10. INDUSTRY OVERVIEW

10.1 Global Economy

The world economy is expected to continue expanding for the fifth consecutive year in 2007, albeit at a more moderate pace, amidst high crude oil prices and uncertainties in the economy of the USA. While growth is relatively lower than the 2006 performance, it is nonetheless expected to remain strong with further expansion in economic activities, especially in the fast-growing emerging economies, notably China, India and Russia, as well as recovering Europe and Japan. Global inflation remains at manageable levels although it has edged upwards due to high crude oil prices.

For the advanced countries, growth is more balanced across regions with the steady recovery in Europe and Japan partially offsetting the moderation in the USA. Developing countries, primarily driven by investment and robust trade, are expected to outperform advanced countries and increasingly contribute to global growth. In this context, China, India and Russia are anticipated to account for more than half of this year's growth. Rapid growth has also led several large developing countries to significantly contribute to outward foreign direct investment, an area where traditionally, developed countries were main sources.

The more widely-shared growth in 2007 is expected to spill over into 2008, with world trade and investment projected to continue steadily expanding, and against a backdrop of relatively benign inflation. The favourable environment is expected to contribute positively to the Malaysian economy. In addition, Malaysia's continued engagement in regional and multilateral cooperation is set to further deepen its integration with the global economy.

(Source: Economic Report 2007/2008, Ministry of Finance, Malaysia)

10.2 Overview and Outlook of the Economy of Malaysia

Overview of the Malaysian Economy in 2007

Growth prospects for the Malaysia economy remain favourable in 2007, despite uncertainty in the global economic environment. Strong domestic economic fundamentals will enable the economy to grow at 6.0% in 2007 (2006: 5.9%). On the supply side, output growth is supported by expansion in all sectors of the economy. The services sector is envisaged to contribute significantly to real GDP growth, led by robust household spending and buoyant business activity. The manufacturing sector is expected to pick up in the second half of the year on the back of an anticipated recovery in global electronics demand. The agriculture sector will continue to expand, supported by higher output of food commodities. The scheduled implementation of the Ninth Malaysian Plan ("9MP') projects and improvement in the property market will further boost the construction sector. Output growth of the mining sector is envisaged to turn positive, with increased crude oil production in the second half of the year. On the demand side, growth will be driven by resilient domestic demand of both private and public sectors, largely due to stronger consumer sentiment and business confidence as well as higher Government spending.

On the external front, Malaysia is expected to record a smaller trade surplus, as import growth picks up momentum in line with increased domestic economic activity. Supported by the increase in inflows of foreign direct investment, higher tourists arrivals and sustained export earnings, the overall balance of payments position is expected to remain strong. Per capita income is envisaged to grow by 7.2% to RM22,345 (2006: 9.9%; RM20,841), while per capita income in terms of purchasing power parity, is expected to increase by 13.9% to USD13,289 in 2007 (2006: 13.0%; USD11,663).

Growth in private consumption is expected to increase by 9.0% and account for 49.9% of GDP in 2007 (2006: 7.1%; 48.6%). Key factors underpinning the increase in private consumption include a supportive financial environment backed by low and stable interest rates, and higher disposable income arising from stable employment prospects, salary adjustments for civil servants as well as positive wealth effect from a bullish stock market and strong commodity prices. The uptrend in private consumption spending is reflected in the consumer price index ("CPI"), which recorded a significant increase of 11.7 points in the second quarter of 2007 to 115.9 points (April – June 2006: 104.2 points). During the first six months of 2007, major consumption indicators, especially food sales and services tax collection, registered double-digit growth of 17.9% and 12.5% (January – June 2006: 1.4%; 0.3%), respectively. Credit card transactions and consumption credit grew strongly by 21.1% and 7.1% (end-June 2006: 16.2%; 21.3%), respectively. Meanwhile, sales of motorcycles expanded by 4.5% (January – June 2006: 3.6%).

Value added of all sectors in the economy is expected to record positive growth, led by the services sector. In 2007, the services sector is expected to register solid growth of 9.0% (2006: 7.2%), exceeding the overall expansion of the economy. Growth in the sector is projected to surpass that of the manufacturing sector and contribute 4.6 percentage points to GDP growth (2006: 3.7 percentage points). This reflects a gradual shift in the structure of the Malaysian economy, from manufacturing to services. Growth in the services industry is led by the intermediate services group comprising finance and insurance, real estate and business services, transport and storage as well as communication sub-sectors. The intermediate services group is estimated to grow at a faster pace of 10.6% in 2007 (2006: 7.6%), underpinned by double-digit expansion in finance and insurance as well as real estate and business services sub-sectors.

The finance and insurance sub-sector is expected to expand by 10.7% in 2007 (2006: 7.7%). Growth will be supported by steady financing activity for consumer credit card and business investment, and new range of products and services for retirement savings, investment and insurance. The growth in Islamic financing will also have a favourable impact on the sub-sector's performance as industry players expand their business, benefiting from a growing pool of domestic savings and the positioning of the country as a major Islamic financial hub. As at end-June 2007, total loans outstanding of the banking system grew by 6.0% to RM614 billion (end-2006: 6.3%; RM593 billion), with loans to small and medium enterprises ("SMEs") and households comprising 17.4% and 56.1%, respectively (end-June 2006: 17.5%; 55.5%). Increased product innovation as well as higher interest and fee-based income boosted the banking system. Meanwhile, growth of the sub-sector was also supported by increased insurance activity led by strong demand for investment-linked as well as medical and health insurance products.

Growth of the wholesale and retail trade sub-sector is envisaged to strengthen by 11.6% in 2007 (2006: 7.1%), while the accommodation and restaurants sub-sector is expected to grow by 9.4% (2006: 6.0%). The strong growth in both sub-sectors is consistent with robust private consumption supported by rising disposable income, expanding retail activity and increased tourist arrivals in tandem with Visit Malaysia year 2007. Increased spending by rising number of foreign tourists coupled with robust household spending has a positive multiplier effect and this augurs well for the retail industry. In line with the Government's efforts to promote Malaysia as a preferred shopping destination, tourist expenditure on shopping is expected to increase by 26.3% to RM11.8 billion in 2007 (2006: 25.7%; RM9.3 billion). The vibrant retail activity is also attributable to higher domestic consumer spending supported by stable employment and income coupled with favourable consumer credit conditions. Consumption credit rose by 7.1% as at end-June 2007 to RM145.2 billion (end-June 2006: 21.3%; RM136 billion), while the import of consumption goods expanded by 5.0% to RM13.8 billion (January – June 2006: 13.4%; RM13.2 billion). The expansion of existing and opening of new retail outlets by local and international chain operators is expected to spur the performance of the retail industry. Currently, there are 60 hypermarket outlets operating in the country, employing more than 16,000 local workers.

