

12. FINANCIAL INFORMATION

12.1 REPORTING ACCOUNTANT'S REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION, STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF CASH FLOWS



24 June 2021

The Board of Directors
Pappajack Berhad
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Dear Sirs,

PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of the pro forma consolidated statements of financial position of Pappajack Berhad ("Pappajack" or the "Company") and its proposed subsidiaries, namely Pajak Gadai Tetap Sejiwa Sdn. Bhd., Pajak Gadai Pappajack Sdn. Bhd., Pajak Gadai Bertuah Sdn. Bhd., Pajak Gadai PPJack Sdn. Bhd., Pajak Gadai PPJ Sehati Sdn. Bhd., Pajak Gadai PPJ Sdn. Bhd., Pajak Gadai Pappajack Sehati Sdn. Bhd., Pajak Gadai Consistent Reach Sdn. Bhd., Pajak Gadai TSE Sdn. Bhd., Pajak Gadai BT Cleaning Sdn. Bhd., Pajak Gadai TMI Sdn. Bhd., Dhoby Ghaut (Kapar) Sdn. Bhd., Dhoby Ghaut Holdings Sdn. Bhd., Dhoby Ghaut (M) Sdn. Bhd., Mashita Holdings Sdn. Bhd., Consistent Reach Holdings Sdn. Bhd., Pappajack Holdings Berhad, Dhoby Ghaut (Sel) Sdn. Bhd., DGH Sdn. Bhd., Pajak Gadai PPJ Sejiwa Sdn. Bhd., PPJ Sejaya Sdn. Bhd., PPJ Rezeki Sdn. Bhd., PPJ Sinar Sdn. Bhd., PPJ Makmur Sdn. Bhd., PPJ Abadi Sdn. Bhd., PPJ Sukses Sdn. Bhd., PPJ Landas Emas Sdn. Bhd., PPJ Mandiri Sdn. Bhd., PPJ Berkat Sdn. Bhd. and PPJ Maju Sdn. Bhd. (collectively referred to as the "Group") for which the directors of Pappajack are solely responsible.

The pro forma consolidated statements of financial position consist of the pro forma consolidated statements of financial position as at 31 December 2020 together with the accompanying notes thereon, as set out in the accompanying statements, for which we have stamped for the purpose of identification. The applicable criteria on the basis of which the directors of Pappajack have compiled the pro forma consolidated statements of financial position are as described in Note 2 to the pro forma consolidated statements of financial position and in accordance with the requirements of the *Prospectus Guidelines – Equity* issued by the Securities Commission Malaysia ("Prospectus Guidelines") ("Applicable Criteria").

Baker Tilly Monteiro Heng PLT 201906000600 (LLP0019411-LCA) (AF 0117) is a member of the Baker Tilly International network, the members of which are separate and independent legal entities.

12. FINANCIAL INFORMATION (Cont'd)

PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES

Reporting Accountants' Report on the Compilation of the Pro Forma Consolidated Statements of Financial Position as at 31 December 2020 Included in A Prospectus



The pro forma consolidated statements of financial position of the Group has been compiled by the directors of Pappajack, for illustrative purposes only, for inclusion in the prospectus of Pappajack ("Prospectus") in connection with its Initial Public Offering ("IPO") in conjunction with the listing of and quotation for the entire enlarged issued share capital of Pappajack on the ACE Market of Bursa Malaysia Securities Berhad ("Listing"), after making certain assumptions and such adjustments to show the effects on the pro forma consolidated financial position of the Group as at 31 December 2020 adjusted for the Pre-IPO Reorganisation, the Public Issue and the use of proceeds as described in Notes 1.2.1, 1.2.2 and 3.2.2 respectively.

As part of this process, information about the Group's pro forma consolidated statements of financial position has been extracted by the directors of Pappajack from the audited financial statements of Pappajack and its proposed subsidiaries.

The audited financial statements of the proposed subsidiaries for the Financial Year Ended ("FYE") 31 December 2020 were reported by us to their respective members without any modifications.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The directors of Pappajack are responsible for compiling the pro forma consolidated statements of financial position based on the Applicable Criteria.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the By-Laws (on Professional Ethics, Conduct and Practice) issued by the Malaysian Institute of Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies *International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

12. FINANCIAL INFORMATION (Cont'd)

PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES

Reporting Accountants' Report on the Compilation of the Pro Forma Consolidated Statements of Financial Position as at 31 December 2020 Included in A Prospectus



Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, on whether the pro forma consolidated statements of financial position has been compiled, in all material respects, by the directors of Pappajack based on the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE) 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the directors of Pappajack have compiled, in all material respects, the pro forma consolidated statements of financial position based on the Applicable Criteria.

For the purpose of this engagement, we are not responsible for updating or re-issuing any reports or opinions on any historical financial information used in compiling the pro forma consolidated statements of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated statements of financial position.

The purpose of the pro forma consolidated statements of financial position included in the Prospectus is solely to illustrate the impact of significant events or transactions on the unadjusted financial information of the Group as if the events had occurred or the transaction had been undertaken at an earlier date selected for illustrative purposes only. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

A reasonable assurance engagement to report on whether the pro forma consolidated statements of financial position has been compiled, in all material respects, based on the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the directors of Pappajack in the compilation of the pro forma consolidated statements of financial position of the Group provide a reasonable basis for presenting the significant effects directly attributable to the Listing and the acquisition of proposed subsidiaries as described in Notes 1.2 to the pro forma consolidated statements of financial position, and to obtain sufficient appropriate evidence about whether:

- (a) The pro forma consolidated statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma consolidated statements of financial position, based on the audited financial statements of its proposed subsidiaries for the FYE 31 December 2020, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by its proposed subsidiaries in the preparation of its audited financial statements for the FYE 31 December 2020 and the adoption of the new accounting policies as described in Note 2.7 to the pro forma consolidated statements of financial position; and
- (b) Each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position of the Group is appropriate for the purpose of preparing the pro forma consolidated statements of financial position.

12. FINANCIAL INFORMATION (Cont'd)

PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES

Reporting Accountants' Report on the Compilation of the
Pro Forma Consolidated Statements of Financial Position
as at 31 December 2020 Included in A Prospectus



The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma consolidated statements of financial position have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated statements of financial position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our opinion

In our opinion:

- (a) the pro forma consolidated statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma consolidated statements of financial position, based on the audited financial statements of its proposed subsidiaries for the FYE 31 December 2020 and in a manner consistent with both the format of the financial statements and the accounting policies adopted by its proposed subsidiaries in the preparation of its audited financial statements for the FYE 31 December 2020, which had been adopted by Pappajack as its group's accounting policies and the adoption of the new accounting policies as described in Note 2.7 to the pro forma consolidated statements of financial position; and
- (b) each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position of the Group is appropriate for the purpose of preparing the pro forma consolidated statements of financial position.

Other matters

This report has been prepared for inclusion in the Prospectus of Pappajack in connection with the Listing. As such, this report should not be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA) & AF 0117
Chartered Accountants

Paul Tan Hong
No. 03459/11/2021 J
Chartered Accountant

12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****1. INTRODUCTION**

The pro forma consolidated statements of financial position of Pappajack Berhad (“Pappajack” or the “Company”) and its proposed subsidiaries (hereinafter collectively referred to as the “Group”) has been compiled by the directors of Pappajack, for illustrative purposes only, for inclusion in the prospectus of Pappajack in connection with its Initial Public Offering (“IPO”) in conjunction with the listing of and quotation for the entire enlarged issued share capital of Pappajack on the ACE Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing”).

- 1.1 In conjunction with the admission of Pappajack to the Official List and the listing of and quotation for its entire enlarged issued share capital of RM[●] comprising 668,000,000 ordinary shares in the share capital of Pappajack (“Pappajack Share(s) or Share(s)”) on the Listing, Pappajack had undertaken the following transactions:

1.2 Listing scheme**1.2.1 Pre-IPO Reorganisation****Acquisition of Pappajack Holdings Berhad (“Pappajack Holdings”)**

On 9 June 2021, Pappajack entered into a conditional share sale agreement to acquire the entire issued share capital of Pappajack Holdings of RM106.9 million comprising 106,940,233 ordinary shares for a total purchase consideration of approximately RM108.0 million (“Acquisition”). The said total purchase consideration was satisfied entirely by the issuance of 500,999,999 new Shares at an issue price of approximately RM0.22 per Share.

The total purchase consideration of approximately RM108.0 million for the acquisition of Pappajack Holdings was arrived based on a “willing-buyer willing-seller” basis after taking into consideration the adjusted net assets (“NA”) of RM108.0 million as follows:

	RM'000
Audited combined NA of Pappajack Holdings as at 31 December 2020 (after consolidation adjustments)	108,021

Upon the completion of the Acquisition of Pappajack Holdings, the issued share capital of Pappajack increased to approximately RM108.0 million comprising 500,999,999 Shares.

