah bin Mohd Yusof	2,070,000	-	-	2,070,000
Datuk Ramli bin Ibrahim	400,000	-	(110,000)	290,000
Deemed interest:				
Dato' Abdullah bin Mohd Yusof	2,805,000	-	455,000	2,350,000
Datuk Ramli bin Ibrahim*	400,000	-	(20,000)	380,000

* Deemed to have interest through spouse and/or children pursuant to Section 59(11)(c) of the Companies Act 2016.

Date of appointment

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling 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.

Issue of shares and debentures

There were no changes in the issued and paid up capital of the Company during the financial year except for the transfer of share premium pursuant to Section 618(2) of the Companies Act 2016 amounting to RM44,012,000 and became part of the Company's share capital.

There were no issuance of debentures during the financial year.

Issue of other equity instruments

There were no issuance of other equity instruments during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and insurance cost

During the financial year, the total amount of indemnity coverage and insurance premium paid for Directors and Officers of the Company are RM10,000,000 and RM28,700 respectively.

Other statutory information (continued)

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision has been made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have 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:

i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Company misleading.

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

i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Company for the financial year ended 28 February 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Company No. 412767-V

Auditors

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), will retire at the forthcoming Annual General Meeting.

The auditors' remuneration is disclosed in Note 13 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Dato' Abdullah bin Mohd Yusof

....

Kenji Fujita

Kuala Lumpur,

Date: 9 May 2017

Company No. 412767-V

AEON Credit Service (M) Berhad

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(Incorporated in Malaysia)

Statement of financial position as at 28 February 2017

	Note	2017 RM'000	2016 RM'000
Assets			
Plant and equipment	3	62,233	52,076
Investments	4	19,045	24,239
Deferred tax assets	5	49,070	39,043
Receivables	6	4,480,990	3,630,038
Total non-current assets		4,611,338	3,745,396
Receivables and deposits	6	1,985,937	1,790,244
Prepayments		21,150	16,393
Derivative financial assets	7	579,977	478,224
Cash and bank balances	8	73,667	67,250
Total current assets		2,660,731	2,352,111
Total assets		7,272,069	6,097,507
Equity			
Share capital		116,012	72,000
Share premium		-	44,012
Reserves		838,975	668,806
Equity attributable to ordinary equity holders of the Company	9	954,987	784,818
Perpetual notes and sukuk		276,000	276,000
Total equity		1,230,987	1,060,818
Liabilities			
Borrowings	10	4,898,808	4,214,649
Total non-current liability		4,898,808	4,214,649
Borrowings	10	973,417	693,528
Payables and accruals	11	141,575	113,584
Taxation		27,282	14,928
Total current liabilities		1,142,274	822,040
Total liabilities		6,041,082	5,036,689
Total equity and liabilities		7,272,069	6,097,507

The notes on pages 12 to 66 are an integral part of these financial statements

AEON Credit Service (M) Berhad

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Statement of profit or loss and other comprehensive income for the year ended 28 February 2017

	Note	2017 RM'000	2016 RM'000
Revenue	12	1,101,955	965,234
Staff costs		(183,167)	(158,182)
Depreciation of plant and equipment	3	(22,887)	(19,499)
Operating expenses		(464,929)	(412,706)
Other income		120,237	89,974
Operating profit	13	551,209	464,821
Finance costs	15	(200,047)	(163,230)
Profit before tax		351,162	301,591
Income tax expense	16	(86,135)	(73,369)
Profit for the year		265,027	228,222
Other comprehensive income, net of tax			
Cash flow hedge	17	5,367	(23,877)
Total other comprehensive income for the year, net of tax		5,367	(23,877)
Total comprehensive income for the year		270,394	204,345
Profit attributable to equity holders of the Company		265,027	228,222
Total comprehensive income attributable to equity holders of the Company		270,394	204,345
Basic earnings per ordinary share (sen)	19	174.55	149.02

The notes on pages 12 to 66 are an integral part of these financial statements

AEON Credit Service (M) Berhad

(Company No. 412767-V)
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Statement of changes in equity for the year ended 28 February 2017

	Note	/----Non-distributable			----/	Distributable	
		Share capital RM'000	Share premium RM'000	Perpetual notes and sukuk RM'000	Hedging reserve RM'000	Retained earnings RM'000	Total RM'000
At 1 March 2015		72,000	44,012	276,000	(8,844)	572,544	955,712
Cash flow hedge (net of tax)		-	-	-	(23,877)	-	(23,877)
Profit for the year		-	-	-	-	228,222	228,222
Total comprehensive income for the year		-	-	-	(23,877)	228,222	204,345
Distribution on perpetual notes (net of tax)		-	-	-	-	(13,631)	(13,631)
Dividends to shareholders of the Company	18	-	-	-	-	(85,608)	(85,608)
At 29 February 2016/ 1 March 2016		72,000	44,012	276,000	(32,721)	701,527	1,060,818
Cash flow hedge (net of tax)		-	-	-	5,367	-	5,367
Profit for the year		-	-	-	-	265,027	265,027
Total comprehensive income for the year		-	-	-	5,367	265,027	270,394
Distribution on perpetual notes (net of tax)		-	-	-	-	(13,681)	(13,681)
Dividends to shareholders of the Company	18	-	-	-	-	(86,544)	(86,544)
		72,000	44,012	276,000	(27,354)	866,329	1,230,987
Transfer pursuant to Section 618(2) of the Companies Act 2016		44,012	(44,012)	-	-	-	-
At 28 February 2017		116,012	-	276,000	(27,354)	866,329	1,230,987
		Note 9.1	**Note 9.2**	**Note 9.3**	**Note 9.4**		

The notes on pages 12 to 66 are an integral part of these financial statements.

AEON Credit Service (M) Berhad

(Company No. 412767-V)
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Statement of cash flows for the year ended 28 February 2017

	Note	2017 RM'000	2016 RM'000
Cash flows from operating activities			
Profit before tax		351,162	301,591
Adjustments for:			
Depreciation of plant and equipment	3	22,887	19,499
Finance costs		200,047	163,230
Gain on disposal of plant and equipment		(6)	(537)
Impairment loss on receivables		306,163	288,420
Impairment loss on investment on unquoted shares		5,194	-
Write-off of plant and equipment	3	-	6
Operating profit before working capital changes		885,447	772,209
Changes in working capital:			
Receivables, deposits and prepayments		(1,357,563)	(1,151,867)
Payables and accruals		23,520	(11,968)
Derivative financial assets		-	(49,800)
Cash held on behalf of a related company		(920)	(3,305)
Cash used in operations		(449,516)	(444,731)
Finance costs paid		(195,577)	(156,288)
Income taxes paid		(81,183)	(88,312)
Net cash used in operating activities		(726,276)	(689,331)
Cash flows from investing activities			
Acquisition of plant and equipment	3	(33,044)	(26,710)
Subscription of equity shares		-	(5,684)
Proceeds from disposal of plant and equipment		6	900
Net cash used in investing activities		(33,038)	(31,494)
Cash flows from financing activities			
Dividends paid to shareholders of the Company	18	(86,544)	(85,608)
Proceeds from bank borrowings		1,460,000	1,866,129
Repayment of bank borrowings		(580,700)	(976,656)
Repayment of asset backed medium term notes		-	(25,000)
Distribution paid to perpetual notes holders		(18,002)	(17,935)
Payment of perpetual notes issuance expenses		-	(100)
Net cash generated from financing activities		774,754	760,830
Net increase in cash and cash equivalents		15,440	40,005
Cash and cash equivalents at beginning of year		8,236	(31,769)
Cash and cash equivalents at end of year	(i)	23,676	8,236