(Source: Economic Report 2007/2008, Ministry of Finance, Malaysia)

Outlook of the Malaysian Economy in 2008

The Malaysian economy is anticipated to strengthen further to 6.0-6.5% in 2008 (2007: 6.0%) with positive contribution from all sectors of the economy. Domestic demand will be the main driver of the economy, while external demand is expected to pick up in tandem with improved prospects in world trade. Private investment and consumption spending are expected to remain robust, while public expenditure continues to expand. Inflation is anticipated to remain low despite strong expansion in the economy as output growth is still below potential level. Coupled with increased productivity, the economy would be able to absorb higher demand expenditure. In line with higher output and firm commodity prices, nominal gross national product per capita is expected to rise 6.8% to RM23,864 in 2008 (2007: 7.2%; RM22,345). In terms of purchasing power parity, per capita income is expected to increase 6.9% to reach USD14,206 (2007: 13.9%; USD13,289), reflecting improved quality of life of the *rakyat.*

All sectors of the economy is expected to register steady growth in 2008, led by services, reinforced by faster pace in construction activities as well as high global electronics demand. The services sector is forecast to sustain solid growth at 8.6% (2007: 9.0%) with favourable performance across all sub-sectors. Strong domestic consumption spending as well as higher tourist arrivals and establishment of new retail outlets will contribute to sturdy growth in the wholesale and retail trade as well as the accommodation and restaurants sub-sectors.

(Source: Economic Report 2007/2008, Ministry of Finance, Malaysia)

10.3 The Malaysian Consumer Credit Services Industry

Statistical and certain other information contained in the following description is based on or derived from data prepared by D&B Malaysia.

General Overview

The consumer credit services industry took off in a big way in Malaysia only after the end of the 1997/1998 financial crisis. Apart from the conducive and fundamental demand factors such as economic growth, the key factor that drove the growth of consumer credit services was the structural shift within the financial services sector itself to consumer banking business, in order to mitigate the adverse financial impact experienced during the financial crisis period due to heavy reliance on corporate and property sectors. The Government's regulatory realignment to stimulate domestic consumption in an effort to reduce exposure to the uncertainties in the external environment was another contributing factor. Gradual banking sector liberalisation resulting in greater participation of foreign players in the domestic market, as well as reduction in minimum monthly repayment for credit cards, lower minimum income requirement for loan and credit card applications, further provided a conducive environment for the growth of the consumer credit business. As a result, the industry boomed, as reflected in the growth of consumption credit from a mere RM2.6 billion in 1996 to RM100.3 billion in 2006.

Development of Consumer Credit Services in Malaysia

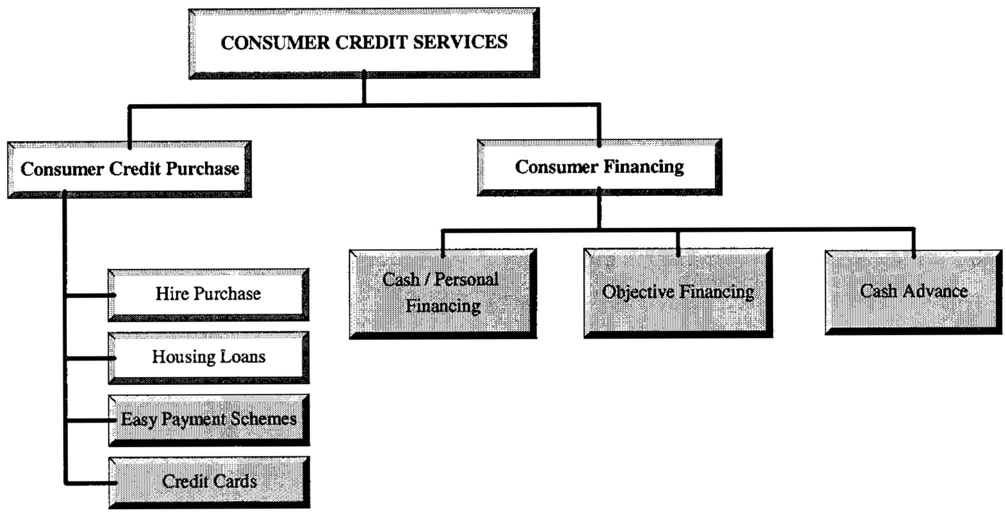
While data related specifically to the consumer credit services industry in Malaysia is not available, the essence of enormous growth experienced by the consumer credit services industry in the past decade is captured in the growth of consumption credit. The percentage of private consumption financed through consumption credit has grown from just 2.2% in 1996 to 42.0% in 2006. This constitutes a Compounded Annual Growth Rate ("CAGR") of 34.3%. Consumption credit grew at a phenomenal rate particularly post 1997/1998 financial crisis (9.9% in 1998) due to the gradual liberalisation of the financial sector. From the consumer credit perspective, the critical factors contributing to the impressive growth include improved accessibility to consumer credit via expansion in branch network and merchant tie-ups, increase in household income, substantial reduction in poverty rates that subsequently elevated the section of the community that was previously below the credit worthiness line and an overall social shift towards a more affluent lifestyle.

The consumer credit services industry has also evolved drastically throughout this period by diversifying products and services offered to expand market boundaries and offering value-added services to retain competitive edge. For example, recent product innovations such as motorcycle purchase through easy payment schemes and motor insurance financing plans were designed to tap into the lower income group. In addition, some consumer credit services companies introduced loyalty cards as part of their value-added services to establish stronger relationships with consumers. The increasing number of loyalty card members could build a solid database that creates vast opportunities to expand consumer credit services that include product financing through easy payment schemes and credit card purchases, personal and/or cash financing and cash advances using credit cards.

10.4 Introduction and Background of Consumer Credit Services

Statistical and certain other information contained in the following description is based on or derived from data prepared by D&B Malaysia.

The consumer credit services industry can generally be classified under two (2) broad types of credit services, namely consumer credit purchase and consumer financing. These services are offered by financial institutions, namely local and foreign commercial banks, and non-financial institutions that comprise small- to medium-scale private limited companies involved in the marketing and provision of various types of consumer credit services.



10.4.1 Consumer Credit Purchase

This refers to consumer credit services catered for purchases of consumer products and services. Such credit services are offered to assist general consumers to purchase and use, but not necessarily have ownership rights to products that are purchased using this means. Also sometimes termed "instalment credit", this type of consumer credit service typically involves the purchase of consumer goods and/or services, and other major items such as cars and properties. These can be obtained through the consumer credit purchase services such as hire purchases, housing loans, easy payment schemes and credit cards.

(i) Hire Purchase

Hire purchase is a common way of paying for major items such as cars, furniture and other equipment. Unlike other forms of credit, such as a loan or credit card, where the goods purchased belong to the consumer immediately, goods purchased under hire purchase do not legally belong to the consumer until the hire purchase is fully repaid. The consumer cannot modify or sell the items financed under the hire purchase without the lender's permission. In a hire purchase arrangement, the consumer is bound by the terms and conditions stipulated in a hire purchase agreement with a finance company, and not the retailer/merchant, who will own the goods until the final hire purchase payment is made. The consumer will also be liable for any damage caused to the goods during the contract period. Failure to service repayments can render the goods to be repossessed by the finance company. Under the hire purchase agreement, consumers pay an initial deposit followed by monthly payments in subsequent months, which comprises a portion of the financed amount plus interest, over an agreed financing period. At the end of the financing period, there is an option to transfer ownership of the goods to the consumer.

(ii) Housing Loans

A housing loan or home loan means an agreement for an instalment payment plan on the security of a mortgage of a freehold or leasehold estate, or interest in a residential property where the loan is made either for the purpose that enables the borrower to buy the estate or for the purpose of re-financing a loan. Banks and other financial institutions offer different kinds of packages of housing loans with the intention to assist residential property buyers in their purchase.