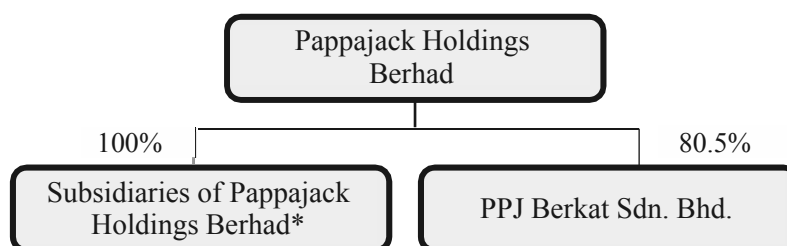
12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

1. (Continued)

1.2 (Continued)

1.2.1 Pre-IPO Reorganisation (Continued)

The Group structure before and after the Pre-IPO Reorganisation is illustrated below:

Before the Pre-IPO Reorganisation

* Subsidiaries of Pappajack Holdings Berhad include Pajak Gadai Tetap Sejiwa Sdn. Bhd., Pajak Gadai Pappajack Sdn. Bhd., Pajak Gadai Bertuah Sdn. Bhd., Pajak Gadai PPJack Sdn. Bhd., Pajak Gadai PPJ Sehati Sdn. Bhd., Pajak Gadai PPJ Sdn. Bhd., Pajak Gadai Pappajack Sehati Sdn. Bhd., Pajak Gadai Consistent Reach Sdn. Bhd., Pajak Gadai TSE Sdn. Bhd., Pajak Gadai BT Cleaning Sdn. Bhd., Pajak Gadai TMI Sdn. Bhd., Dhoby Ghaut (Kapar) Sdn. Bhd., Dhoby Ghaut Holdings Sdn. Bhd., Dhoby Ghaut (M) Sdn. Bhd., Mashita Holdings Sdn. Bhd., Consistent Reach Holdings Sdn. Bhd., Dhoby Ghaut (Sel) Sdn. Bhd., DGH Sdn. Bhd., Pajak Gadai PPJ Sejiwa Sdn. Bhd., PPJ Sejaya Sdn. Bhd., PPJ Rezeki Sdn. Bhd., PPJ Sinar Sdn. Bhd., PPJ Makmur Sdn. Bhd., PPJ Abadi Sdn. Bhd., PPJ Sukses Sdn. Bhd., PPJ Landas Emas Sdn. Bhd., PPJ Mandiri Sdn. Bhd., and PPJ Maju Sdn. Bhd.

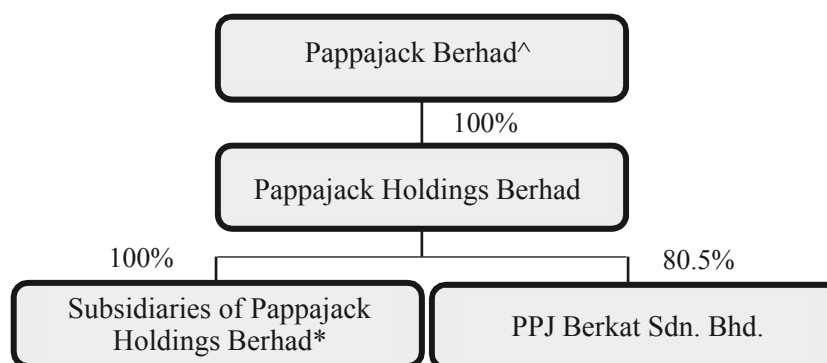
12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

1. (Continued)

1.2 (Continued)

1.2.1 Pre-IPO Reorganisation (Continued)

The Group structure before and after the Pre-IPO Reorganisation is illustrated below (continued):

After the Pre-IPO Reorganisation

^ Pappajack Berhad is the listed company.

1.2.2 Public Issue

The public issue of 167,000,000 new ordinary shares in Pappajack (“Shares”), at the IPO price of RM[●] for each Share, representing 25.0% of the enlarged number of shares of Pappajack, to be allotted in the following manner:

- (i) 33,400,000 new Shares available for application by the Malaysian public;
- (ii) 6,680,000 new Shares available for application other than directors and employees of the Group;
- (iii) 43,420,000 new Shares by way of private placement to selected investors; and
- (iv) 83,500,000 new Shares by way of private placement to identified Bumiputera investors approved by the Ministry of International Trade and Industry Malaysia.

(Collectively hereinafter referred to as “Public Issue”).

1.3 Listing on Bursa Securities

Upon completion of the IPO, Pappajack’s entire enlarged issued share capital of approximately RM[●] million comprising 668,000,000 Shares will be listed on the ACE Market of Bursa Securities.

12. FINANCIAL INFORMATION (Cont'd)

PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES

2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

- 2.1 The pro forma consolidated statements of financial position have been prepared to illustrate that the pro forma consolidated financial position of the Group as at 31 December 2020, adjusted for the Pre-IPO Reorganisation, the Public Issue and the use of proceeds as described in Notes 1.2.1, 1.2.2 and 3.2.2 respectively.
- 2.2 The pro forma consolidated statements of financial position have been prepared based on the audited financial statements for the financial year ended 31 December 2020 (“FYE 2020”) of its proposed subsidiaries.
- 2.4 The audited financial statements of the proposed subsidiaries for the financial period under review were reported by the auditors to their respective members without any modifications.
- 2.5 The pro forma consolidated statements of financial position of the Group have been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Group and does not purport to predict the future financial position and results of the Group.
- 2.6 The pro forma consolidated statements of financial position of the Group have been properly prepared on the basis set out in the accompanying notes to the pro forma consolidated statements of financial position based on the audited financial statements of the proposed subsidiaries for the FYE 2020 which have been prepared in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards.
- 2.7 The pro forma consolidated statements of financial position of the Group have been prepared in a manner consistent with both the format of the audited financial statements and accounting policies adopted by the proposed subsidiaries in the preparation of its audited financial statements for the FYE 2020 and the adoption of the following new accounting policies, which had been adopted by the Group as the group’s accounting policies.

12. FINANCIAL INFORMATION (Cont'd)

PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES

2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

2.7 (Continued)

Merger accounting

The proposed subsidiaries are accounted for using the merger method of accounting.

A business combination involving entities under common control is a business combination in which all the combining entities or proposed subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Proposed subsidiaries acquired which have met the criteria for pooling-of-interests are accounted for using merger accounting principles. Under the merger method of accounting, the results of the proposed subsidiaries are presented as if the business combination had been effected throughout the current and previous financial years. The assets and liabilities consolidated are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the difference between costs of acquisition over the nominal value of share capital of the proposed subsidiaries is taken to reorganisation reserve/(deficit).

Entities under a reorganisation does not result in any change in economic substance. Accordingly, the Group is a continuation of the acquired entity and is accounted for as follows:

- the assets and liabilities of the acquired entity is recognised and measured in the consolidated financial statements at the pre-combination carrying amounts;
- the retained earnings and other equity balances of acquired entity immediately before the business combination are those of the Group; and
- the equity structure, however, reflects the equity structure of the Group and the difference arising from the change in equity structure of the Group will be accounted for in reorganisation reserve/(deficit).

12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP**

3.1 The pro forma consolidated statements of financial position of the Group as set out below, for which the directors of the Group are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statements of financial position of the Group as at 31 December 2020, had the Pre-IPO Reorganisation, the Public Issue and the use of proceeds as described in the Notes 1.2.1, 1.2.2 and 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Audited Statement of Financial Position as at 31 December 2020 RM'000	Pro Forma I After the Pre-IPO Reorganisation RM'000	Pro Forma II After Pro Forma I and the Public Issue RM'000	Pro Forma III After Pro Forma II and the use of proceeds RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	-	9,156	9,156	9,156
Investment property	-	1,347	1,347	1,347
Total non-current assets	-	10,503	10,503	10,503
Current assets				
Inventories	-	873	873	873
Current tax assets	-	24	24	24
Trade and other receivables	-	101,420	101,420	101,420
Cash and bank balances	-	15,658	[•]	[•]
Total current assets	-	117,975	[•]	[•]
TOTAL ASSETS	-	128,478	[•]	[•]
EQUITY AND LIABILITIES				
Equity attributable to owners of the Group				
Share capital	*	108,021	[•]	[•]
Reorganisation deficit	-	(11,518)	(11,518)	(11,518)
Retained earnings	(7)	11,511	11,511	[•]
	(7)	108,014	[•]	[•]
Non-controlling interest	-	776	776	776
TOTAL EQUITY	(7)	108,790	[•]	[•]

12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.1 (Continued)

	Audited	Pro Forma I	Pro Forma II	Pro Forma III
	Statement of		After	After
	Financial	After the	Pro Forma I	Pro Forma II
	Position as at	Pre-IPO	and the Public	and the
	31 December	Reorganisation	Issue	use of
	2020	RM'000	RM'000	proceeds
	RM'000	RM'000	RM'000	RM'000
Non-current liabilities				
Loans and borrowings	-	4,732	4,732	4,732
Deferred tax liabilities	-	48	48	48
Other payables	-	12,000	12,000	12,000
Total non-current liabilities	-	16,780	16,780	16,780
Current liabilities				
Loans and borrowings	-	1,001	1,001	1,001
Current tax liabilities	-	1,151	1,151	1,151
Other payables	7	756	756	756
Total current liabilities	7	2,908	2,908	2,908
TOTAL LIABILITIES	7	19,688	19,688	19,688
TOTAL EQUITY AND LIABILITIES	-	128,478	178,578	175,115
Number of ordinary shares assumed to be in issue ('000)	-	501,000	668,000	668,000

NA [^] (RM'000)	(7)	108,014	[•]	[•]
NA per ordinary share (RM)	-	0.22	[•]	[•]
[^] attributable to owners of the Group				

* Amount is less than RM 1,000.