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Statement of cash flows for the year ended 28 February 2017 (continued)

Note to statement of cash flows

(i) Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	Note	2017 RM'000	2016 RM'000
Cash and bank balances		60,287	53,427
Deposits placed with licensed banks		13,380	13,823
	8	73,667	67,250
Bank overdrafts	10	(40,083)	(50,026)
Cash held on behalf for a related company	8	(9,908)	(8,988)
		23,676	8,236

AEON Credit Service (M) Berhad

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Notes to the financial statements

AEON Credit Service (M) Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The addresses of the principal place of business and registered office of the Company are as follows:

Principal place of business
Level 29, Menara Olympia
No. 8, Jalan Raja Chulan
50200 Kuala Lumpur

Registered office
Lot 6.05, Level 6, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya, Selangor

The Company is principally engaged in the provision of easy payment schemes, personal financing schemes and issuance of credit cards under the international brand names of Visa and MasterCard. The personal financing schemes and certain easy payment schemes are based on Islamic principles.

The immediate and ultimate holding corporations are AEON Financial Service Co., Ltd. and AEON Co., Ltd. respectively. Both corporations were incorporated in Japan.

The financial statements were authorised for issue by the Board of Directors on 9 May 2017.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts* – Applying MFRS 9 *Financial Instruments* with MFRS 4 *Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and *MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 March 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017, except for Amendments to MFRS 12 which is not applicable to the Company.
- from the annual period beginning on 1 March 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 2, Amendments to MFRS 4, Amendments to MFRS 128 and Amendments to MFRS 140 which are not applicable to the Company.
- from the annual period beginning on 1 March 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Company except as mentioned below:

(i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 15.

(ii) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

1. Basis of preparation (continued)

(a) Statement of compliance (continue)

(iii) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company will assess the financial impact that may arise from the adoption of MFRS 16.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements in conformity with MFRSs 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 year in which the estimates are revised and in any future years affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than determination of the allowance for impairment losses as disclosed in Note 2(f)(i).

2. Significant accounting policies

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

(a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting year are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a cash flow hedge of currency risk, which are recognised in other comprehensive income.

(b) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises financing receivables, other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale category comprises investment in equity securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(f)(i)).

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Hedge accounting

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction 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 recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Hedge accounting (continued)

Cash flow hedge (continued)

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the cost 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.

2. Significant accounting policies (continued)

(c) Plant and equipment (continued)

(i) Recognition and measurement (continued)

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

The gain and loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within "other income" or "operating expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component are depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. 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 years are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

2. Significant accounting policies (continued)

(d) Leased assets

Operating lease

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(f) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial assets (continued)

(a) Financing receivables

For financing receivables ("loan(s)"), the Company first assesses whether objective evidence of impairment exists individually for loans that are individually significant, or collectively for loans that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk characteristics and collectively assessed 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. The carrying amount of the loans is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

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

Individually assessed allowance

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

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

Collectively assessed allowance

Collective allowances are maintained to reduce the carrying amount of portfolios of similar loans to their estimated recoverable amounts at the end of reporting year. For the purposes of a collective evaluation of impairment, exposures that are assessed collectively are placed into pools of similar loans with similar credit risk.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial assets (continued)

(b) Renegotiated/restructured loans

Where a loan shows evidence of credit weaknesses, the Company may seek to renegotiate the loan rather than to take possession of collateral. This may involve an extension or restructuring of the payment arrangements via renegotiation of new loan terms and conditions. These loans continue to be subject to individual or collective impairment assessment.

(c) Investments

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument carried at cost shall not be reversed.

(ii) Other assets

The carrying amounts of other assets (except for deferred tax asset) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Other assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period 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 since the last impairment loss was recognised. 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 profit or loss in the financial year in which the reversals are recognised.

(g) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Ordinary shares

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the year in which they are declared. The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

2. Significant accounting policies (continued)

(g) Equity instruments (continued)

(ii) Perpetual notes

Perpetual notes are classified as equity. Distributions on perpetual notes are recognised in equity in the year in which they are declared. The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(iii) Perpetual sukuk

Perpetual sukuk are classified as equity. Distributions on perpetual sukuk are recognised in equity in the year in which they are declared. The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(h) Employee benefits

(i) 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 liability 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.

(ii) State plans

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(i) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2. Significant accounting policies (continued)

(j) Revenue recognition

(i) Interest income, profit revenue and finance charges from easy payment, personal financing schemes based on Islamic principles and credit card business

Interest income, profit revenue and finance charges from easy payment, personal financing schemes and credit card business are recognised in the profit or loss using the Effective Interest/Profit Rate ("EIR") method.

EIR is a method of calculating the amortised cost of financing receivables ("receivable(s)") and of allocating the corresponding interest income, profit revenue and finance charges over the relevant year. EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the receivable or, when appropriate, a shorter year to the net carrying amount of the receivable.

(ii) Fee income from easy payment, personal financing schemes based on Islamic principles and credit card business

Fee income from easy payment and personal financing schemes comprise late payment / penalty charges, processing fees and credit recovery charges. Fee income from credit card business comprises credit recovery charges, cash advance fees, transaction charges, annual fees, merchant commission and Visa / MasterCard interchange fees.

Fee income is generally recognised on an accrual basis when services have been provided.

(iii) Dividend income

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(k) Borrowing costs

All borrowing costs are recognised in profit or loss using the effective interest method, in the year 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 profit or loss so as to give a constant periodic interest rate on the outstanding commercial papers/medium term notes at the end of each reporting year.

2. Significant accounting policies (continued)

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or 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 end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(m) Earnings per ordinary share

The Company presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to equity holders of the Company, less distribution on perpetual notes and perpetual sukuk, by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is determined by adjusting the profit or loss attributable to equity holders of the Company, less distribution on perpetual notes and perpetual sukuk, and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2. Significant accounting policies (continued)

(n) Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Managing Director of the Company, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(o) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

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3. Plant and equipment

	Office equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Renovation RM'000	Capital work-in-progress RM'000	Total RM'000
Cost							
At 1 March 2015	9,890	115,082	2,839	5,065	24,614	1,395	158,885
Additions	385	17,199	624	125	731	7,646	26,710
Disposals	-	(5,643)	-	(225)	-	-	(5,868)
Write-off	(186)	(1,710)	-	(18)	(85)	-	(1,999)
Reclassification	136	1,774	-	-	4,009	(5,919)	-
At 29 February 2016/1 March 2016	10,225	126,702	3,463	4,947	29,269	3,122	177,728
Additions	1,266	18,434	-	267	1,666	11,411	33,044
Disposals	(78)	(952)	-	-	-	-	(1,030)
Write-off	(31)	(96)	-	(8)	(45)	-	(180)
Reclassification	42	8,495	-	23	3,010	(11,570)	-
At 28 February 2017	11,424	152,583	3,463	5,229	33,900	2,963	209,562
Accumulated depreciation							
At 1 March 2015	8,401	82,977	903	4,824	16,546	-	113,651
Charge for the year	747	14,234	667	168	3,683	-	19,499
Disposals	-	(5,283)	-	(220)	(2)	-	(5,505)
Write-off	(184)	(1,709)	-	(20)	(80)	-	(1,993)
At 29 February 2016/1 March 2016	8,964	90,219	1,570	4,752	20,147	-	125,652
Charge for the year	744	17,111	691	174	4,167	-	22,887
Disposals	(78)	(952)	-	-	-	-	(1,030)
Write-off	(31)	(96)	-	(8)	(45)	-	(180)
At 28 February 2017	9,599	106,282	2,261	4,918	24,269	-	147,329
Carrying amounts							
At 1 March 2015	1,489	32,105	1,936	241	8,068	1,395	45,234
At 29 February 2016/1 March 2016	1,261	36,483	1,893	195	9,122	3,122	52,076
At 28 February 2017	1,825	46,301	1,202	311	9,631	2,963	62,233