Banks usually offer up to 100% financing for eligible first-time purchasers and residential property buyers can obtain loans of up to a maximum of 60% of the purchase price for the purchase of a second or subsequent residential property. The loan period can be up to 30 to 40 years of repayment or up to the age of 65, whichever comes earlier. Depending on the package, during this repayment period, borrowers will repay the bank starting from the first year with a certain percentage of interest involved. In the second year and thereafter, a base lending rate (a minimum interest rate based on a formula which takes into account the lenders' costs of funds and other administrative costs) per annum will be included.

Some banks provide insurance coverage for homes or waive legal fees as value-added package to their customers. Eligible purchasers must be above the age of 18 with a minimum income of three (3) times the monthly instalment.

(iii) Easy Payment Schemes

Easy payment schemes, also known as easy pay plans, credit purchase or even instalment plans are offered primarily by certain retailers to assist consumers to finance the purchase of household goods. Among the household items that can be financed under the easy payment financing schemes are electrical appliances, furniture, personal computers, cameras, video cameras, health equipment, jewellery and motorcycles. Such schemes allow consumers to buy the household items first and pay for them later with the option of staggering their instalment payments for a year's period or longer. Interest is charged when the customer opts for instalment payments. The interest charges vary among retailers, but they generally start from as low as 1% per month.

A motorcycle easy payment scheme is another type of easy payment scheme that caters specifically for the purchase of motorcycles by the lower income group. The concept is similar to a general easy payment scheme. The prospective buyers are given the option of staggering the payment in monthly instalments according to their financial capability. This type of scheme usually allows consumers to own a motorcycle without any down payment, with a repayment period that can extend up to 48 months with monthly repayment amounts ranging from as low as between RM100 and RM200.

(iv) Credit Cards

Credit cards are unsecured loans that do not require the cardholder to pledge any assets. Any purchase transaction can be completed with the signatory of the cardholder. Under an agreement with the lender, credit is extended for the use of the cardholder. A credit limit on the credit card is established, depending on the cardholder's credit history and ability to service the debt repayment, which is evaluated by assessing the annual income of the cardholder. The financial institution issues the credit card, with a credit limit calculated based on the cardholders' income level and total borrowing commitments, amongst others, and the cardholder can utilise the credit granted at any time up to the credit limit. For certain cardholders such as high net worth individuals, the credit line is unlimited. Cardholders usually make periodic (usually monthly) payments, and continue to use the available credit as needed, as long as each periodic payment meets a pre-determined minimum amount (currently stipulated at 5% of total outstanding amount in Malaysia).

Credit cards also offer value-added services that incorporate features of other types of credit such as cash advance, interest-free instalment payment schemes as well as other easy payment schemes. For example, cardholders could purchase goods with their credit cards and subsequently, opt to repay the purchase amount on monthly instalment basis at attractive interest rates or even zero interest rates, depending on the type of credit service available at the retailer and that chosen by the cardholder.

10.4.2 Consumer Financing

Apart from credit purchases, individuals can obtain cash financing through personal loans and cash financing schemes offered by financial institutions and consumer credit companies. Cash advance using credit cards is also gaining popularity since the introduction of credit card facilities.

(i) Cash/Personal Financing

Cash financing, or more commonly termed as personal financing, is usually offered through financial institutions, trust companies and finance companies that lend money at a fixed or variable rate. This type of financing is popular because it requires no collateral, is convenient and has a fast turnaround time. For example, loan approval and cash disbursement could be completed within one (1) to two (2) weeks. The prospective customer is usually only required to submit an application form containing his/her personal details, proof of income, income tax form and if required, details of the guarantor. The cash financing is repaid over a pre-determined period, whereby the borrower is given the option to choose from various repayment schedules set by the lender. The repayment period ranges from six (6) months to 24 months.

Large cash loans usually require collateral. If the consumer gives collateral and defaults on the loan then the lender has the right to repossess the collateral given. In cases where collateral is not required, borrowers who default on their loans will usually be charged additional interest on the amount outstanding. Borrowers who continue to default on their loans indefinitely will be served legal notices, following which the appropriate legal action will be taken. The timing of each course of action depends on the respective lenders' policies and cash/personal financing terms.

Within this category of consumer financing are personal loans obtained from licensed moneylenders that commonly operate as sole-proprietors and/or small-scale private limited companies.

(ii) Objective Financing

Objective financing or sometimes referred to as specific purpose financing is essentially a specialised form of personal financing. In objective financing, the underlying objective for a loan is clearly defined and agreed upon by both parties before the loan is granted. On the contrary, in personal financing, borrowers have the liberty to spend the loan money in any legal ways as the borrower chooses. Other features of objective financing, such as repayment terms remain the same as personal financing. Objective financing via merchants is applied for at the respective merchants' outlets, while objective financing over the counter involves selling and financing products and services at branch counters of credit services companies. The current objective financing target merchants include bridal, tour operators and education service providers.

A common objective financing product offered by consumer credit services companies is insurance financing. For example, motor insurance financing refers to the financing of insurance premium payments due each month to insurance companies. Insurers will be required to service such financing schemes obtained, where the amount financed could be as low as RM500 and incorporates similar basic features as other types of financing, except for the repayment period which is usually limited to durations of less than 12 months.

(iii) Cash advance

Cash advance refers to an instant loan obtained from a credit card account and this can be done via an ATM, online funds transfer, phone banking or over-the-counter bank withdrawal. As the cash advance is effectively a 'loan', interest is charged accordingly from the first day of the advance draw down until the day it is fully repaid. The interest rate is different from those offered by the banks and it can be up to 18% per annum of the cash advance amount calculated on a daily basis.

When cash advance is done via an ATM, especially outside of the country, customers can be charged a cash advance fee (or service/transaction charge) of up to 5% of the amount advanced or a minimum of between RM10 and RM25 depending on financial institution that issued the credit card (whichever is higher), which excludes the interest involved. For some banks or financial institutions, cardholders may request for a cash advance of a minimum amount of RM1,000 and up to a maximum of 80% of the available balance in the cardholder's credit card account, subject to a daily maximum of RM10,000 or such other limit with the approval of the respective financial institution.

AEON Credit provides a mixture of consumer credit purchase and consumer financing products to the Malaysian consumers. Please refer to Section 11 of this Prospectus for details on the products and services offered by AEON Credit to the Malaysian consumers.

10.5 Industry Dynamics

Statistical and certain other information contained in the following description is based on or derived from data prepared by D&B Malaysia.

10.5.1 Market Performance and Trend

Consumer credit experienced phenomenal growth over the past few years, supported by ample liquidity available in the system, low interest rate environment, positive consumer sentiments as well as increased access to banks' financing and on the supply side, aggressive expansion by banking sector into consumer banking as part of their risk management strategy. Credit granted to households as a percentage of total credit to private sector increased from 22.9% in 1999 to 31.4% by the end of 2005, mainly resulting from stagnant or decreasing credit granted to corporate sector. Between 2001 and 2005, the local household credit market grew at an annual average rate of 17.1%, the third highest growth in the emerging Asian countries after China and Indonesia.