12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 Notes to the pro forma consolidated statements of financial position are as follows:

3.2.1 The pro forma consolidated statements of financial position of the Group, for which the directors of the Group are solely responsible, have been prepared for illustrative purposes only, to show the effects on the consolidated audited statement of financial position of the Group as at 31 December 2020, had the transactions as described in Note 1.2 and the use of proceeds as described in Note 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

3.2.2 The proceeds from the Public Issue would be utilised in the following manner:

Purpose	RM'000	%	Time frame for utilisation from the date of listing
Not reflected in pro forma consolidated statements of financial position			
Expansion of pawnbroking outlets	[•]	[•]	Within 12 months
Cash capital for existing 20 pawnbroking outlets	[•]	[•]	Within 12 months
Reflected in pro forma consolidated statements of financial position			
Estimated listing expenses	[•]	[•]	Immediate
Gross proceeds	[•]	[•]	

3.2.3 The pro forma consolidated statements of financial position should be read in conjunction with the notes below:

(a) Pro Forma I

Pro Forma I incorporate the effects of the Pre-IPO Reorganisation as described in Note 1.2.1 on the pro forma consolidated statements of financial position of Pappajack as at 31 December 2020.

Acquisition of Pappajack Holdings

The reorganisation deficit arising from the Acquisition of Pappajack Holdings are as below:

	RM'000
Purchase consideration	108,021
Less: Share capital of Pappajack Holdings	(106,940)
Reorganisation deficit	<u>1,081</u>

12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 (Continued)

3.2.3 (Continued)

(a) Pro Forma I (Continued)

The Pre-IPO Reorganisation had the following impact on the pro forma audited statement of financial position of Pappajack as at 31 December 2020:

	Increase/(Decrease)	
	Effects on Total Assets RM'000	Effects on Total Equity/ Liabilities RM'000
Property, plant and equipment	9,156	-
Investment properties	1,347	-
Inventories	873	-
Current tax assets	24	-
Trade and other receivables	101,420	-
Cash and bank balances	15,658	-
Share capital	-	108,021
Reorganisation deficit	-	(11,518)
Retained earnings	-	11,518
Non-controlling interest	-	776
Loans and borrowings		
- non-current	-	4,732
- current	-	1,001
Deferred tax liabilities	-	48
Other payables		
- non-current	-	12,000
- current	-	749
Current tax liabilities	-	1,151
	128,478	128,478

12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 (Continued)

3.2.3 (Continued)

(b) Pro Forma II

Pro Forma II incorporates the cumulative effects of Pro Forma I and the Public Issue as described in Note 1.2.2.

The Public Issue will have the following impact on the pro forma consolidated statements of financial position of the Group as at 31 December 2020:

	Increase/(Decrease)	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Cash and bank balances	[●]	-
Share capital	-	[●]
	<u>[●]</u>	<u>[●]</u>

(c) Pro Forma III

Pro Forma III incorporates the cumulative effects of Pro Forma II and the use of proceeds from the Public Issue of RM[●] million after netting off RM[●] million for estimated listing expenses.

The remaining proceeds expected from the Public Issue of RM[●] million will be utilised in the manner as described in Note 3.2.2.

The proceeds arising from the Public Issue earmarked for the expansion of pawnbroking outlets and cash capital for existing 20 pawnbroking outlets of RM[●] million will be included in the Cash and Bank Balances Account.

As at 31 December 2020, out of the RM[●] million estimated listing expenses, RM[●] million has already been incurred and is charged to Retained Earnings Account.

12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 (Continued)

3.2.3 (Continued)

(c) Pro Forma III (continued)

Out of the remaining estimated listing expenses to be incurred of RM[●] million, RM[●] million will be charged to Retained Earnings Account and RM[●] million will be recognised in Share Capital Account as these are directly attributable expenses relating to the new issuance of shares.

The use of proceeds will have the following impact on the pro forma consolidated statements of financial position of the Group as at 31 December 2020:

	Increase/(Decrease)	
	Effects on	Effects on
	Total Assets	Total Equity/ Liabilities
	RM'000	RM'000
Cash and bank balances	[●]	-
Share capital	-	[●]
Retained earnings	-	[●]
	[●]	[●]
	[●]	[●]

12. FINANCIAL INFORMATION (Cont'd)**PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES****3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 (Continued)

3.2.4 Movements in share capital and reserves are as follows:

	Share capital RM'000	Reorganisation deficit RM'000	Retained earnings RM'000
Consolidated statements of financial position of the Group as at 31 December 2020	*	-	(7)
Arising from the Pre-IPO Reorganisation	108,021	(11,518)	11,518
Per Pro Forma I	108,021	(11,518)	11,511
Arising from the Public Issue	[•]	-	-
Per Pro Forma II	[•]	(11,518)	11,511
Arising from the defrayment of estimated listing expenses in relation to the Listing	[•]	-	[•]
Per Pro Forma III	[•]	(11,518)	[•]

* Amount is less than RM 1,000.

3.2.5 Movements in cash and bank balances are as follows:

	RM'000
Consolidated statements of financial position of the Group as at 31 December 2020	-
Arising from the Pre-IPO Reorganisation	15,658
Per Pro Forma I	15,658
Arising from the Public Issue	[•]
Per Pro Forma II	[•]
Arising from the defrayment of estimated listing expenses in relation to the Listing	[•]
Per Pro Forma III	[•]

12. FINANCIAL INFORMATION (Cont'd)

PAPPAJACK BERHAD AND ITS PROPOSED SUBSIDIARIES

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted on behalf of the Board of Directors of Pappajack Berhad in accordance with a resolution dated 24 June 2021.

.....
Lim Boon Hua
Director

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Director

12. FINANCIAL INFORMATION (Cont'd)**12.2 HISTORICAL FINANCIAL INFORMATION**

Our historical financial information throughout the FYE 2018 to FYE 2020 has been prepared in accordance with the MFRSs and IFRSs. MFRS 16 is early adopted with the initial application date of 1 January 2018 to enhance comparability of financial statements for the financial years under review, the details of which are set out in Note 2.2 of the Accountants' Report.

We completed the Acquisition on [●]. All companies acquired by Pappajack pursuant to the Acquisition are assumed to be under common control with our Group since their incorporation and prior to the Acquisition. As such, the historical financial information of our Group for the FYE 2018 to FYE 2020 is presented based on the audited combined financial statements of the Group.

12.2.1 Combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our combined statements of profit or loss and other comprehensive income for the FYE 2018 to FYE 2020 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 12.3 and 13 of this Prospectus respectively.

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Revenue	10,010	19,207	30,769
Cost of sales	(6,052)	(13,263)	(16,951)
GP	3,958	5,944	13,818
Other income	46	62	366
Administrative expenses	(1,492)	(2,316)	(2,328)
Operating profit	2,512	3,690	11,856
Finance costs	(196)	(373)	(744)
PBT	2,316	3,317	11,112
Taxation	(745)	(1,355)	(2,907)
PAT/ Total comprehensive income for the financial year	1,571	1,962	8,205
Profit/(Loss) attributable to:			
- Owners of the Group	1,571	1,962	8,209
- Non-controlling interests	-	-	(4)
	1,571	1,962	8,205
EBITDA ⁽¹⁾	3,074	4,780	13,381
GP margin (%) ⁽²⁾	39.54	30.95	44.91
PBT margin (%) ⁽³⁾	23.14	17.27	36.11
PAT margin (%) ⁽³⁾	15.69	10.22	26.67
Basic EPS (sen) ⁽⁴⁾	0.31	0.39	1.64
Diluted EPS (sen) ⁽⁵⁾	0.24	0.29	1.23

12. FINANCIAL INFORMATION (Cont'd)

Notes:

- (1) *The interest income, finance costs and depreciation for the FYE 2018 to FYE 2020 are as follows:-*

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
<i>Interest income</i>	-	-	(9)
<i>Finance costs</i>	196	373	744
<i>Depreciation</i>	562	1,090	1,534

- (2) *Calculated based on GP over revenue.*
- (3) *Calculated based on PBT/ PAT over revenue.*
- (4) *Calculated based on PAT attributable to the owners for the financial year over our number of Shares in issue of 501,000,000 Shares before our IPO.*
- (5) *Calculated based on PAT attributable to the owners for the financial year over our enlarged number of Shares in issue of 668,000,000 Shares after our IPO.*

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12. FINANCIAL INFORMATION (Cont'd)**12.2.2 Combined statements of financial position**

The following table sets out the combined statements of financial position of our Group as at 31 December 2018 to 31 December 2020 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 12.3 and 13 of this Prospectus respectively.