4. Investments

	Note	2017 RM'000	2016 RM'000
At cost			
Unquoted shares		24,239	24,239
Less: Impairment loss	4.2	(5,194)	-
		19,045	24,239

4.1 The details of the unquoted shares are as follows:

Name of Company	Country of Incorporation	Principal activities	Interest in equity 2017 %	2016 %
AEON Credit Service (Philippines) Inc	Philippines	Provision of financial services	10	10
AEON Credit Service India Private Limited ("ACSI")	India	Provision of non-banking financial services	20	20
AEON Credit Service Systems (Philippines) Inc.	Philippines	Provision of information technology services	3	10

The Directors have determined that the above investments should be designated as "other investment" as the Company does not have influence over its activities and distribution policy.

4.2 During the financial year, due to ACSI's loss making position, the Company assessed the recoverable amount of the investment using discounting cash flow method to calculate the cash flows projection based on its 5-year approved financial budget and a pre-tax discount rate of 9.21% per annum.

Based on the assessment, the aggregate carrying amount of the investment exceeded the aggregate recoverable amount by RM5,194,000 and the impairment loss was recognised in operating expenses.

5. Deferred tax assets

Deferred tax assets and liabilities are attributable to the following:

	2017 RM'000	2016 RM'000
Plant and equipment	(4,040)	(4,727)
Hedging reserves	8,630	10,325
Impairment loss on receivables	11,956	9,861
Recognition of interest income / profit revenue	25,707	19,416
Provision for bonus and others	6,817	4,168
Net tax assets	49,070	39,043

Movement in temporary differences during the year

	At 28 February 2015 RM'000	Recognised in profit or loss (Note 16) RM'000	Recognised in other comprehensive income (Note 17) RM'000	At 29 February 2016 RM'000	Recognised in profit or loss (Note 16) RM'000	Recognised in other comprehensive income (Note 17) RM'000	At 28 February 2017 RM'000
Plant and equipment	(7,278)	2,551	-	(4,727)	687	-	(4,040)
Hedging reserves	2,940	-	7,385	10,325	-	(1,695)	8,630
Impairment loss on receivables	10,821	(960)	-	9,861	2,095	-	11,956
Recognition of interest income/ profit revenue	15,069	4,347	-	19,416	6,291	-	25,707
Provision for bonus and others	3,141	1,027	-	4,168	2,649	-	6,817
	24,693	6,965	7,385	39,043	11,722	(1,695)	49,070

6. Receivables and deposits

	Note	2017 RM'000	2016 RM'000
Non-current			
Trade			
Financing receivables		4,480,990	3,630,038
Current			
Trade			
Total financing receivables		8,950,745	7,452,737
Less: Unearned carrying charges		(2,359,848)	(1,909,900)
Impairment loss on receivables	6.1	(152,194)	(137,921)
	6.2	6,438,703	5,404,916
Less: Financing receivables (Non-current)		(4,480,990)	(3,630,038)
Financing receivables (Current)		1,957,713	1,774,878
Non-trade			
Other receivables and deposits		26,710	10,438
Amount due from related companies and corporations	6.3	1,514	4,928
		28,224	15,366
		1,985,937	1,790,244

6.1 During the year, financing receivables amounting to RM291,890,000 (2016: RM285,797,000) was written off against the allowance for impairment losses.

6.2 Included in financing receivables are:

i) an amount of RM5,444,395,000 (2016: RM4,419,672,000) relating to the Company's easy payment and personal financing schemes based on Islamic principles.

ii) an amount of RM2,254,000 (2016: RM2,291,000) due from a related company which is subject to normal trade terms.

6.3 The amount due from related companies and corporations are non-trade in nature, unsecured, interest free and repayable on demand.

7. Derivative financial assets

	2017		2016	
	Nominal value RM'000	Assets RM'000	Nominal value RM'000	Assets RM'000
Derivative used for hedging				
- Forward exchange contracts	-	-	50,700	(482)
- Cross currency swaps	2,646,173	579,977	2,326,173	478,706
	2,646,173	579,977	2,376,873	478,224

Forward exchange contracts and cross currency swaps are used to manage the foreign currency and interest rate exposures arising from the borrowings denominated in foreign currency. Forward contracts have maturities of less than one year after the end of the reporting year and most of the cross currency swaps have maturities of more than one year after the end of the reporting year.

8. Cash and bank balances

	2017 RM'000	2016 RM'000
Cash and bank balances	60,287	53,427
Deposits placed with licensed banks	13,380	13,823
	73,667	67,250

Deposits placed with licensed banks include RM9,908,000 (2016: RM8,988,000) held on behalf of a related company.

9. Capital and reserves

9.1 Share capital

	Amount 2017 RM'000	Number of shares 2017 '000	Amount 2016 RM'000	Number of shares 2016 '000
Issued and fully paid:				
As at 1 March	72,000	144,000	72,000	144,000
Transfer pursuant to Section 618(2) of the Companies Act 2016*	44,012	-	-	-
As at 28 / 29 February	116,012	144,000	72,000	144,000

* The new Companies Act 2016 ("the Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

9.2 Share premium

Share premium relates to the amount that shareholders have paid for the shares in excess of the nominal value. Pursuant to Section 618(2) of the Act, the sum of RM44,012,000 standing to the credit of the Company's share premium account has been transferred and became part of the Company's share capital.

9.3 Perpetual notes and sukuk

	Note	2017 RM'000	2016 RM'000
Perpetual notes	a	146,000	146,000
Perpetual sukuk	b	130,000	130,000
At 28 / 29 February		276,000	276,000

9. Capital and reserves (continued)

9.3 Perpetual notes and sukuk (continued)

(a) Perpetual notes

On 11 April 2014 and 21 April 2014, the Company issued perpetual notes amounting to RM146,000,000 in total. The salient features of the perpetual notes issued are as follows:

(i) The distribution rate for the year for five (5) years from issuance date is 6.5% (2016: 6.5%) per annum, with the distribution to be made on semi-annual basis in arrears;
(ii) If the Company does not exercise its option to redeem at the end of the 5th year, the periodic distribution rate increases by 1% per annum above the prevailing distribution rate subject to a maximum of 20% per annum;
(iii) The Company may defer part or all distribution, which shall then become due and payable on the next distribution date unless it is further deferred by the Company;
(iv) The perpetual notes are perpetual in nature with no contractual maturity date. The Company has the option to redeem the perpetual notes on the date of the fifth anniversary of the date of issue and thereafter on each subsequent semi-annual distribution payment date;
(v) The Company has the option to redeem the perpetual notes earlier upon the occurrence of defined accounting event, tax event, privatisation event and shareholder event;
(vi) The redemption of the perpetual notes by the Company is subject to the prior approval of Bank Negara Malaysia;
(vii) The holders of the perpetual notes do not have any voting rights in the Company; and
(viii) The perpetual notes rank ahead of the Company's ordinary share capital and rank junior to the claims of all other present and future creditors of the Company.