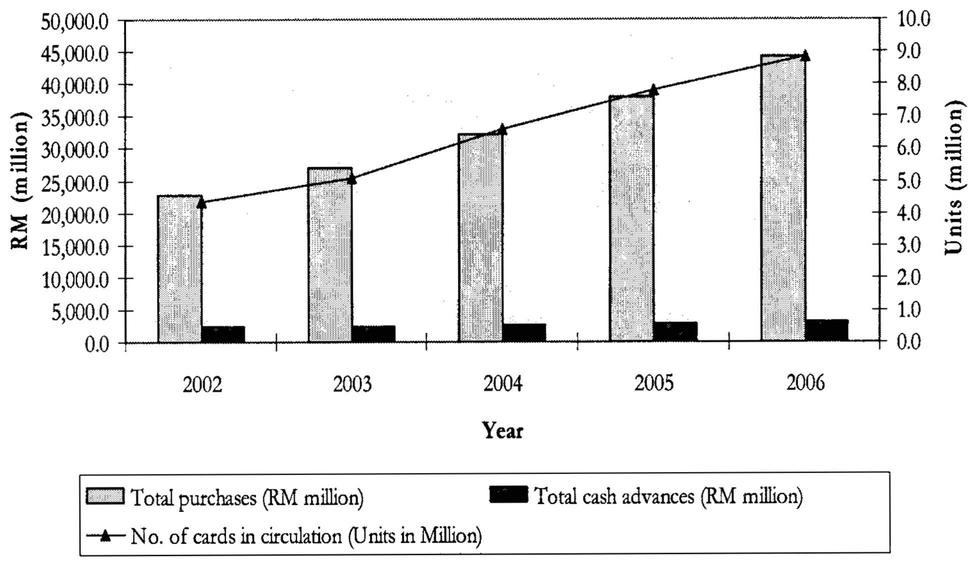
The growth of household credit consumption of emerging Asian countries from the years 2001 to 2005 is set out below:

% annual change	**2001**	**2002**	**2003**	**2004**	**2005**	**5-year average 2001 - 2005**
Hong Kong SAR	2.9	-1.5	-4.1	1.0	2.0	0.1
Korea	28.0	28.5	1.9	6.1	9.9	14.9
Singapore	9.8	4.1	17.4	7.7	3.3	8.5
Taiwan	-0.6	4.0	11.9	18.0	12.8	9.2
China	63.9	52.8	47.3	26.3	10.3	40.1
Indonesia	36.3	35.7	33.8	37.8	27.9	34.3
Malaysia	14.5	23.3	11.8	20.7	15.2	17.1
Thailand	7.5	7.9	20.9	14.7	19.7	14.1

(Source: International Monetary Fund – Asia & Pacific Regional Economic Outlook, May 2006)

The local credit card industry has experienced remarkable growth, in terms of both the number of cards in circulation and transacted amounts, with a year-on-year ("yoy") increase of 11.2% and 19.1% recorded as at end of June 2007, respectively. Loans disbursed to this segment increased by 19.6% to RM26.9 billion in the first half of 2007 (January – June 2006:RM22.5 billion), driven primarily by product innovation, the growth of the Internet as a shopping medium that largely relies on credit cards as a method of payment, aggressive marketing campaigns and expansion of the formal financial sector into previously unbanked market segments.

The total credit card purchases and cash advance transactions in Malaysia from the years 2002 to 2006 is set out below:

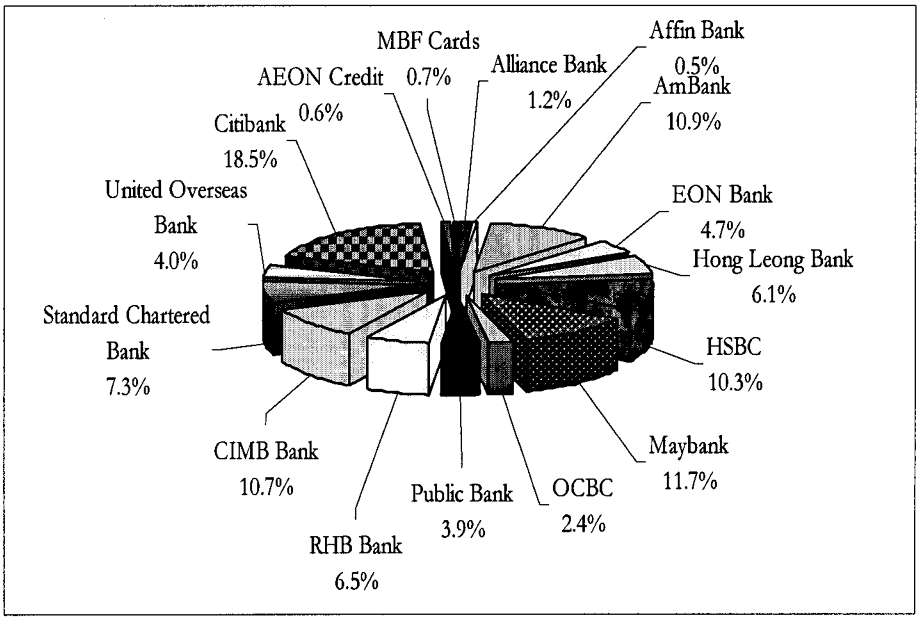


Note:

(Source: BNM Monthly Statistical Bulletin, December 2006)

The total number of credit cards in circulation has more than doubled since end-2001, registering a robust CAGR of about 18%. In 2006, about 1.01 million cards were issued, bringing the total number of credit cards in circulation to 8.8 million with a combined credit limit of RM71.3 billion. At present, there are a total of 16 credit card issuers in Malaysia, 14 of which are bank-backed. In terms of total outstanding credit card balances amounting to about RM19.7 billion in 2006, foreign banks such as Citibank Berhad ("Citibank"), HSBC Bank Malaysia Berhad ("HSBC"), Standard Chartered Bank Malaysia Berhad ("Standard Chartered Bank") and OCBC Bank (Malaysia) Berhad ("OCBC") collectively control about 42.5% of the market, while leading local banks such as Malayan Banking Berhad ("Maybank"), AmBank (M) Berhad and CIMB Bank Berhad ("CIMB Bank") collectively have an estimated 33.3% share of the market.

The market share of financial institutions in terms of outstanding credit card balances for the year 2006* is set out below:



Note:

* *Based on respective BNM-licensed credit card issuers' fiscal year 2006.*

10.5.2 Market Demand and Supply Conditions

Demand for consumer credit is expected to remain buoyant, driven by sustained increase in private consumption. In 2006, private consumption expenditure increased by 7.1% (2005: 8.7%). Despite concerns of rising inflation, consumer spending was supported by continued increase in household disposable income amidst year-end bonus payments, arising from sustained high commodity prices and strong export earnings. Labour market conditions also remained favourable with and major consumption indicators also point towards sustained consumer spending, such as strong growth registered for imports of consumption goods and credit card spending, as well as sustained growth in loans approved and disbursed for consumption purposes.