	Audited		
	31 December		
	2018	2019	2020
	RM'000	RM'000	RM'000
Non-current assets			
Property, plant and equipment	4,429	7,257	9,156
Investment property	1,387	1,367	1,347
Deferred tax assets	8	25	-
Total non-current assets	5,824	8,649	10,503
Current assets			
Inventories	1,924	1,252	873
Current tax assets	1	23	24
Trade receivables	26,616	50,195	98,779
Other receivables	20,288	3,549	2,641
Cash and bank balances	5,910	11,643	15,658
Total current assets	54,739	66,662	117,975
Total assets	60,563	75,311	128,478
Equity			
Invested equity	53,400	61,200	106,940
Reorganisation deficit	-	-	(10,437)
Retained earnings	1,526	3,488	11,511
	54,926	64,688	108,014
Non-controlling interests	-	-	776
Total equity	54,926	64,688	108,790
Non-current liabilities			
Loans and borrowings	3,621	8,801	4,732
Deferred tax liabilities	1	11	48
Other payables	-	-	12,000
Total non-current liabilities	3,622	8,812	16,780
Current liabilities			
Loans and borrowings	512	795	1,001
Current tax liabilities	746	521	1,151
Other payables	170	495	756
Contract liabilities	587	-	-
Total current liabilities	2,015	1,811	2,908
Total liabilities	5,637	10,623	19,688
Total equity and liabilities	60,563	75,311	128,478

12. FINANCIAL INFORMATION (Cont'd)**12.2.3 Combined statements of cash flows**

The following table sets out the combined statements of cash flows of our Group for the FYE 2018 to FYE 2020 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 12.3 and 13 of this Prospectus respectively.

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Cash flows from operating activities			
PBT	2,316	3,317	11,112
Adjustments for:			
Depreciation of property, plant and equipment	542	1,070	1,514
Gain on disposal of property, plant and equipment	-	*	*
Trade receivable written off	87	117	147
Depreciation of investment property	20	20	20
Finance costs	196	373	744
Finance income	-	-	(9)
Operating profit before working capital changes	3,161	4,897	13,528
Changes in working capital:			
Inventories	(1,526)	671	379
Trade and other receivables	(8,711)	(24,582)	(49,121)
Other payables	(80)	325	185
Contract liability	587	(587)	-
Net cash generated from operations	(6,569)	(19,276)	(35,029)
Income tax paid	(236)	(1,610)	(2,223)
Income tax refund	-	1	6
Finance income	-	-	9
Net cash used in operating activities	(6,805)	(20,885)	(37,237)
Cash flows from investing activities			
Purchase of property, plant and equipment	(587)	(1,921)	(2,289)
Proceeds from disposal of property, plant and equipment	-	4	1
Net cash used in investing activities	(587)	(1,917)	(2,288)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	28,000	7,800	36,083
Proceeds from issuance of redeemable preference shares	-	4,125	4,190
Redemption of redeemable preference shares	-	-	(8,315)
Interests paid	(196)	(373)	(744)
Repayment of term loans	(36)	(39)	(8)
Net changes of lease liabilities	(269)	(604)	(855)
Net change in advance from/ (to) shareholders	(17,713)	17,626	14,155
Net change in amount owing to minority interest	-	-	(780)
Dividend paid	-	-	(186)
Net cash from financing activities	9,786	28,535	43,540
Net increase in cash and cash equivalents	2,394	5,733	4,015
Cash and cash equivalents at the beginning of the financial years	3,516	5,910	11,643
Cash and cash equivalents at the end of the financial years	5,910	11,643	15,658

Note:

* Amount less than RM1,000.

12. FINANCIAL INFORMATION (Cont'd)

12.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and segmental analysis of our combined financial statements for the FYE 2018 to FYE 2020 should be read with the Accountants' Report included in Section 13 of this Prospectus.

12.3.1 Overview of our operations**(i) Principal activities**

Our Group is principally involved in the provision of pawnbroking services through a network of 25 pawnbroking outlets in Malaysia as at the LPD. Each pawnbroking outlet is held and operated by a subsidiary of our Group and each subsidiary is individually licensed by the KPKT.

Pawnbroking services are provided by pawnbrokers who principally offer pledges-backed short-term financing or pawn loan with a short repayment period to pawners (i.e. persons with pledges for pawn to pawnbrokers) who are the customers of pawnbroking services. A pawn loan is commonly defined as a micro-loan provided against the security of pledges or deposits of personal properties such as gold jewellery and other high value personal items such as luxury watches. Pawn tickets are receipts that are issued to pawners as proofs of pawn transactions. The repayment duration for the pawn loans is up to 6 months and upon expiration of pawn tickets, pawners who opt to redeem the pledges later than the validity period of the pawn tickets are required to re-pawn the pledges to obtain new pawn tickets with new validity period.

Please refer to Section 6 of this Prospectus for our Group's detailed business overview and Section 4 of this Prospectus for the risk factors that may affect our revenue and financial performance.

(ii) Revenue

We operate pawnbroking outlets which are licensed by the KPKT and as such, we adhere to the regulations under the Pawnbrokers Act 1972 and guidelines issued by the KPKT, amongst others, prescribed interest rate, administrative fees chargeable to customers and all administrative procedures set by the KPKT including procedures to sell the unredeemed or bid pledges and obligations to customers.

Our Group's revenue is derived from the following:

- (a)** Revenue from pawnbroking comprises the monthly interest charges earned from the pawn loan and one-off administrative fees from our pawnbroking services as below:
- (i) Monthly interest charges earned from the pawn loan is recognised on time-proportion basis using the effective interest method. A maximum monthly interest charge of 2.00% on the pawn amount which is payable upon redemption of pledges; and
 - (ii) One-off administrative fees for our pawnbroking services are recognised at a point in time when the performance obligation is satisfied upon the transfer of the services to the customer. We may charge a maximum one-off administrative fee of RM0.50 for the issuance of pawn tickets for any pawn loans amounting to more than RM10.00.

12. FINANCIAL INFORMATION (Cont'd)

Pawnbroking is the key driver of our Group's revenue and the growth of revenue from pawnbroking depends on our ability to maintain substantial cash capital for provision of pawn loans to our customers, the market demand of pawn loans and the prevailing competition in the industry.

Revenue generated from pawnbroking contributed 45.76%, 37.97% and 45.12% of our group's total revenue for the FYE 2018, FYE 2019 and FYE 2020 respectively.

- (a) Revenue from sale of unredeemed or bid pledges such as gold jewellery and luxury watches is derived when our Group takes possession of the unredeemed pledges from our customers as the cash recovery process for the unredeemed pawn ticket upon the expiry of the pawn ticket. We proceed to sell the unredeemed pledge if our customers do not redeem the pledge and have no intention to redeem the pledge upon the expiration of the pawn ticket.

Gold jewellery was the main contributor for the sale of unredeemed or bid pledges, which comprise 100.00%, 100.00% and 99.99% for the FYE 2018, FYE 2019 and FYE 2020 respectively. For pawns not exceeding RM200.00, we will sell the unredeemed pledges (i.e. gold) directly to scrap collectors. For pawns exceeding RM200.00, the unredeemed pledges (i.e. gold or luxury watches) are sold via public auctions conducted by licensed auctioneers (i.e. auctioneers recognised by the KPKT) which we generally participate once a month. We will bid for and if successful, we will purchase the bid pledges (i.e. gold and luxury watches) during the public auctions and thereafter sell the gold to scrap collectors and the luxury watches to watch purchasers through an online luxury watch trading platform. Prices of gold and luxury watches are determined according to their respective prevailing market value.

Revenue from the sale of unredeemed or bid pledges is recognised at a point in time when the performance obligation is satisfied upon the transfer of the goods to the buyer, which generally coincides with the delivery and acceptance of the pledge sold. Revenue is not recognised when to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from sales of unredeemed or bid pledges represented approximately 54.24%, 62.03% and 54.88% of our Group's total revenue for the FYE 2018, FYE 2019 and FYE 2020 respectively.