9. Capital and reserves (continued)

9.3 Perpetual notes and sukuk (continued)

(b) Perpetual sukuk

On 30 December 2014, the Company issued perpetual sukuk at par amounting to RM105,000,000. Subsequently on 16 February 2015, the Company further issued perpetual sukuk amounting to RM25,000,000.

The salient features of the perpetual sukuk issued are as follows:

(i) The distribution rate for the year for five (5) years from issuance date is 6.5% (2016: 6.5%) per annum, with the distribution to be made on semi-annual basis in arrears;
(ii) If the Company does not exercise its option to redeem at the end of the 5^{th} year, the periodic distribution rate increases by 1% per annum above the prevailing distribution rate subject to a maximum of 20% per annum;
(iii) The Company may defer part or all distribution, which shall then become due and payable on the next distribution date unless it is further deferred by the Company;
(iv) The perpetual sukuk are perpetual in nature with no contractual maturity date. The Company has the option to redeem the perpetual sukuk on the date of the fifth anniversary of the date of issue and thereafter on each subsequent semi-annual distribution payment date;
(v) The Company has the option to redeem the perpetual sukuk earlier upon the occurrence of defined accounting event, tax event, privatisation event and shareholder event;
(vi) The redemption of the perpetual sukuk by the Company is subject to the prior approval of Bank Negara Malaysia;
(vii) The holders of the perpetual sukuk do not have any voting rights in the Company; and
(viii) The perpetual sukuk rank ahead of the Company's ordinary share capital and rank junior to the claims of all other present and future creditors of the Company.

9.4 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

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10. Borrowings

	Note	2017 RM'000	2016 RM'000
Non-current			
Term loans / financing (unsecured)	10.1	4,898,808	4,014,649
Medium term notes (unsecured)	10.2	-	200,000
		4,898,808	4,214,649
Current			
Bank overdrafts (unsecured)	10.1	40,083	50,026
Revolving credits (unsecured)	10.1	260,000	200,634
Term loans/financing (unsecured)	10.1	473,334	442,868
Medium term notes (unsecured)	10.2	200,000	-
		973,417	693,528
		5,872,225	4,908,177

10.1 Bank overdraft, revolving credits and term loans / financing

The bank overdrafts, revolving credits and term loans/financing are provided on the basis of a letter of awareness from the immediate holding corporation, standby letters of credit from various financial institutions or on clean basis.

The bank overdrafts are denominated in Ringgit Malaysia whilst the revolving credits and term loans/financing are denominated in the following currencies:

	2017 RM'000	2016 RM'000
Revolving credits		
Ringgit Malaysia	260,000	150,000
U.S. Dollar	-	50,634
	260,000	200,634
Term loans / financing		
Ringgit Malaysia	2,110,000	1,609,999
U.S. Dollar	3,262,142	2,847,518
	5,372,142	4,457,517

The long term loans/financing are granted for years ranging from two to six years and repayable by way of bullet payment upon expiry of the term loan/financing year.

10. Borrowings (continued)

10.2 Medium term notes ("MTN")

	2017 RM'000	2016 RM'000
Medium term notes – Single Investor MTN		
Nominal value	200,000	200,000

The above represents RM200,000,000 (2016: RM200,000,000) Single Investor MTN.

The redemption year for MTN at its nominal value is as follows:

	Total RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2017				
Single Investor MTN	200,000	200,000	-	-
2016				
Single Investor MTN	200,000	-	200,000	-

11. Payables and accruals

	Note	2017 RM'000	2016 RM'000
Trade			
Trade payables		29,825	31,560
Amount due to related companies	11.1	54	551
		29,879	32,111
Non-trade			
Other payables and accruals		104,750	76,586
Amount due to immediate holding corporation	11.2	5,006	4,275
Amount due to related companies and corporations	11.2	1,940	612
		111,696	81,473
		141,575	113,584

11.1 Related companies

The amounts due to related companies are subject to normal trade terms.

11.2 Immediate holding corporation, related companies and corporations

The amounts due to immediate holding corporation, related companies and corporations are unsecured, interest free and repayable on demand.

12. Revenue

	2017 RM'000	2016 RM'000
Revenue from easy payment, personal financing based on Islamic principles and credit card business:		
Interest income, profit revenue and finance charges	964,437	835,802
Fee income	137,518	129,432
	1,101,955	965,234

13. Operating profit

	2017 RM'000	2016 RM'000
Operating profit is arrived at after crediting:		
Bad debts recovered	105,382	70,354
Gain on disposal of plant and equipment	6	537
and after charging:		
Auditors' remuneration:		
- Audit fees		
KPMG Malaysia	193	175
- Non-audit fees		
KPMG Malaysia	136	208
Depreciation on plant and equipment	22,887	19,499
Write-off of plant and equipment	-	6
Impairment loss on:		
- Financing receivables	306,163	288,420
- Investment in unquoted shares	5,194	-
Personnel expenses (including key management personnel):		
- Contributions to Employees Provident Fund	18,181	15,231
- Wages, salaries and others	164,986	142,951
Rental expense in respect of:		
- Office premises	16,703	15,145
- Motor vehicles	4	10
- Office equipment	797	474

14. Key management personnel compensation

The key management personnel compensations are as follows:

	2017 RM'000	2016 RM'000
Directors:		
- Fees	804	519
- Remuneration	2,808	2,441
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	251	377
	3,863	3,337

15. Finance costs

	2017 RM'000	2016 RM'000
Interest expense of financial liabilities that are not at fair value through profit or loss:		
- Bank overdrafts	846	1,220
- Revolving credits	5,964	9,113
- Term loans/financing and medium term notes	193,237	152,712
- Asset backed medium term notes	-	185
	200,047	163,230

16. Income tax expense

Recognised in profit or loss

	2017 RM'000	2016 RM'000
Current tax expense		
- Current year	97,465	79,960
- Under provision in prior year	392	374
Total current tax recognised in profit or loss	97,857	80,334
Deferred tax expense		
- Origination and reversal of temporary differences	(11,722)	(6,965)
Total deferred tax recognised in profit or loss	(11,722)	(6,965)
Total income tax expense	86,135	73,369

Reconciliation of effective tax expense

	2017	2016
Profit before tax	351,162	301,591
Income tax calculated using Malaysian tax rate of 24% (2016: 24%)	84,279	72,382
Tax effect of non-deductible expenses	3,442	613
	87,721	72,995
Under provision in prior year – current tax	392	374
Under provision in prior year – deferred tax	1,842	-
Effect of reduction in tax rate*	(3,820)	-
	86,135	73,369
Deferred tax recognised directly in other comprehensive income:		
Cash flow hedge reserves (Note 17)	1,695	(7,385)

* On 21 October 2016, the Government of Malaysia announced the reduction of income tax rate based on the percentage of increase in chargeable income.