The key economic indicators of Malaysia from year 2004 to 2008* is set out below:

% annual change	**2004**	**2005**	**2006**	**2007***	**2008****
Real GDP	7.2	5.2	5.9	6.0	6.0-6.5
Private consumption	9.8	8.7	7.1	9.0	7.9
Unemployment (% of labour force)	3.5	3.5	3.3	3.3	3.3
Per capita income (RM)	17,577	18,966	20,841	22,345	23,864

Notes:

* *Estimate.*

** *Forecast.*

(Source: BNM's Annual Report 2006 and Economic Report 2007/2008, Ministry of Finance, Malaysia)

Supply of consumer credit in the medium term is expected to remain stable due to regulatory limitation as well as policy driven banking sector consolidation that acts as a cap on the number of new players entering the market. However, the gradual liberalisation of the sector may result in, over a longer term, the entry of new foreign players and greater flexibility for existing foreign players already operating in Malaysia to expand their operations. This would contribute to increased competition and local players may be disadvantaged given the comparatively lesser financial resources available at their disposal compared to that of foreign giant banking groups such as Citibank, Standard Chartered Bank and HSBC.

10.5.3 Competitive Environment and Industry Players

The consumer credit services industry is dominated by local and foreign financial institutions, which have wider existing consumer base. Their ability to be positioned as one-stop financial centres appeals in terms of consumer convenience. The regulatory environment however is still highly stringent, despite the gradual liberalisation of the industry which skews in favour of local players. For example, while there are no written regulations limiting the presence of foreign banks in Malaysia in terms of number of branches or products/services offered, in practicality, the approval for operations expansion by them are harder to obtain compared with their local peers.

Despite that, the industry is competitive and rapidly changing, with the presence of a diverse range of players, from local and foreign financial institutions providing easy payment schemes via credit cards that are issued by them, retail stores that offer instalment plans for their own retail products, to credit services companies that provide a comprehensive range of consumer credit purchase and consumer financing services.

Players often differentiate themselves through value-added services with the aim of increasing customer satisfaction and loyalty. Among the value-added services offered by retail merchants, for example, are extended warranty, free delivery and installations, zero-cost product replacement guarantee and tie-up with banks to increase customers' convenience in making their monthly repayments. The loyalty card concept was also introduced to retain customer loyalty. With loyalty cards, customers are entitled for special discounts on product purchased and reward points, which can later be used to redeem gifts.

The products/services offered by industry players are also largely determined by the scope of business allowed under the licensing conditions and financial resources at its disposal. In this respect, bigger players, usually financial institutions, are able to offer a wider range of products/services through cross selling initiatives while smaller players tend to cater to niche markets and tie-up with large numbers of merchants to increase product exposure.

Demand for consumer financing is driven by consumer income and demographics. The profitability of individual companies depends on the correct assessment of repayment likelihood and effective collection activities. Large companies have an advantage in using IT to serve large portfolios of mortgage and credit card loans and also have access to cheaper sources of funds, but small companies can compete effectively in the cash lending or sales financing segments, where personal contact is more important. Furthermore, certain lucrative consumer financing companies such as hire purchase companies that offer financing schemes for durable goods such as motorcycles are exclusively reserved for local players only. As a result, competition is largely driven by products/services innovation to meet consumers' constantly evolving needs and ability to tap into the potential of cross-selling products/services. Meanwhile, smaller to medium-scale service providers, such as AEON Credit, Courts and Singer are primarily involved in the offering of micro-financing services to cater to the wide target market comprising an array of retail customers, ranging from those located in rural and suburban areas, to major cities nationwide.

Profiles of selected major players are briefly illustrated below:

(i) AEON Credit

AEON Credit was established on 6 December 1996. It is a subsidiary of AEON Credit Japan and a member of the AEON Japan Group. AEON Credit Japan is one of the leading consumer credit services companies in Japan and is listed on the Main Board of the Tokyo Stock Exchange. AEON Credit provides easy payment schemes and personal financing schemes and issues credit cards under international brand names of Visa and MasterCard. The Personal Financing Scheme and certain easy payment schemes are based on Islamic principles. Currently, AEON Credit has more than 5,000 merchant outlets nationwide and a database of more than 600,000 customers who have been using its products and services.

In 2005, AEON Credit was granted the licence by BNM to issue credit cards. AEON Credit has a base of more than 85,000 credit cards issued as at 30 September 2007. The Company is based in Kuala Lumpur with branches that operate in most of the major cities nationwide. The company presently has thirteen (13) branches and thirteen (13) AEON-Spots and plans to expand to 60 branches and AEON-Spots nationwide by the FYE 2010.

(ii) Courts Mammoth Berhad

Courts was incorporated on 23 July 1986 as a private limited company under the name of Courts Furnishers (Malaysia) Sdn Bhd. It was listed on the Main Board of the Bursa Securities on 11 October 2000. In 2005, Courts launched a sub-brand called "Courts Metropolitan" with the intention for stores to be sited within high traffic locations. It features a variety of digital electronics and home-theatre system from well known brand names. Courts now has over 40 stores in Indonesia.

Courts is one of Malaysia's leading retailers, offering over 2,000 consumer electronics and furniture items and boasts a network of more than 60 stores in Malaysia. The company also leases 14 stock holding areas nationwide with a total floor area in excess of 400,000 sq ft, through which it stores and distributes its consumer electronics and furniture goods to customers. Courts is a distinctive retailer because it also offers credit service to its customers with 2 different credit services: "Court Options" and "1% Term Charges". In comparison, traditional retailers conduct cash business only or tie-up with external financial institutions and credit companies to provide credit service to their customers. This business model enables Courts to successfully tap into middle and lower income group, who often leverage to purchase household equipment.

(iii) Singer (Malaysia) Sdn Bhd

Established since 1906, Singer is one of the largest retail chains in Malaysia with 125 outlets nationwide, offering a wide range of electrical and furniture products. Singer is a wholly-owned subsidiary of Cosway Corporation Berhad, which is a subsidiary of Berjaya Corporation Berhad. Its principal activities are marketing and selling of consumer durable products on cash, credit, hire purchase and equal payment schemes under the "Singer" trademark and other brands. Its associate, Kosppek Trading Sdn Bhd, is a commission agent for the purchase and sales of consumer products.

The SINGER brand is renowned for its sewing machines worldwide and in Malaysia. Singer has 300 sales agents' shops and over 4,000 agents under its mobile sales team throughout Malaysia. In addition, Singer also sells a wide variety of electrical products ranging from audio visual products to home appliances such as televisions, DVD players, home theatre systems, air conditioners, washing machines and a variety of furniture items including sofa sets, bedroom sets, dining sets, coffee tables and beds. Singer also pioneered the flexible easy payment schemes, whereby qualified purchasers are given options of paying by monthly instalments from three (3) months up to 36 months.

A summary of the principal activities of leading players within the consumer credit services industry in Malaysia is set out below.

No.	Name of Company	Principal Activities
1.	AEON Credit	Provision of easy payment schemes and personal financing schemes and issuance of credit cards under international brand names of Visa and MasterCard. The Personal Financing Scheme and certain easy payment schemes are based on Islamic principles.
2.	Courts	Retailing of electronic and electrical appliances and household furniture and furnishings.
3.	Singer	Marketing and selling of consumer durable products on cash, credit, hire purchase and equal payment schemes under the "Singer" trademark and other brands.

Consumer credit companies offer loans to consumers in a niche segment of the consumer credit services industry. This segment involves borrowers who may have no credit history, often have low income and a high debt-to-income ratio. Several broad product classes exist, such as retail products financing (typically easy payment schemes for furniture, household appliances, jewellery), unsecured cash loans (cash/personal financing), motorcycle financing, insurance financing and credit cards, and companies may participate in a number of them, or specialise in only one.