The fluctuation in revenue from sale of unredeemed or bid pledges depends on the total amount of the unredeemed pledges from customers in the cash recovery process for the unredeemed pawn tickets and the prevailing market prices of the unredeemed pledges.

(iii) Cost of sales

Our Group's cost of sales comprises of the followings:

- (a) Costs for pawnbroking comprises:
- (i) Pawnbroking outlet operating costs which consist of depreciation, license fees, insurance, utilities and rental of pawnbroking outlets. Pawnbroking outlets' operating costs represent the second largest component in our total cost of sales with approximately 12.94%, 11.88% and 14.21% of our total cost of sales for the FYE 2018, FYE 2019 and FYE 2020 respectively.

12. FINANCIAL INFORMATION *(Cont'd)*

- (ii) Staff costs which consist of salaries, employees' provident funds contributions, commissions, bonuses and other staff related benefits. Staff costs represent approximately 10.57%, 8.75% and 11.78% of our Group's total cost of sales for the FYE 2018, FYE 2019 and FYE 2020 respectively.

Costs for unredeemed or bid pledges comprises:

These are costs of unredeemed or bid gold pledges sold to scrap collectors and costs of unredeemed or bid luxury watches to watch purchasers through an online luxury watch trading platform. Costs of unredeemed or bid pledges depends on the total amounts of the unredeemed pledges and the prevailing market prices of the unredeemed pledges sold via public auction.

Costs of unredeemed or bid pledges accounted for approximately 74.62%, 78.42% and 73.28% of our Group's total cost of sales for the FYE 2018, FYE 2019 and FYE 2020 respectively.

Auction fees incurred from the public auctions conducted by licensed auctioneers (i.e. auctioneers recognised by the KPKT). The auction fee rates ranging from 1% to 2% on the amount of auctioned pledges during the FYE 2018 to FYE 2020. The auction fees represent approximately 1.87%, 0.95% and 0.73% of our Group's total cost of sales for the FYE 2018, FYE 2019 and FYE 2020 respectively.

(iv) Other income

Other income comprises mainly government wage subsidies received, rental income and interest received from licensed banks.

(v) Administrative expenses

Administrative expenses comprise mainly overheads incurred to maintain our operations such as remunerations for administrative staff and directors, legal and professional fees, repair and maintenance costs, bad debts written off, travelling and accommodation expenses and depreciation of property, plant and equipment.

(vi) Finance costs

Finance costs comprise interest for redeemable preference shares, interest for advances from shareholders and lease interests pursuant to the adoption of MFRS 16 on Leases for leasing of the pawnbroking outlets and term loan interests for financing the purchase of an investment property.

(vii) Changes to accounting policies and estimates

Save as disclosed in Section 13 of this Prospectus, there were no other changes to our accounting policies and estimates during the FYE 2018 to FYE 2020.

(viii) Recent developments

Save for the Acquisitions, there were no significant events subsequent to our Group's audited combined financial statements for the FYE 2020.

(ix) Exceptional and extraordinary items and audit qualifications

There were no exceptional or extraordinary items during the FYE 2018 to FYE 2020. In addition, our audited combined financial statements for the FYE 2018 to FYE 2020 were not subject to any audit qualifications.

12. FINANCIAL INFORMATION (Cont'd)

(x) Significant Factors Affecting Our Business

Section 4 of this Prospectus detailed a number of risk factors relating to our business and industry in which we operate in. Some of these risk factors have an impact on our Group's revenue and financial performance. The main factors which affect revenue and profits include but are not limited to the following:

(a) Exposure to Unlawful and Suspicious Pawn Transactions and Transactions of Stolen Gold or Luxury Watches

We are subject to the risk arising from the use of our pawnbroking services for money laundering or terrorists financing purposes. As at the LPD, there is no incidence of breaches against the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001. However, there can be no assurance that the measures taken to prevent the use of our pawnbroking services for money laundering or terrorists financing purposes can fully eliminate unlawful and suspicious pawn transactions in our pawnbroking outlets. If we are convicted, we may be subject to imprisonments and/or fines.

Further, there is no assurance that the measures taken for prevention of unlawful dealings can fully eliminate transactions of stolen gold or luxury watches in our pawnbroking outlets. In the event of transactions of stolen gold or luxury watches, we face the risk of losing the pledges when confiscated by the police and as a result may not be able to recover the losses incurred. This may subsequently adversely affect our profitability. In the past 3 FYE 2018 to FYE 2020 and up to the LPD, there were 3 occurrences whereby our customers' pledges were confiscated by the police. The total loss incurred from the confiscation was RM44,714 and was not recovered. Any loss arising from confiscation of pledges will be written off 12 months from the date of pawn ticket issuance.

(b) Changes in Regulatory Requirements for Pawnbroking Business

Our business operations are governed by the KPKT, and are governed by the regulations under the Pawnbrokers Act 1972. Under the Pawnbrokers Act 1972, a pawnbroking licence is mandatory for opening and operating a pawnbroking outlet. Such a licence is valid for a period of 2 years and is subject to renewal provided that the pawnbroking outlet adheres to the regulations enforced by the KPKT. Risks relating to changes in regulatory requirements which may materially affect our operations are set out in Section 4.1.2 of this Prospectus.

If there are any changes in legislation, regulations and/or policies governing the pawnbroking industry leading to further and/or stricter requirements imposed by the KPKT which we are required to comply with, our business operations may be restricted or we may incur higher operating costs. In the event that the increased operating costs cannot be passed on to our customers, we will have to absorb any cost increments which may adversely impact our business operations and profitability.

12. FINANCIAL INFORMATION *(Cont'd)*

(c) **We Require Cash Capital to Grow Our Business Operations**

We require cash capital for the provision of pawn loans to our customers. To finance our cash capital requirements, we have been relying on internally generated funds as well as capital injections from shareholders and shareholders' advances. Moving forward, we will also raise funds from the capital market and/or bank borrowings to finance our cash capital requirements.

As at the LPD, we have not failed to obtain cash capital for our business operations to provide pawn loans to our customers. However, there is no assurance that we will be able to continue to obtain and maintain our cash capital for our operations. In the event that we are unable to obtain and maintain our cash capital, our business operations may be affected as we may be required to reduce our pawn loan offerings to customers. This may affect our ability to generate more revenue in terms of interest charges and/or sale of unredeemed pledges, which may adversely impact our financial performance.

(d) **Dependency on Skilled, Reliable and Trustworthy Outlet Personnel for the Provision of Pawnbroking Services**

We believe that one of the key factors for the continuous growth and success of our business is the extensive knowledge and experience of our skilled outlet personnel in providing pawnbroking services to our customers, particularly their skills in pledge assessment and price valuation. Further, our ability to provide quality customer service is also largely dependent on the performance of our outlet personnel. In the event our outlet personnel are not able to execute their responsibilities in a satisfactory manner to our customers or if our Group is unable to retain and maintain our team of capable outlet personnel or replace any possible loss of such skilled personnel, our customer satisfaction levels may decline causing our business operations to be adversely affected.

Further, due to the nature of our business which involves cash and valuable pledges, we are dependent on reliable and trustworthy outlet personnel for our operations. Failure to employ reliable and trustworthy outlet personnel may expose us to the risks of fraud, mismanagement or mishandling of cash and pledges, and we may be subject to loss and damages, which may adversely damage our reputation and profitability. In the past 3 FYE 2018 to FYE 2020 and up to the LPD, we did not experience any occurrences of fraud, mismanagement or mishandling of cash and pledges in any of our pawnbroking outlets.

(e) **Exposure to the Gold Price Volatility**

We primarily receive gold as pledges for the provision of pawn loans to our customers. In the past 3 FYE 2018 to FYE 2020, the pledge value of gold against our total pledge value was 100.00%, 99.55% and 99.42%, respectively. As such, the pledge value is influenced by gold price volatility as we offer pawn loans to our customers against the pledges of gold based on a loan margin which factors in the prevailing market value of the pledge.

12. FINANCIAL INFORMATION (Cont'd)

Further, we also sell our unredeemed or bid pledges (i.e. gold) to scrap collectors at an agreed amount which is guided by the prevailing market value of gold. Gold is a commodity and hence, its price fluctuates. Gold prices are affected by various factors, amongst others, interest rates, fluctuation in foreign currencies, global or regional economic or political circumstances, market speculations as well as market supply and demand of gold. Risks relating to gold price volatility which may materially affect our operations is set out in Section 4.1.5 of this Prospectus.

In the event that gold prices experience sudden and/or prolonged downward movements, the value of our pledges for our pawnbroking business may be reduced. If our customers do not redeem their pledges and the pledge values decline, we may sell the unredeemed or bid pledges at lower prices, which may adversely and materially affect our profitability and financial performance.