17. Other comprehensive income

	Before tax RM'000	Tax effect RM'000	Net of tax RM'000
2017			
Cash flow hedge			
- Gain arising during the year	7,062	(1,695)	5,367
2016			
Cash flow hedge			
- Loss arising during the year	(31,262)	7,385	(23,877)

18. Dividends

Dividends recognised in the current year by the Company are:

	Sen per share	Total amount RM'000	Date of payment
2017			
Interim 2017 ordinary	30.50	43,920	7 November 2016
Final 2016 ordinary	29.60	42,624	15 July 2016
		86,544	
2016			
Interim 2016 ordinary	29.85	42,984	4 November 2015
Final 2015 ordinary	29.60	42,624	15 July 2015
		85,608	

After the financial year end, the following dividend was proposed by the Directors.

	Sen per share	Total amount RM'000
Final 2017 ordinary	32.50	46,800

This dividend will be recognised in the subsequent financial year upon approval by the shareholders of the Company at the forthcoming Annual General Meeting.

19. Earnings per ordinary share

Basic earnings per ordinary share

The basic earnings per share is calculated by dividing the net profit after distribution on perpetual notes and perpetual sukuk by the weighted average number of ordinary shares outstanding during the year.

	2017 RM'000	2016 RM'000
Net profit attributable to equity holders	265,027	228,222
Distribution to the holders of perpetual notes and perpetual sukuk, net of tax	(13,681)	(13,631)
Net profit attributable to ordinary equity holders	251,346	214,591

	2017 '000	2016 '000
Net profit attributable to ordinary equity holders (RM)	251,346	214,591
Weighted average number of ordinary shares (unit)	144,000	144,000
Basic earnings per share (sen)	174.55	149.02

There were no outstanding potential ordinary shares as at 28 February 2017 and 29 February 2016 respectively, accordingly, the diluted earnings per share is not presented.

20. Operating segments

The principal activity of the Company is the provision of easy payment schemes, personal financing schemes based on Islamic principles and credit cards business, all of which are categorised under consumer financing business.

On this basis, the Managing Director ("MD") reviews the business performance of the Company as a whole. Further analysis will be provided or furnished upon request from the MD.

Accordingly, the segmental reporting used is equivalent to the Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income.

21. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel comprise all the Directors of the Company. The key management personnel compensation is disclosed in Note 14.

Related party transactions have been entered into in the normal course of business under normal trade terms. Balances with immediate holding corporation, related companies and corporations are disclosed in Note 6 and Note 11. The significant related party transactions of the Company are shown below:

	2017 RM'000	**2016 RM'000**
Related companies		
AEON CO. (M) BHD.		
Customers' transactions via related company*		
Sales through Easy Payment Schemes	5,743	5,990
Sales through AEON Credit Cards	55,877	102,518
Revenue		
Credit cards commission income	848	1,491
Expenses		
Convertible AEON-Card points purchased	(2,386)	(2,168)
Office and promotion space rental	(3,950)	(4,011)
AEON Big (M) Sdn. Bhd.		
Customers' transactions via related company*		
Sales through Easy Payment Schemes	2,457	2,601
Sales through AEON Credit Cards	2,022	1,288
Revenue		
Loyalty programme processing fee	4,226	5,516
Credit cards commission income	72	45
Expenses		
Office and promotion space rental	(2,791)	(2,095)

21. Related parties (continued)

	2017 RM'000	2016 RM'000
Related companies (continued)		
AEON Credit Service Systems (Philippines) Inc.		
Assets		
IT systems development cost	(7,701)	(4,087)
AEON Delight (Malaysia) Sdn. Bhd.		
Provision of financing		
Instalment scheme for purchase of equipment	779	-
Revenue		
Interest income from Easy Payment Schemes	151	184
Expenses		
Cleaning services	(569)	(544)
Immediate holding corporation		
AEON Financial Service Co., Ltd.		
Expenses		
Corporate support fees	(10,193)	(8,577)

* In the capacity as merchant of the Company.

22. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 RM'000	2016 RM'000
Less than one year	13,368	9,372
Between one and five years	7,582	11,731

The Company leases a number of service centres and office premises under operating leases.

23. Capital commitment

	2017 RM'000	2016 RM'000
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	1,069	2,419

24. Financial instruments

24.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");
(b) Available-for-sale financial assets ("AFS");
(c) Financial liabilities measured at amortised cost ("FL"); and
(d) Derivatives used for hedging.

2017	Carrying amount RM'000	L&R/ (FL) RM'000	AFS RM'000	Derivatives used for hedging RM'000
Financial assets				
Investments	19,045	-	19,045	-
Financing receivables and other receivables	6,466,927	6,466,927	-	-
Cash and bank balances	73,667	73,667	-	-
Derivative financial assets	579,977	-	-	579,977
	7,139,616	6,540,594	19,045	579,977
Financial liabilities				
Borrowings	(5,872,225)	(5,872,225)	-	-
Trade and other payables	(141,575)	(141,575)	-	-
	(6,013,800)	(6,013,800)	-	-
2016				
Financial assets				
Investments	24,239	-	24,239	-
Financing receivables and other receivables	5,420,282	5,420,282	-	-
Cash and bank balances	67,250	67,250	-	-
Derivative financial assets	478,224	-	-	478,224
	5,989,995	5,487,532	24,239	478,224
Financial liabilities				
Borrowings	(4,908,177)	(4,908,177)	-	-
Trade and other payables	(113,584)	(113,584)	-	-
	(5,021,761)	(5,021,761)	-	-

24. Financial instruments (continued)

24.2 Net gains and losses arising from financial instruments

	2017 RM'000	2016 RM'000
Net gains/(losses) on:		
Loans and receivables	901,174	747,168
Financial liabilities measured at amortised cost	(200,047)	(163,230)
	701,127	583,938

24.3 Financial risk management

(a) Financial risk management objectives and policies

Risk management forms an integral part of the Company's activities and remains an important feature in all its business, operations, delivery channels and decision making processes. The extent to which the Company is able to identify, assess, monitor, manage and report each of the various types of risk is critical to its strength, soundness and profitability. The Company's risk management function is independent of its operating units. All new businesses, introduction of new products, engagement in new activities or entrance into new strategic alliances are subject to review by the Risk Management Committee ("RMC") prior to Management or Board approval.

The objectives of the Company's risk management activities are to:

(i) Identify and monitor the various risk exposure and risk requirements;

(ii) Ensure high risk activities are in accordance with the approved policies and the aggregate risk position is within the risk level approved by the Board of Directors; and

(iii) Help to create shareholder value through proper allocation and management of risk, and facilitate the risk assessment of new business and products independently.

(b) Risk management framework

The Company employs an Enterprise-wide Risk Management Framework ("ERMF") to manage its risks effectively. The framework involves on-going process of identifying, evaluating, monitoring, managing and reporting significant risks affecting the Company through the RMC. This framework provides the Board of Directors and management with a tool to anticipate and manage both existing and potential risks, taking into consideration the dynamic risk profiles, as dictated by changes in business strategies, regulatory environment and functional activities throughout the year.