The easy payment scheme was pioneered by retailers to make the purchase of durable household goods more affordable to middle and lower income groups by staggering the payment over a period of time instead of a single bullet payment. Companies such as Courts and Singer have ventured into the consumer credit services business to expand their core retail businesses. On the other hand, realising the sector potential, new players such as AEON Credit emerged with their core business in providing direct cash financing and indirect financing (such as easy payment schemes) to consumers via tie-ups with merchants.

While AEON Credit, Courts and Singer provide easy payment schemes, all of them offer different packages of credit services. With more than 60 stores nationwide, Courts provides a variety of brand names in consumer electronics and furniture, but only provides one kind of credit service with two (2) options of repayment flexibility of up to 48 months instalments to their customers. As for Singer, it has 125 outlets nationwide and sells a wide variety of products, including audio visual, sewing machines, furniture and home appliances, and provides services such as motorcycle financing and after-sales services, but it only provides one kind of credit service with the option of up to 36 months of instalments.

AEON Credit offers a comprehensive range of consumer credit services ranging from easy payment schemes, cash financing to other types of personal financing and credit cards. AEON Credit allows customers to purchase various kinds of products through its Easy Payment Scheme under tie-ups with more than 5,000 merchant outlets. As for its Personal Financing Scheme, AEON Credit has an attractive array of credit products, such as AEON Cash, insurance financing and travel packages financing. Besides providing Easy Payment Scheme and Personal Financing Scheme, AEON Credit also provides credit cards to its customers and expected to further increase market reach through added services such as speedy cash disbursement through ATM.

The range of products and services offered by the players in the consumer credit services players are as follows:

	Easy Payment Scheme	**Cash/Personal Financing**	**Objective Financing**	**Credit Card**	**Retail Products**
AEON Credit	*	*	*	*	
Courts	*				*
Singer	*				*

10.5.4 Barriers to Entry

The major barriers to entry into the consumer credit services industry are as follows:

(i) Capital/Labour Intensiveness

Consumer credit services business is, as in any other financial services business, capital intensive and requires substantial up-front capital investment. This includes capital outlay to meet regulatory requirements on minimum paid-up capital (if required as licensing condition), setting up of operation headquarters, opening of branches and cost of procuring the necessary information technology system. In addition, consumer credit services companies must ensure that a high level of capital reserves, namely liquidity, is maintained to ensure that daily operations are not interrupted due to inadequate cash flow to finance consumer purchases and repay borrowings. This is one of the reasons the consumer credit services business is largely dominated by banks and finance companies that are licensed deposit-taking institutions or by conglomerates with a large cash flow base while the participation of private businesses is limited to niche markets with a smaller number of branches. Hence, the capital intensive nature of this business poses a natural barrier to entry.

(ii) Industry Knowledge

The consumer credit services industry is highly dynamic. On the demand side, factors such as changes in economic landscape, consumer spending pattern and changes in the spending power of specific segments of the population, such as the more demanding young adult market segment, require constant innovation in products or financing packages offered that would meet consumer preferences. In addition, in consumer credit services business where target customers comprise the general population, factors such as marketing and advertisement also play a key role in assuring business success by reaching out to the masses. In this respect, in-depth knowledge of the market is of paramount importance to identify the right marketing tools to be applied to the target segment. Players with the financial, network and human resource capability are more likely to succeed. These factors in turn serve as a barrier to entry.

(iii) Proven Track Record

Interaction with customers is a crucial element in the consumer credit services business. Companies spend a significant amount of time in direct dealing with customers. In this respect, companies with a good and proven track record in providing high quality customer services have a better understanding of customer service as compared to new players in the industry. This competitive advantage in turn can only be achieved via training and building a competent customer service team that would require substantial capital investment and consistent upgrade in service procedure, which may take years to achieve.

(iv) Licensing and Certification Requirements

Certain consumer credit products such as credit/debit cards are regulated business activities and companies are subject to strict vetting procedure by the authorities before the companies are granted a licence to offer the consumer credit products to the general public.

Licensees would have to adhere to stringent licensing conditions, periodic reporting to the relevant authority, maintenance of accurate and updated transaction records as well as ensuring confidentiality of customers' personal information. Breach of licensing requirements could have severe results, which include suspension or cancellation of licences. In addition, macroeconomic policies set by BNM or the state governments, such as encouraging merger and acquisition activities or curbing excessive competition, would also directly result in limited availability of new licences.

10.5.5 Substitute Products/Services

The consumer credit services industry is faced with the threat of illegal moneylenders, namely those who are unlicensed and are not given exemption from the Ministry of Housing and Local Government under the Moneylenders Act, 1951. Similar to consumer credit services companies, these illegal moneylenders offer personal loans primarily in the form of cash financing to consumers. Illegal moneylenders, however, do not offer attractive features that are packaged with the borrower's interest in mind. Instead, most of these, if not all, charge exorbitant interest rate which could be as high as 25% per month. Unless caught in a dire situation where an individual is strapped for cash, consumers normally approach licensed moneylenders and/or seek financial assistance from financial institutions and other types of consumer credit services companies.

The Government has emphasised the importance of financial education amongst consumers whereby it is stressed that consumers should acquire the knowledge that will enable them to evaluate products and services from competing consumer credit providers and make critical financial decisions that affect an individual's ability to attain desirable assets through credit financing, yet maintain a good credit standing. The consumer credit services industry is set to be the preferred source for consumers to obtain credit services due to the availability of a wide array of products and services, coupled with attractive interest rates and added benefits/privileges offered in a package.

There is no other direct threat of substitute products or services to the consumer credit services industry.

10.6 Outlook, Prospects and Positioning

Statistical and certain other information contained in the following description is based on or derived from data prepared by D&B Malaysia.

Market Growth Factors

The evolution of the consumer credit services industry in Malaysia involves innovation and structural change in the financial sector, as a whole, and has been critical in providing expanded access to credit for the vast majority of consumers, including those of limited means. Without these factors, it would have been almost impossible for lower-income consumers to have the degree of access to credit markets that they now have.

10.6.1 Development of the Consumer Credit Services Industry

Going forward, the growth of the consumer credit services industry depends largely on industry players' ability to diversify its products and innovate to meet the rapidly changing consumer preferences and demands, driven by the rising purchasing power and lifestyle sophistication. In essence, service providers must keep track of consumption trend to identify potential new areas of growth, consistently expand business horizon through cross selling of services offered within the group or develop new point of sales to reach a wider audience and increase consumers' awareness. In addition, the liberalisation of the banking sector would be another growth catalyst to the industry as the entry of players comprising foreign multinationals with vast experience and huge financial resources is likely to drive product innovation and margin neutralisation initiatives in an increasingly competitive environment.

10.6.2 Continued Growth in the Asian Economies

The Malaysian economy is largely driven by export activity, which represents 117.1% of GDP in 2006. In this regard, the continued growth of the global economy, particularly the Asian economies which account for 59.2% of Malaysia's export market in 2006, is the key to the sustainability of domestic economic growth.

Closer to home, member countries of the Association of South East Asian Nations ("ASEAN") are major export markets for Malaysia. In 2006, 25.8% of Malaysian manufactured goods were exported to ASEAN countries, out of which 65.8% were exported to Singapore. In this respect, the economies of the ASEAN 5 (namely Indonesia, Malaysia, Philippines, Singapore and Thailand) remain favourable with a GDP growth of 5.7% in 2006 and an estimated GDP growth of 5.8% in 2007.