(f) Dependency on Our Ability to Implement Our Business Strategy

We plan to grow our pawnbroking business by further expanding our network of pawnbroking outlets. In order to successfully implement our business strategy, we are required to identify suitable locations for our new pawnbroking outlets. In addition, we need to secure substantial capital to fund the working capital for the new establishments as well as incur renovation costs for our new pawnbroking outlets. Risks relating to dependency on our ability to implement our business strategy which may materially affect our operations are set out in Section 4.1.7 of this Prospectus.

There is no assurance that we will be successful in executing our business strategy, nor can we assure that we will be able to anticipate all business, operational and industry risks arising from our business strategy.

(g) Exposure to Electronic Security Breaches and/or Disruptions in Our Pawn System

Our pawn system stores a large database of confidential information of our customers. Storing data electronically may expose our database to external security threats such as malware attacks, hacking, espionage and cyber intrusion, as well as internal electronic security breaches which include unauthorised access to restricted information by employees. Risks relating to exposure to security breaches and/or disruptions in our pawn system which may materially affect our operations are set out in Section 4.1.8 of this Prospectus.

Any prolonged breakdown or failure of our pawn system to operate due to factors such as computer viruses or damage to the pawn system may lead to disruptions to our operations which will adversely impact our customers' satisfaction and our reputation in the pawnbroking industry. Further, there is no assurance that our operations can be sufficiently supported by our disaster recovery systems and back-up systems in the event of a prolonged breakdown of our pawn system. As at the LPD, our Group has not experienced any security breaches and/or disruptions in our pawn system.

(h) Exposure to Physical Security Risks

We offer pawn loans to our customers against the pledges of gold and luxury watches. As the pledges are valuable items, we are exposed to physical security risks of burglary, theft, fraud or misappropriation of cash or pledges by third parties or by our employees. Risks relating to exposure to physical security risks which may materially affect our operations are set out in Section 4.1.9 of this Prospectus.

12. FINANCIAL INFORMATION (Cont'd)

There is no assurance that we will not be exposed to such security risks. If such events were to occur, we may be subject to loss and damages, which may adversely impact our financial performance and damage our reputation and business operations. In the past 3 FYE 2018 to FYE 2020 and up to the LPD, we have not incurred any losses due to such physical security risks.

(i) Adequacy Insurance Coverage to Cover All Losses or Liabilities That May Arise in Connection With Our Operations

We maintain insurance coverage at levels that are customary in the pawnbroking industry to protect against various losses and liabilities in our business operations. As at the LPD, our Group has taken up a jeweller's block insurance policy for our pawnbroking outlets from third party insurance providers. Please refer to Section 6.14 of this Prospectus for further information on the insurance taken up by our Group.

As these insurance coverages are subject to exclusions and limitations of liability both in amount and with respect to the insured events, we are exposed to the risk that the insurance coverage could be inadequate to cover all losses, damages or liabilities, which we may incur in the course of our business operations. Moreover, we would be subject to the risk that, in the future, we may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates. If we were to incur a significant liability for which we were not fully insured, it could materially impact our business operations and financial performance.

(j) Exposure to Non-renewal of Existing Tenancies and/or Increase in the Rental Rates of Our Pawnbroking Outlets

Our pawnbroking outlets are strategically located at convenient locations in close proximity to residential housings or commercial areas, and with easy access to public transportation. As at the LPD, all the premises of our pawnbroking outlets are tenanted from independent third parties and our Promoters. While there have not been any incidents of failure in renewing our existing tenancies, there is no assurance that we are able to renew each of our existing tenancies upon expiry or on favourable terms and conditions moving forward.

In the event any of our existing tenancies are unable to be renewed upon expiry or on favourable terms and conditions, we may be required to relocate the affected pawnbroking outlets, which may incur additional costs for relocation and/or increased rental costs. Further, we may lose existing and potential customers if the new locations are less convenient and accessible as compared to the existing locations, which may adversely affect our financial performance.

In the FYE 2020, our rental costs amounted to RM1.22 million, or 7.15% of our total cost of sales. Any significant increase in rental costs in the future will have an adverse and material impact on our financial position as well as our business operations.

(k) Disruptions Caused by Sudden Crisis Such As the COVID-19 Pandemic

Our business operations is subject to disruptions caused by sudden crises such as disease outbreaks, natural disasters or political crisis in Malaysia. Risks relating to sudden disruptions which may materially affect our operations are set out in Section 4.1.12 of this Prospectus.

12. FINANCIAL INFORMATION (Cont'd)

Please refer to Section 6.10 of this Prospectus for further information on the interruptions to our business operations caused by the COVID-19 pandemic.

Any such future crisis affecting a significantly large population may result in similar interruptions to our Group's business operations, which could adversely affect our business, results of operations and financial performance.

(I) Competition Risk Due to the Highly Competitive and Fragmented Nature of the Industry

We operate in a highly fragmented and competitive industry, and we expect to face competition from existing industry players who are chain pawnbroking outlets and other industry players who operate individual pawnbroking outlets, as well as potential new entrants. According to the IMR Report, as at 24 June 2021, there are 716 companies with pawnbroking licences issued by the KPKT in Malaysia. Further, we also face competition from moneylenders who are also involved in the provision of short-term micro-loans for the same target customers who may be financially underserved.

To remain competitive in the pawnbroking industry, we have to offer attractive loan margins, provide quality customer service and quick service time. If we fail to remain competitive in the industry or adapt to market conditions, our financial performance will be adversely impacted and it may also affect the sustainability of our business.

12.3.2 Review of results of operations**(i) Revenue****Analysis of Revenue by Business Segment**

Revenue by Business Segment	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Pawnbroking #	4,581	45.76	7,292	37.97	13,884	45.12
Sale of unredeemed or bid pledges	5,429	54.24	11,915	62.03	16,885	54.88
Total revenue	10,010	100.00	19,207	100.00	30,769	100.00

Note:

Pawnbroking comprises predominantly interest charges and one-off administrative fees.

Analysis of Revenue by Geographical Location

Revenue by Geographical Location	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Central ⁽¹⁾	9,479	94.70	16,711	87.00	25,595	83.19
Northern ⁽²⁾	531	5.30	2,412	12.56	3,573	11.61
Southern ⁽³⁾	-	-	84	0.44	1,601	5.20
Total revenue	10,010	100.00	19,207	100.00	30,769	100.00

Notes:

- (1) Central comprises of Selangor and Kuala Lumpur.
(2) Northern comprises of Penang and Perak.
(3) Southern comprises of Negeri Sembilan and Johor.

12. FINANCIAL INFORMATION (Cont'd)

	31 December		
	2018	2019	2020
	Number	Number	Number
Number of Pawnbroking Outlets			
Central	7	13	15
Northern	1	3	7
Southern	-	1	3
Total number of pawnbroking outlets	8	17	25

Our Group has set up 1 new pawnbroking outlet at the central region and no new outlet were set up for northern and southern regions during the FYE 2018.

The classifications of our Group's revenue by geographical market are based on the locations of the business operations of our Group.

The central region contributed approximately 94.70%, 87.00% and 83.19% of our Group's total revenue for the FYE 2018, FYE 2019 and FYE 2020 respectively.

Financial Commentaries on Revenue**(a) Comparison between FYE 2019 and FYE 2018****By business segment**

Our Group's revenue increased by approximately RM9.20 million or 91.91% from RM10.01 million in the FYE 2018 to RM19.21 million in the FYE 2019. The increase was mainly due to the increase in revenue from pawnbroking from RM4.58 million in the FYE 2018 to RM7.29 million in the FYE 2019 as well as the increase in revenue from unredeemed or bid pledges by customers from RM5.43 million in the FYE 2018 as compared to RM11.92 million in the FYE 2019.

Revenue from our pawnbroking increased by approximately RM2.71 million or 59.17% from RM4.58 million in the FYE 2018 to RM7.29 million in the FYE 2019. The increase was mainly due to an increase in total pawn values by approximately RM43.99 million or 77.60% from RM56.69 million in the FYE 2018 to RM100.68 million in the FYE 2019. The increase in total pawn values was mainly due to the additional 9 new pawnbroking outlets set up in the FYE 2019 which had contributed to the increase in total revenue by approximately RM1.24 million or 6.45% of the total revenue in the FYE 2019. The increase in total pawn values was also contributed by the cash capital injections which enabled us to offer more pawn loans to our customers.

Revenue from the sale of unredeemed or bid pledges increased by approximately RM6.49 million or 119.52% from the FYE 2018 was mainly due to the increase in the total amount of the unredeemed pledges from customers in the cash recovery process for the unredeemed pawn tickets as well as the increase in gold price from USD1,279.00 per ounce (equivalent to approximately USD41.12 per gram) at the end of December 2018 to USD1,514.75 per ounce (equivalent to approximately USD48.70 per gram) at the end of December 2019, an increase of approximately 18.43%.