24. Financial instruments (continued)

24.3 Financial risk management (continued)

(c) Risk organisation and reporting

The responsibility of risk management lies with the Board of Directors, which comprises executive and non-executive directors of the Company. In line with best practices, the Board of Directors determines the risk policy objectives for the Company, and assumes responsibility for the supervision of risk management.

The day-to-day responsibility for risk management and control is delegated to the RMC which undertakes the oversight function for overall risk limit and ensures that the Company is within the risk appetite as established by the Board. The RMC also deliberates the implementation of the enterprise-wide risk management framework which addresses credit, market, operational and strategic risks within the policies established by the Board of Directors and recommending policy changes to the Board of Directors.

Quarterly reporting is made to Audit Committee and the Board by RMC on risk exposures, impact and mitigation measures, covering all areas of risk faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

24.4 Credit risk

Credit risk is the risk of a financial loss to the Company due to the deterioration in credit worthiness of its borrowers and consequently their ability to discharge their contractual obligations to the Company. Credit risk remains the most significant risk to which the Company is exposed. The purpose of credit risk management is to keep credit risk exposure to an acceptable level in line with the Company's risk appetite and to ensure that the returns are commensurate to the risk underwritten.

The Company's exposure to credit risk arises principally from its financing receivables from customers and investment securities.

24. Financial instruments (continued)

24.4 Credit risk (continued)

Receivables

(i) Risk management objectives, policies and processes for managing the risk

The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit and the credit acceptance procedures are monitored by the management. Collateral is required for the business of financing vehicles. The Company does not require collateral in respect of the easy payment schemes, personal financing schemes and credit cards issuance business.

The Company has taken reasonable steps to ensure that receivables from customers that are neither past due nor impaired are stated at its realisable values.

The Company conducts regular monitoring on credit exposure trend, asset quality by impaired loans, portfolio concentration analysis.

(ii) Exposure to credit risk, credit quality and collateral

At end of the reporting year, the Company does not have any significant exposure to any individual customers or industry sector. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Financing receivables amounting to RM3,793,477,000 (2016: RM3,215,848,000) are secured by vehicles of customers financed by the Company.

(iii) Credit risk reporting and monitoring

The Company's credit portfolios are monitored through monthly and/or adhoc reporting to ensure credit deterioration is promptly detected and mitigated through implementation of risk remediation strategies. Credit Policy and Review Department ("CPRD") undertakes regular and comprehensive analysis of credit portfolios and reports to the RMC on emerging credit issues.

(iv) Credit risk mitigation

All credit facilities are granted on the credit standing of the borrower, source of repayment, debt servicing ability and the collateral pledged. Personal guarantees are obtained when the borrower's credit worthiness is insufficient to justify granting facilities.

24. Financial instruments (continued)

24.4 Credit risk (continued)

(v) Concentration risk

Concentration of credit risk arises when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company monitors various portfolios, to identify and assess risk concentrations. The credit portfolios are monitored and reviewed to identify, assess and guard against unacceptable risk concentrations.

Credit quality and allowance for impairment losses

The ageing of receivables as at the end of the reporting year was:

	Gross RM'000	Collective impairment losses RM'000	Net RM'000
28.2.2017			
Not past due	5,886,483	(8,868)	5,877,615
Past due 1 month	400,954	(13,793)	387,161
Past due 2 to 3 months	152,938	(27,157)	125,781
Past due more than 3 months	150,522	(102,376)	48,146
	704,414	(143,326)	561,088
	6,590,897	(152,194)	6,438,703
		Note 24.4(a)	
29.2.2016			
Not past due	4,964,552	(6,061)	4,958,491
Past due 1 month	329,450	(12,715)	316,735
Past due 2 to 3 months	112,012	(22,317)	89,695
Past due more than 3 months	136,823	(96,828)	39,995
	578,285	(131,860)	446,425
	5,542,837	(137,921)	5,404,916
		Note 24.4(a)	

24. Financial instruments (continued)

24.4 Credit risk (continued)

(a) The movements in the allowance for impairment losses of receivables during the financial year were:

	2017 RM'000	2016 RM'000
At 1 March	137,921	135,298
Impairment loss recognised	306,163	288,420
Impairment loss written off	(291,890)	(285,797)
At 28 February / 29 February	152,194	137,921

(b) Included in net financing receivables is an amount of RM151,249,000 (2016: RM135,704,000) which are under renegotiated/restructured activities.

Renegotiated/restructured activities include extended payment arrangements, and the modification and deferral of payments. The Company have impaired RM39,955,000 (2016: RM32,193,000) of the renegotiated/restructured financing receivables. The status of renegotiated/restructured receivables are as follows:

	2017 RM'000	2016 RM'000
Not past due	95,263	91,422
Past due 1 month	29,056	24,552
Past due 2 to 3 months	18,160	12,250
Past due more than 3 months	8,770	7,480
	151,249	135,704

24. Financial instruments (continued)

24.4 Credit risk (continued)

Investments

Risk management objectives, policies and processes for managing the risk

Investments are made after due evaluation by the Board of Directors of the Company.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting year, the Company has only invested in securities of its foreign affiliated companies. The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

Impairment losses

An impairment loss in respect of investment in unquoted shares of RM5,194,000 (2016: RM Nil) was recognised by the Company during the financial year due to ACSI's loss making position and reassessment of its recoverable amount by the Company.

The movements in the allowance for impairment loss during the financial year were:

	2017 RM'000	2016 RM'000
At 1 March	-	-
Impairment loss recognised	5,194	-
At 28/29 February	5,194	-

Intercompany balances

Risk management objectives, policies and processes for managing the risk

The Company provides advances to related companies and corporations and it monitors the repayment of the related companies and corporations regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting year, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Impairment losses

As at the end of the reporting year, there was no indication that the advances to the related companies and corporations are not recoverable.

24. Financial instruments (continued)

24.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Company's liquidity risk management practice is to maintain high quality and well diversified portfolios of liquid assets and source of funds under both normal business and stressed conditions. The Company maintains optimum ratio of long term funding, i.e. debts maturing after 12 months from the reporting date against total debts. This ratio significantly match the ratio of long term financing receivables determined based on customers' contracted terms of repayment and payment pattern for revolving credit limits granted.

The Treasury unit reviews the asset and liability maturity profile and identifies any maturity mismatch for escalation to the RMC which is responsible for the independent monitoring of the Company's liquidity risk profile. The RMC meets every month to discuss the liquidity risk and funding profile of the Company, and works closely with the Treasury unit on the surveillance of market conditions and stress testing analysis on liquidity positions.

24. Financial instruments (continued)

24.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the Company's financial assets and financial liabilities as at the end of the reporting year based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual profit/interest/ coupon rate	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2017							
Financial assets							
Cash and bank balances	60,287	-	60,287	60,287	-	-	-
Deposits placed with licensed banks	13,380	2.70% - 3.20%	13,380	13,380	-	-	-
Financing receivables	6,438,703	21.20%*	8,716,286	2,877,534	1,903,897	3,094,203	840,652
Other receivables and deposits	28,224	-	28,224	28,224	-	-	-
Investments	19,045	-	19,045	19,045	-	-	-
	6,559,639		8,837,222	2,998,470	1,903,897	3,094,203	840,652
Financial liabilities							
Bank overdraft	40,083	3.30%	40,087	40,087	-	-	-
Unsecured term loan/financing	5,372,142	3.85% - 4.51%	5,964,868	483,042	2,613,912	2,623,604	244,310
Unsecured medium term notes	200,000	4.00%	201,826	201,826	-	-	-
Unsecured revolving credits	260,000	3.65%	260,576	260,576	-	-	-
Trade and other payables	141,575	-	141,575	141,575	-	-	-
	6,013,800		6,608,932	1,127,106	2,613,912	2,623,604	244,310

Maturity analysis of derivatives financial liabilities is disclosed in Note 24.7.