The GDP growth of selected Asian countries from years 2004 to 2008 (forecast) is set out below.

	2004	**2005**	**2006**	**2007[(1)]**	**2008[(2)]**
East Asia					
China	10.1	10.4	11.1	11.2	10.5
Hong Kong SAR	8.6	7.5	6.8	5.5	5.0
South Korea	4.7	4.2	5.0	4.3	4.8
Taiwan	6.1	4.0	4.6	4.2	4.3
ASEAN 5					
Indonesia	5.0	5.7	5.5	6.0	6.3
Malaysia	7.2	5.2	5.9	6.0	6.0-6.5
Philippines	6.2	5.0	5.4	5.8	5.8
Singapore	8.8	6.6	7.9	7.0	5.7
Thailand	6.3	4.5	5.0	4.5	4.8

Notes:

(1) Estimate.

(2) Forecast.

(Source: Economic Report 2007/2008, Ministry of Finance, Malaysia)

In addition, the growth in household debt is an increasingly evident phenomenon in Asia. Over the period from 2000 to 2004, the volume of consumer loans across seven (7) major Asia Pacific economies grew at an average annual rate of 9.0%, relative to total loan growth of 5.2% and corporate credit growth of 2.6% *(Source: BNM)*. This further demonstrates the increasing trend in credit consumption, and as a result provides huge market potential for consumer credit services companies to expand their market reach.

10.6.3 Opportunities in Penetrating a Wide Customer Base

The economic growth over the past two decades lifted many households above the poverty line. For instance, poverty rate fell from 8.5% in 1999 to just 5.7% in 2004. These households comprise the greater segment of the population with rapidly rising average household income. The mean household income of the middle 40% and bottom 40% of Malaysia's income group grew by 20.7% and 17.8% respectively in the period of 1999 to 2002. Going forward, the anticipated economic expansion is expected to be sustained and will further benefit this segment of the Malaysian population through higher spending power. In this respect, there is huge opportunity for well-positioned consumer credit companies.

10.6.4 Increasing Private Consumption

Private consumption is expected to increase further by 9.0% in 2007, exceeding the overall GDP growth rate for the ninth consecutive year *(Source: Economic Report 2007/2008, Ministry of Finance, Malaysia)*. Notwithstanding the sustained high consumption growth, Malaysia's nominal private consumption-to-GDP ratio of 46.4% (2005: 47.1%) continues to be one of the lowest in the world. These indicators point to sustained increase in private consumption. Consumers are expected to benefit from higher income following the expected improvement in economy and employment condition, as well as higher primary commodity prices. While interest rates have risen, the ability of households to borrow has not been impaired as rates continue to remain at low levels. Although household debt has been on an increasing trend, the ability of the household sector to service its debt remains sustainable amidst continued growth in household disposable income.

As consumer sentiments remain positive and investor confidence gains momentum, domestic demand in real terms (excluding change in stocks) is projected to remain resilient, with a growth rate of 9.0% and contribution of 7.6 percentage points to overall GDP growth in 2007 (2006: 7.0%; 5.8 percentage points). Stable labour market conditions, a supportive credit environment and high commodity prices would continue to support favourable consumption expenditure. Private investment outlays are also envisaged to provide additional capacities in an environment of strong demand conditions. Given such positive income growth prospects, private consumption expenditure would remain a significant source of stimulus for GDP growth in 2007.

10.6.5 Social Changes Towards Achieving a More Affluent Lifestyle

Greater access to information with the advent of the Internet and the introduction of paid television channels had created a young population base conscious to the more affluent lifestyle of their counterparts in more developed countries. Consumers today tend to be better educated, more affluent, well-travelled, sophisticated and well-informed. Leisure consciousness has also been enhanced with the need to maintain individual wellness that is well-balanced, both physically and emotionally. Their exposure to foreign media and culture has altered their lifestyles and tastes. They value contemporary and lifestyle products, as much as service, quality and designs. Fuelled by an increased demand for lifestyle goods, established medium-to-low-end consumer credit services companies have made their debut entrances within the Asian region.

Malaysia's relatively young working population, with a higher propensity to consume, will further underpin consumer demand. Therefore, consumption growth is expected to be driven mainly by income growth and demographic factors, with credit conditions playing a supportive role. Furthermore, the increasing number of working women is also a factor driving the progression to higher living standards. Contrary to relying on the male member as the sole breadwinner in the traditional family concept, working women now contribute significantly in increasing the average household income. These factors coupled with rapid economic growth over the past two (2) decades and the rise of middle income families with higher disposable income have led to an increasingly sophisticated lifestyle.

10.6.6 Proliferation of Shopping Malls

Currently, there are over 200 shopping malls in Malaysia with a total retail space of more than 7 million square metres. More new shopping centres are expected to open for business, housing over 5,000 retailers. These new shopping centres are projected to be worth a market value of approximately RM9 billion. The proliferation of shopping malls create opportunities for established retail chains such as Jusco, Senheng Electric, Harvey Norman, SenQ, OnKing, HSL Electrical & Electronics and Best Denki to expand their sales and distribution network, giving rise to increased market coverage which could translate into greater opportunities for consumer credit companies such as AEON Credit to benefit from higher sales volume and revenues generated through the availability of consumer credit services.

Positioning

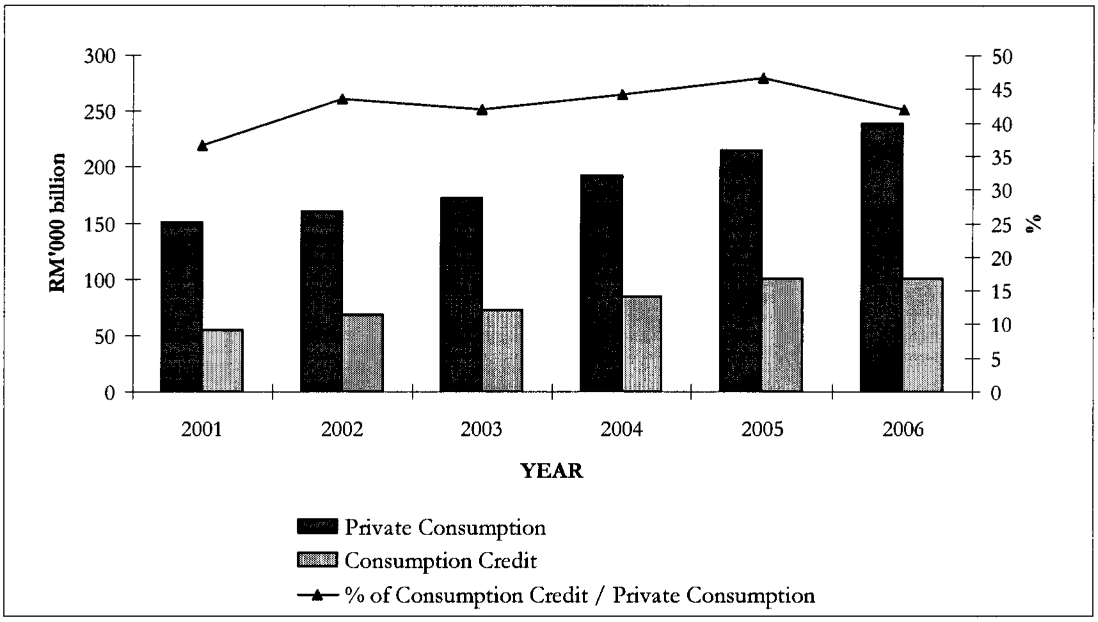
Currently, there is no publicly available industry statistics to substantiate the market share of the players within the consumer credit services industry in Malaysia. Furthermore, information on the market share for the players is also difficult to obtain and there are no statistics pertaining to the sale value of consumer credit services offered by non-financial institutions being complied for general public consumption. Hence, it is difficult to ascertain the market share of AEON Credit.