12. FINANCIAL INFORMATION (Cont'd)

By geographical location

During the FYE 2019, we experienced revenue growth in the central region by approximately RM7.23 million or 76.27% from RM9.48 million in the FYE 2018 to RM16.71 million in the FYE 2019. The increase was attributable to the increase in revenue from pawnbroking from RM4.17 million in the FYE 2018 to RM6.41 million in the FYE 2019 as well as the growth in revenue from sale of unredeemed or bid pledges from RM5.31 million in the FYE 2018 as compared to RM10.30 million in the FYE 2019 in the central region.

Revenue from our pawnbroking for central region increased by approximately RM2.24 million or 53.72% from RM4.17 million in the FYE 2018 to RM6.41 million in the FYE 2019. The increase was mainly due to an increase in total pawn values by approximately RM35.60 million or 70.40% from RM50.57 million in the FYE 2018 to RM86.17 million in the FYE 2019. The increase in total pawn values was mainly due to the additional 6 new pawnbroking outlets set up in the FYE 2019 which had contributed to the increase in total revenue by approximately RM0.94 million and the improved revenue from the existing outlets of RM7.95 million. The increase in total pawn values was also contributed by the cash capital injections which enabled us to offer more pawn loans to our customers.

The increase in revenue for the central region was also contributed by the increase in revenue from the sale of unredeemed or bid pledges from RM5.31 million in the FYE 2018 to RM10.30 million in the FYE 2019. The increase was mainly due to the increase in total amount of the unredeemed pledges for the cash recovery process the unredeemed pawn tickets as well as the increase in gold price from USD1,279.00 per ounce (equivalent to approximately USD41.12 per gram) at the end of December 2018 to USD1,514.75 per ounce (equivalent to approximately USD48.70 per gram) at the end of December 2019.

Revenue from the northern region increased by approximately RM1.88 million or 354.72% from RM0.53 million in the FYE 2018 to RM2.41 million in the FYE 2019. This was mainly contributed by 2 new pawnbroking outlets set up in January and September 2019 of RM0.22 million and the increased revenue from the existing outlets of RM2.19 million.

With the additional 1 new pawnbroking outlet in the southern region in September 2019, this region began to record revenue in FYE 2019 of approximately RM0.08 million.

(b) Comparison between FYE 2020 and FYE 2019**By business segment**

Our Group's revenue grew by approximately RM11.56 million or 60.18% from RM19.21 million in the FYE 2019 to RM30.77 million in the FYE 2020. The increase was due to the increase in revenue from pawnbroking from RM7.29 million in FYE 2019 to RM13.88 million in FYE 2020 as well as the growth in revenue from sales of unredeemed or bid pledges from RM11.92 million in FYE 2019 to RM16.89 million in FYE 2020.

12. FINANCIAL INFORMATION (Cont'd)

Revenue from our pawnbroking improved by approximately RM6.59 million or 90.40% from RM7.29 million in the FYE 2019 to RM13.88 million in the FYE 2020. The increase was mainly due to an increase in total pawn values by approximately RM84.31 million or 83.74% from approximately RM100.68 million in the FYE 2019 to approximately RM184.99 million in the FYE 2020. The increase in total pawn values for FYE 2020 was mainly due to the additional 8 new pawnbroking outlets set up in the FYE 2020 and the improved revenue from our existing pawnbroking outlets. Another contributing factor to the increase was the capital injections during the FYE 2020 as cash capital which enabled us to offer more pawn loans to our customers.

Revenue from the sale of unredeemed or bid pledges also increased by approximately RM4.97 million or 41.69% from RM11.92 million in the FYE 2019 to RM16.89 million in the FYE 2020, mainly due to an increase in the total amount of the unredeemed pledges from customers in the cash recovery process for the unredeemed pawn tickets and an increase in the gold price from USD1,514.75 per ounce (equivalent to approximately USD48.70 per gram) at the end of December 2019 to USD1,887.60 per ounce (equivalent to approximately USD60.69 per gram) at the end of December 2020, an increase of approximately 24.62%.

By geographical location

In FYE 2020, we experienced a revenue growth in the central region by approximately RM8.89 million or 53.20% from RM16.71 million in the FYE 2019 to RM25.60 million in the FYE 2020. The increase was mainly due to growth in revenue from pawnbroking from RM6.41 million in the FYE 2019 to RM10.59 million in the FYE 2020 as well as the increase in revenue from unredeemed or bid pledges by customers from RM10.30 million in the FYE 2019 as compared to RM15.01 million in the FYE 2020 in the central region.

Revenue from our pawnbroking for our central region increased by approximately RM4.18 million or 65.21% from RM6.41 million in the FYE 2019 to RM10.59 million in the FYE 2020. The increase was mainly due to an increase in total pawn values by approximately RM54.34 million or 63.06% from approximately RM86.17 million in the FYE 2019 to approximately RM140.51 million in the FYE 2020. The increase in total pawn values for FYE 2020 was mainly due to the opening of 2 new pawnbroking outlets in the FYE 2020 and the improved total pawn values from the existing pawnbroking outlets. The increase in total pawn values was also contributed by the cash capital injections which enabled us to offer more pawn loans to our customers.

The revenue from the sale of unredeemed or bid pledges for our central region increased by approximately RM4.71 million or 45.73% from RM10.30 million in the FYE 2019 to RM15.01 million in the FYE 2020 for the central region, mainly due to an increase in the total amount of the unredeemed pledges from customers in the cash recovery process for the unredeemed pawn tickets and an increase in the gold price from USD1,514.75 per ounce (equivalent to approximately USD48.70 per gram) at the end of December 2019 to USD1,887.60 (equivalent to approximately USD60.69 per gram) per ounce at the end of December 2020.

12. FINANCIAL INFORMATION (Cont'd)

Revenue from the northern region increased by approximately RM1.16 million or 48.13% from RM2.41 million in the FYE 2019 to RM3.57 million in the FYE 2020. This was mainly contributed by the revenue from additional 4 new pawnbroking outlets set up in February, August and October 2020 of RM0.26 million and the improved revenue from the pawnbroking outlets of RM0.90 million.

Revenue from the southern region increased by approximately RM1.51 million or 1,677.78% from RM0.09 million in the FYE 2019 to RM1.60 million in the FYE 2020. The increase was mainly contributed by the additional 2 pawnbroking outlets set up in February and August 2020 of approximately RM0.32 million and the improved revenue from the new pawnbroking outlets opened in the FYE 2019 of approximately RM1.28 million.

(ii) Cost of Sales**Analysis of Cost of Sales by Business Segment**

Cost of Sales by Business Segment	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
<u>Pawnbroking</u>						
Pawnbroking outlets operating costs #	783	12.94	1,575	11.88	2,409	14.21
Staff costs	640	10.57	1,161	8.75	1,996	11.78
Sub-total	1,423	23.51	2,736	20.63	4,405	25.99
<u>Sale of unredeemed or bid pledges</u>						
Costs of unredeemed or bid pledges	4,516	74.62	10,401	78.42	12,422	73.28
Auction fees	113	1.87	126	0.95	124	0.73
Sub-total	4,629	76.49	10,527	79.37	12,546	74.01
Total cost of sales	6,052	100.00	13,263	100.00	16,951	100.00

Note:

Consist of depreciation, license fees, insurance, utilities and rental of pawnbroking outlets.

Analysis of Cost of Sales by Geographical Location

Cost of Sales by Business Segment	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Central ⁽¹⁾	5,695	94.10	11,282	85.07	14,158	83.52
Northern ⁽²⁾	357	5.90	1,877	14.15	2,129	12.56
Southern ⁽³⁾	-	-	104	0.78	664	3.92
Total cost of sales	6,052	100.00	13,263	100.00	16,951	100.00

Notes:

- (1) Central comprises of Selangor and Kuala Lumpur.
(2) Northern comprises of Penang and Perak.
(3) Southern comprises of Negeri Sembilan and Johor.

12. FINANCIAL INFORMATION (Cont'd)

Financial Commentaries on Cost of Sales**(a) Comparison between FYE 2019 and FYE 2018****By business segment**

The pawnbroking operating costs of our Group increased by approximately RM0.80 million or 102.56% from RM0.78 million in the FYE 2018 to RM1.58 million in the FYE 2019. The increase was mainly attributable to expenses incurred pursuant to additional 9 new pawnbroking outlets in the FYE 2019.

Our Group's costs of unredeemed or bid pledges increased by approximately RM5.90 million or 127.43% from RM4.63 million in the FYE 2018 to RM10.53 million in the FYE 2019. The increase was mainly due to the increase in total amount of the unredeemed pledges for the cash recovery process the unredeemed pawn tickets. The increase was in tandem with the growth in revenue from the sale of unredeemed or bid pledges.