* Note : This represents the average annual effective interest rate on financing receivables outstanding at the end of the reporting year.

24. Financial instruments (continued)

24.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual profit/interest/ coupon rate	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2016							
Financial assets							
Cash and bank balances	53,427	-	53,427	53,427	-	-	-
Deposits placed with licensed banks	13,823	3.00% - 3.45%	13,823	13,823	-	-	-
Financing receivables	5,404,916	21.97%*	7,304,700	2,579,327	1,529,432	2,455,753	740,188
Other receivables and deposits	15,366	-	15,366	15,366	-	-	-
Investments	24,239	-	24,239	24,239	-	-	-
	5,511,771		7,411,555	2,686,182	1,529,432	2,455,753	740,188
Financial liabilities							
Bank overdraft	50,026	3.65%	50,031	50,031	-	-	-
Unsecured term loan/financing	4,457,517	3.85% - 4.75%	4,997,676	455,574	486,508	4,055,594	-
Unsecured medium term notes	200,000	4.00%	209,826	-	209,826	-	-
Unsecured revolving credits	200,634	3.66% - 3.74%	200,978	200,978	-	-	-
Trade and other payables	113,584	-	113,584	113,584	-	-	-
	5,021,761		5,572,095	820,167	696,334	4,055,594	-

Maturity analysis of derivatives financial liabilities is disclosed in Note 24.7.

* Note : This represents the average annual effective interest rate on financing receivables outstanding at the end of the reporting year.

24. Financial instruments (continued)

24.6 Market risk

Market risk is the risk of potential loss as a result of changes in the intrinsic value of financial instruments caused by movement in market variables such as interest rate, foreign exchange rates, equity pricing and other related macro economic factors that will eventually affect the Company's profitability, cash flows and capital preservation.

The Company's market risk management includes the monitoring of the fluctuations in net interest income or investment value due to changes in relevant risk factors. RMC monitors the exposure on monthly basis through reports and analysis with the support of the Treasury unit.

In managing interest rate risk, the Company intends to maximise net interest income and net interest margin; and to minimise the significant volatility in relation to the Company's assets and liabilities.

24.6.1 Currency risk

The Company is exposed to foreign currency risk mainly on borrowings that are denominated in a currency other than the functional currency of the Company. The currencies giving rise to this risk are primarily U.S. Dollar (USD) and Japanese Yen (JPY).

Risk management objectives, policies and processes for managing the risk

The repayment of all borrowings in foreign currency is fully hedged by forward exchange contracts and/or cross currency interest rate swaps entered into by the Company upon initial drawdown of the borrowings. Most of the forward exchange contracts and cross currency interest rate swap contracts have maturities of 2 to 5 years after the end of the reporting year.

24. Financial instruments (continued)

24.6 Market risk (continued)

24.6.1 Currency risk (continued)

Exposure to foreign currency risk

The Company's exposure to foreign currency (a currency which is other than the currency of the Company) risk, based on carrying amounts at the end of the reporting year was:

	Note	Denominated in USD RM'000	Denominated in JPY RM'000
2017			
Inter-company balances		-	(4,732)
Borrowings	(i)	(3,262,142)	-
Net exposure		(3,262,142)	(4,732)
2016			
Inter-company balances		-	(3,985)
Borrowings	(i)	(2,898,152)	-
Net exposure		(2,898,152)	(3,985)

(i) The Company's foreign currency risk exposure primarily relates to its USD bank borrowings and JPY denominated inter-company balances. The carrying amount of such bank borrowings and inter-company balances as at 2017 was RM3,262,142,000 and RM4,732,000 (2016: RM2,898,152,000 and RM3,985,000) respectively. To minimise the foreign currency risk and interest rate risk of bank borrowings, the Company has been using forward exchange contracts and/or cross currency interest rate swap contracts as hedging instruments.

Currency risk sensitivity analysis

No sensitivity analysis was presented for USD currency which is fully hedged.

A 10% strengthening or weakening of JPY at the end of the reporting year would have (decreased)/increased post-tax profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rate, remained constant and ignores any impact of forecasted inter-company transactions.

24. Financial instruments (continued)

24.6 Market risk (continued)

24.6.1 Currency risk (continued)

Currency risk sensitivity analysis (continued)

	Profit or loss			
	2017		2016	
	10% increase RM'000	10% decrease RM'000	10% increase RM'000	10% decrease RM'000
JPY	(360)	360	(303)	303

24.6.2 Interest rate risk

The Company's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities, short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Company borrows for its operations at fixed and variable rates and monitors the interest rate exposure by assessing the interest rate gap of interest bearing financial assets and financial liabilities. The Company also uses cross currency interest rate swap contracts to hedge its interest rate risk on bank borrowings as stated in Note 24.6.1(i). The management continuously seeks for alternative banking facilities, which provide competitive interest rates to finance its capital expenditure, financing and working capital requirements.

Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting year was:

	2017 RM'000	2016 RM'000
Fixed rate instruments		
Financial liabilities	2,570,000	1,960,000
Floating rate instruments		
Financial liabilities	3,302,225	2,948,177

24. Financial instruments (continued)

24.6 Market risk (continued)

24.6.2 Interest rate risk (continued)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedged accounting model. Therefore, a change in interest rates at the end of the reporting year would not affect profit or loss.

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting year would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

	Profit or loss			
	2017		2016	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
Floating rate instruments	(25,097)	25,097	(22,406)	22,406

24.7 Hedging activities

Cash flow hedge

The Company has entered into forward exchange contract and cross currency interest rate swaps to hedge the cash flow risk in relation to the foreign currency denominated borrowings of RM2,646,173,000 (2016: RM2,376,872,000).The forward exchange contracts and cross currency interest rate swaps have the same nominal value of RM2,646,173,000 (2016: RM2,376,872,000) and are to be settled in full upon maturity.

24. Financial instruments (continued)

24.7 Hedging activities (continued)

Cash flow hedge (continued)

The following table indicates the years in which the cash flows associated with the derivative financial assets with carrying amount of RM579,977,000 (2016: derivative financial assets with carrying amount of RM478,224,000) that are expected to occur and affect profit or loss:

	Expected cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2017				
Forward exchange contract and cross currency interest rate swaps (gross settled):				
Outflow	(2,947,228)	(313,823)	(1,352,659)	(1,280,746)
Inflow	2,767,557	250,402	1,301,396	1,215,759
	(179,671)	(63,421)	(51,263)	(64,987)
2016				
Forward exchange contract and cross currency interest rate swaps (gross settled):				
Outflow	(2,669,245)	(325,232)	(292,236)	(2,051,777)
Inflow	2,467,872	261,171	233,005	1,973,696
	(201,373)	(64,061)	(59,231)	(78,081)

During the financial year, a gain of RM5,367,000 (2016: loss of RM23,877,000) was recognised in other comprehensive income.