10.7 Contribution to the Country's Economy

Statistical and certain other information contained in the following description is based on or derived from data prepared by D&B Malaysia.

Post-Asian financial crisis, private consumption has become a major Malaysian economic growth driver partly due to flush liquidity in the system, low interest rate environment and on the supply side, realisation by financial institutions of the need to diversify their income base, which at that time was highly leveraged on corporate sector into consumer banking as part of their risk management tool. The sustained increase in private consumption was in turn largely driven by availability of credit. In 1996, consumption credit was only RM2.6 billion, representing 2.2% of total private consumption. This amount grew rapidly to RM100.3 billion in 2006, or 42.0% of total private consumption.

The increasing prominence of consumption credit in Malaysia from years 2001 to 2006 is set out below.



(Source: BNM's Annual Report 2006)

Private consumption expenditure, in general, is expected to show increasing trends following the rise in aggregate income, albeit with a slight shift in consumption patterns. The rising proportion of household income set aside for the purchase of transport goods has overtaken over that used for purchase of necessity goods such as food and clothing. This changing trend in expenditure during the period of 1993/1994 to 2004/2005 is believed to stem from higher ownership of vehicles as a result of rising incomes and the availability of attractive financing schemes. Private consumption expenditure shall continue to be of significance as a major growth determinant of Malaysia's domestic economic activities with its relatively stable performance and large contribution to the nation's GDP.

The proliferation of shopping malls and more mega sales coupled with easier access to credit has pushed Malaysians towards conspicuous consumption – a direction that has been beneficial to the country's economy so far. Higher disposable income, which arose from firm commodity prices, stronger export earnings, favourable demographic structure of the population, rising consumerism as well as high savings will provide the underlying support to private consumption, which is expected to moderately grow by 9.0% in 2007, as compared to 7.1% in 2006.

10.8 Government Legislations, Incentives and Policies

Statistical and certain other information contained in the following description is based on or derived from data prepared by D&B Malaysia.

There are presently no existing government incentives applicable to the consumer credit services industry, particularly for the non-financial institutions.

10.8.1 Payment Systems Act, 2003

The PSA, which came into force on 1 November 2003, provides for the regulation and supervision of payment systems and payment instruments. The objective of the PSA is to ensure the safety and efficiency of the payment related infrastructure and to safeguard public interest. The PSA empowers BNM to designate a payment system as a "designated payment system" if such system poses systemic risks or the designation is necessary to protect public interest. Any person who intends to operate a payment system is required to submit documents and information and obtain written notification from BNM pursuant to Section 5 of the PSA. The PSA also gives statutory recognition to the finality of payments and netting arrangements of designated payment systems. An issuer of a designated payment instrument is required to obtain prior approval BNM pursuant to Section 25 of the PSA to operate a designated payment instrument. Operators of designated payment systems and issuers of designated payment instruments are required to comply with specific regulatory requirements under the PSA.

A payment system is defined as any system or arrangement for the transfer, clearing or settlement of funds or securities, but excludes:

(i) a payment operated by BNM under the Central Bank of Malaysia Act, 1958;

(ii) a "clearing house" recognised under the Securities Industry Act, 1983*;

(iii) a "clearing house" licensed under the Futures Industry Act, 1993*;

(iv) an "in-house" payment system operated by a person solely for his own administrative purpose that does not transfer, clear or settle funds or securities for third parties;

(v) a system that solely facilitates the initiation of payment instructions; and

(vi) such other systems or arrangements as may be prescribed by BNM.

The following payment instruments are prescribed as designated payment instruments:

(i) charge card that is a payment instrument which indicates a line of credit granted by the issuer to the user and any amount of credit utilised by the user must be settled in full on or before a specified date, without any extended credit;

(ii) credit card that is a payment instrument which a line of credit or financing granted by the issuer to the user and where any amount of the credit utilised by the user has not been settled in full on or before a specified date, the unsettled amount may be subject to interest, profit or other charges;

(iii) electronic money that is any instrument, whether tangible or intangible, that:

(a) stores funds electronically in exchange of funds paid to the issuer; and

(b) is able to be used as a means of making payment to any person other than the issuer; and

(iv) any combination of the payment instruments prescribed above.

10.8.2 Banking And Financial Institutions Act, 1989

The BAFIA, which came into force on 1 October 1989, provides for the licensing and regulation of financial institutions. The three (3) groups of institutions covered under the BAFIA are as follows:

(i) licensed institutions, namely commercial banks, finance companies, merchant banks, discount houses and money brokers;

(ii) scheduled institutions, which include credit and charge card companies, building societies, factoring and leasing companies, and development finance institutions; and

(iii) non-scheduled institutions, which include institutions engaged in the provision of finance other than those named above.

Section 32 of the BAFIA prohibits any licensed institution to engage, whether on its own account or on a commission basis, in wholesale or retail business except in connection with the realisation of security given to or held by it for the purpose of carrying out its licensed activities.

10.8.3 Moneylenders Act, 1951 ("MLA")

The MLA is under the jurisdiction of the Ministry of Housing and Local Government ("MHLG") and licences to operate as moneylenders are issued by the MHLG. One main feature of the MLA is that it caps interest rate on loans granted by moneylenders at 12% per annum for secured loans and 18% per annum for unsecured loans. The MLA also provides discretionary powers for the Minister of MHLG to grant exemptions to companies from complying with the MLA. Companies granted exemptions under the MLA can carry out money lending activities without being subjected to the provisions of the MLA.

The MLA defines moneylenders as persons (companies or individuals) who lend sums of money to borrowers in consideration of larger sums being repaid to them.

A company is exempted from all the provisions of the MLA if:

(i) the company lends a sum of money to:

(a) its related companies, or

(b) its directors, officers or employees as a benefit accorded to such person under his term of employment;

(ii) the company subscribes or purchases debt securities; or

10. INDUSTRY OVERVIEW *(Cont'd)*

(iii) the company is:

(a) a holder of licence under the Securities Industry Act, 1983*;

(b) approved by the SC under the Securities Commission Act, 1993* to carry out activities relating to unit trust schemes;

(c) a scheduled institution under the BAFIA carrying on building credit business, development finance business or factoring business;

(d) a holder of license under the Offshore Banking Act, 1990 or the Offshore Insurance Act, 1990; or

(e) an issuer of a credit card or charge card approved under the PSA; and

(iv) the company is granted discretionary approval by the Minister of MHLG from having to comply with the MLA.

Note:

* *The Securities Industry Act, 1983, Futures Industry Act, 1993 and Part IV of the Securities Commission Act, 1993 have now been consolidated into the CMSA.*

[The rest of this page is left blank]