24.8 Fair value of financial instruments

Fair value is the amount at which the financial asset could be exchanged or a financial liability could be settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the best estimates of fair values as at the end of the reporting year.

Quoted and observable market prices, where available, are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on appropriate methodologies and assumptions on risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the corresponding fair value estimates.

24. Financial instruments (continued)

24.8 Fair value of financial instruments (continued)

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of MFRS 132, *Financial Instruments: Presentation*, which requires the fair value information to be disclosed.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the financial assets or liabilities that are not based on observable market data (unobservable inputs).

24. Financial instruments (continued)

24.8 Fair value of financial instruments (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets										
Financing receivables										
- current	-	-	-	-	-	-	1,957,713	1,957,713	1,957,713	1,957,713
- non-current	-	-	-	-	-	-	4,621,077	4,621,077	4,621,077	4,480,990
Other receivables and deposits	-	-	-	-	-	-	28,224	28,224	28,224	28,224
Derivatives designated as hedging instruments	-	579,977	-	579,977	-	-	-	-	579,977	579,977
	-	579,977	-	579,977	-	-	6,607,014	6,607,014	7,186,991	7,046,904
Financial liabilities										
Term loans/ financing (unsecured)	-	-	-	-	-	-	4,849,942	4,849,942	4,849,942	4,898,808
	-	-	-	-	-	-	4,849,942	4,849,942	4,849,942	4,898,808

24. Financial instruments (continued)

24.8 Fair value of financial instruments (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets										
Financing receivables										
- current	-	-	-	-	-	-	1,774,878	1,774,878	1,774,878	1,774,878
- non-current	-	-	-	-	-	-	3,778,374	3,778,374	3,778,374	3,630,038
Other receivables and deposits	-	-	-	-	-	-	15,366	15,366	15,366	15,366
Derivatives designated as hedging instruments	-	478,224	-	478,224	-	-	-	-	478,224	478,224
	-	478,224	-	478,224	-	-	5,568,618	5,568,618	6,046,842	5,898,506
Financial liabilities										
Term loans/ financing (unsecured)	-	-	-	-	-	-	3,978,216	3,978,216	3,978,216	4,014,649
Medium term notes (unsecured)	-	-	-	-	-	-	199,945	199,945	199,945	200,000
	-	-	-	-	-	-	4,178,161	4,178,161	4,178,161	4,214,649

24. Financial instruments (continued)

24.8 Fair value of financial instruments (continued)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

Financial assets

The carrying amounts of cash and cash equivalents and short term receivables reasonably approximate fair values due to the relatively short term nature of these financial instruments.

The fair value of derivatives designated as hedging instruments is based on broker quotes. Where such prices are not available, reference is based on discounted cash flow analysis using applicable yield curve for the duration of the instruments.

The fair value of financing receivables with remaining maturity of less than one year is estimated to approximate their carrying values. The fair value of financing receivables with maturities of more than one year have been determined by discounting the relevant cash flows using market rates at the end of reporting year.

For investments, it was not practicable to estimate the fair value due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

Financial liabilities

The carrying amounts of short term payables and short term borrowings reasonably approximate fair values due to the relatively short term nature of these financial instruments.

Fair value for long term borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting year.

25. Capital management

The Company's objectives when managing capital is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and determine to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

During the financial year, the Company has complied with debt to equity ratio requirement of less than 5.25:1. The debt-to-equity ratio in year 2017 and 2016 were as follows:

	2017 RM'000	2016 RM'000
Total borrowings (Note 10)	5,872,225	4,908,177
Less: Cash and bank balances (Note 8)	(63,759)	(58,262)
Net debt	5,808,466	4,849,915
Total equity	1,230,987	1,060,818
Debt-to-equity ratio	4.72	4.57

There were no changes in the Company's approach to capital management during the financial year.

26. Supplementary financial information on the breakdown of realised and unrealised profit or losses

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting year, into realised and unrealised profits or losses.

On 20 December 2010, the Malaysian Institute of Accountants further issued another directive on the disclosure and prescribed format of presentation.

The breakdown of retained earnings of the Company as at the end of reporting year, into realised and unrealised earnings, pursuant to the directive are as follows:

	2017 RM'000	2016 RM'000
Total retained earnings of the Company:		
- Realised	817,259	662,484
- Unrealised	49,070	39,043
Total retained earnings as per statement of changes in equity	866,329	701,527

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

AEON Credit Service (M) Berhad

(Company No. 412767-V)
(Incorporated in Malaysia)

Statement by Directors pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 7 to 65 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 28 February 2017 and of its financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 26 on page 66 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Dato' Abdullah bin Mohd Yusof

....

Kenji Fujita

Kuala Lumpur,

Date: 9 May 2017

AEON Credit Service (M) Berhad

(Company No. 412767-V)
(Incorporated in Malaysia)

Statutory declaration pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Lee Kit Seong**, the Director primarily responsible for the financial management of AEON Credit Service (M) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 7 to 66 are, to the best of my knowledge and belief, 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.

Subscribed and solemnly declared by the abovenamed Lee Kit Seong, NRIC: 690827-10-5611, at Kuala Lumpur in the State of Wilayah Persekutuan on 9 May 2017.

....
Lee Kit Seong

Before me:

PESURUHJAYA SUMPAH
NO:W320
D. SELVARAJ
MALAYSIA

NO. 277B, JALAN PERKASA 1
TAMAN MALURI, CHERAS
KUALA LUMPUR

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AEON CREDIT SERVICE (M) BERHAD

(Company No. 412767-V)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AEON Credit Service (M) Berhad, which comprise the statement of financial position as at 28 February 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 7 to 65.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 28 February 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
Impairment of financing receivables The carrying value of financing receivables held at amortised costs may be misstated because the assessment of impairment loss on financing receivables involve estimates and significant judgement by Directors. Refer to the significant accounting policy in Note 2 (b) and 2 (f), the disclosure of receivables in Note 6 and the disclosure of credit risk in Note 24.4.	Our audit procedures performed in this area included, among others: i. evaluated the design and implementation of the key controls over the lending process and tested the operating effectiveness of these controls; ii. assessed the effectiveness of the process in place over credit assessment and credit management; iii. assessed whether the Company's impairment provisioning policy on financing receivables is in accordance with MFRS 139, *Financial Instruments: Recognition and Measurement*; and iv. checked the accuracy of ageing of financing receivables.
Carrying value of investments in unquoted shares The valuation of the investments in unquoted shares is a key area of focus of our audit due to the complexity and significant judgement involved in the assessment of impairment on the investments in unquoted shares. Refer to the significant accounting policy in Note 2 (b) and 2 (f), and the disclosure of investments in Note 4.	Our audit procedures performed in this area included, amongst others: i. assessed the operating results of respective investments for indications of impairment; ii. evaluated the investee business plans with regards to the investments and assessed the cash flow projections by challenging the key assumption used; and iii. challenged the Director's assessment and basis in arriving at the need for or adequacy of impairment made for the investments.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the Annual Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the Annual Report and, in doing so, consider whether the Annual Report is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Annual Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities

The supplementary information set out in Note 26 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Chan Kam Chiew
Approval Number: 2055/06/18(J)
Chartered Accountant

Petaling Jaya,

Date: 9 May 2017