The fluctuation in auction fees for FYE 2019 is not in tandem with the fluctuations in the sale of unredeemed or bid pledges mainly due to that fact that our Group was able to negotiate for more favourable auction fee rates during the FYE 2019 with the average auction fee rate of approximately 1.23% in FYE 2019 as compared with approximately 1.89% in FYE 2018.

By geographical location

The increase in cost of sales of our Group by region was mainly attributable to the expenses incurred for additional 6, 2 and 1 new pawnbroking outlets in the central, northern and southern regions during the FYE 2019 respectively.

The increase in the costs of sales by regions was also contributed by the increase in the costs for unredeemed or bid pledges, in which the growth in costs for unredeemed or bid pledges are in tandem with the growth in revenue for unredeemed or bid pledges.

(b) Comparison between FYE 2020 and FYE 2019**By business segment**

The pawnbroking operating costs of our Group increased by approximately RM0.83 million or 52.53% from RM1.58 million in the FYE 2019 to RM2.41 million in the FYE 2020. These increases were mainly attributable to the expenses incurred for additional 8 new pawnbroking outlets in the FYE 2020.

Our Group's costs of unredeemed or bid pledges increased by approximately RM2.01 million or 19.09% from RM10.53 million in the FYE 2019 to RM12.54 million in the FYE 2020. The increase was mainly contributed by an increase in the total values of the unredeemed pledges from customers in the cash recovery process for the unredeemed pawn tickets in the FYE 2020. The increase was in tandem with the growth in revenue from the sale of unredeemed or bid pledges.

The decrease in auction fees for FYE 2020 as compared with FYE 2019 was attributable to our Group being able to secure more favourable auction fee rates during the FYE 2020 with the average auction fee rate of approximately 1.05% in FYE 2020 as compared with approximately 1.23% in FYE 2019.

12. FINANCIAL INFORMATION (Cont'd)**By geographical location**

The increase in cost of sales of our Group by region was mainly attributable to the expenses incurred for additional 2, 4 and 2 new pawnbroking outlets in the central, northern and southern regions during the FYE 2020 respectively.

The increase in the costs of sales by regions was also contributed by the increase in the costs for unredeemed or bid pledges, in which the growth in costs for unredeemed or bid pledges are in tandem with the growth in revenue for unredeemed or bid pledges.

(iii) GP and GP Margin**Analysis of GP and GP Margin by Business Segments**

GP Margin by Business Segments	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	GP RM'000	GP Margin %	GP RM'000	GP Margin %	GP RM'000	GP Margin %
Pawnbroking	3,158	68.94	4,556	62.48	9,479	68.27
Sale of unredeemed or bid pledges	800	14.74	1,388	11.65	4,339	25.70
Total GP/ Overall GP margin	3,958	39.54	5,944	30.95	13,818	44.91

Our Group's GP by business segments were mainly contributed by pawnbroking business during the financial years under review.

Analysis of GP and GP Margin by Geographical Location

GP Margin by Geographical Location	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	GP RM'000	GP Margin %	GP RM'000	GP Margin %	GP RM'000	GP Margin %
Central ⁽¹⁾	3,784	39.92	5,429	32.49	11,437	44.68
Northern ⁽²⁾	174	32.77	535	22.18	1,444	40.41
Southern ⁽³⁾	-	-	(20) ⁽⁴⁾	(23.81)	937	58.53
Total GP/ Overall GP margin	3,958	39.54	5,944	30.95	13,818	44.91

Notes:

- (1) Central comprises of Selangor and Kuala Lumpur.
- (2) Northern comprises of Penang and Perak.
- (3) Southern comprises of Negeri Sembilan and Johor.
- (4) Gross loss due to operating costs incurred by Pappajack Holdings, which had commenced its pawnbroking operation in September 2019.

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12. FINANCIAL INFORMATION (Cont'd)

Financial Commentaries on GP and GP margin**(a) Comparison between FYE 2019 and FYE 2018****By business segment**

Our Group's GP for our pawnbroking business increased by approximately RM1.40 million or 44.30% from RM3.16 million in the FYE 2018 to RM4.56 million in the FYE 2019. The increase in our pawnbroking business GP was mainly due to the increase in revenue from pawnbroking by approximately 59.17%. Our Group's GP margin decrease from 68.94% in the FYE 2018 to 62.48% in the FYE 2019 mainly attributable to the initial operating costs incurred for the additional nine (9) new pawnbroking outlets in the FYE 2019 and the gestation period taken for new pawnbroking outlets to generate revenue.

Our Group's GP for the sale of our unredeemed or bid pledges increased by approximately RM0.59 million or 73.75% from RM0.80 million in the FYE 2018 to RM1.39 million in the FYE 2019. The increase in GP was mainly due to increase in revenue from sales of unredeemed or bid pledges by approximately 119.52%. The GP margin of sale of our unredeemed or bid pledges decreased from 14.74% in FYE 2018 to 11.65% in FYE 2019, mainly due to differences in unredeemable pawn loan margin offered as well as fluctuations in gold prices at the point of pledged against the point of the cash recovery process.

By geographical location

Our Group's GP for the central region improved by approximately RM1.65 million or 43.65% from RM3.78 million in the FYE 2018 to RM5.43 million in the FYE 2019. The increased in GP was mainly due to the increase in revenue for the central region by approximately 76.27%. The decrease in GP margin from 39.92% in FYE 2018 to 32.49% in FYE 2019 was mainly attributable to the initial operating costs incurred for additional 6 new pawnbroking outlets in the central region during the FYE 2019 and the gestation period taken for new pawnbroking outlets to generate revenue.

Our northern region's GP improved by approximately RM0.37 million or 217.65% from RM0.17 million in the FYE 2018 to RM0.54 million in the FYE 2019. This was due to increase in revenue from the northern region by approximately 354.72% in the FYE 2019 as compared with the FYE 2018. Despite the increase in our revenue in FYE 2019, the GP margin of our northern region decreased from 32.77% in the FYE 2018 to 22.18% in the FYE 2019. This was mainly due to the initial operating costs incurred for additional 2 new pawnbroking outlets in the northern region in the FYE 2019 and the gestation period taken for new pawnbroking outlets to generate revenue.

The southern region recorded a gross loss in the FYE 2019 of RM0.02 million as our Group expanded into this region during the FYE 2019 by setting up a new pawnbroking outlet in September 2019. Hence, there was initial operating costs incurred for this new pawnbroking outlet and gestation period taken for this new pawnbroking outlet to generate revenue.

12. FINANCIAL INFORMATION (Cont'd)

(b) Comparison between FYE 2020 and FYE 2019**By business segment**

Our Group's GP for pawnbroking increased by approximately RM4.92 million or 107.89% from RM4.56 million in the FYE 2019 to RM9.48 million in the FYE 2020. The increase in GP was mainly due to the increase in our revenue from pawnbroking by approximately 90.40%. Our Group's GP margin improved from 62.48% in the FYE 2019 to 68.27% in the FYE 2020. This was mainly due to the further increase in our Group's revenue from our existing and new pawnbroking outlets as compared to our pawnbroking operating costs which are fixed in nature.

Our Group's GP for sale of unredeemed or bid pledges increased by approximately RM2.95 million or 212.23% from RM1.39 million in the FYE 2019 to RM4.34 million in the FYE 2020. The increase in GP for sale of unredeemed or bid pledges was mainly due to the increase in revenue from the sales of unredeemed or bid pledges by approximately 41.69%. The GP margin of sale of unredeemed or bid pledges improved from 11.65% in FYE 2019 to 25.70% in FYE 2020 mainly due to the increase in gold price from USD1,514.75 per ounce (equivalent to approximately USD48.70 per gram) at the end of December 2019 to USD1,887.60 per ounce (equivalent to approximately USD60.69 per gram) at the end of December 2020.

By geographical location

Our central region's GP improved by approximately RM6.01 million or 110.66% from RM5.43 million in the FYE 2019 to RM11.44 million in the FYE 2020. This was due to the increased in revenue from central region by approximately 53.16% in the FYE 2020 as compared with the FYE 2019. Our Group's GP margin for central region improved from 32.49% in the FYE 2019 to 44.68% in the FYE 2020. This was mainly due to the further increase in our Group's revenue from our existing and new pawnbroking outlets as compared to our pawnbroking operating costs which are stable.

Our northern region's GP improved by approximately RM0.90 million or 166.67% from RM0.54 million in the FYE 2019 to RM1.44 million in the FYE 2020. This was due to the increase in revenue from northern region by approximately 48.13% in the FYE 2020 as compared with the FYE 2019. Our Group's GP margin for northern region improved from 22.18% in the FYE 2019 to 40.41% in the FYE 2020. This was mainly attributed to the growth in revenue for northern region as a result of the wider reach of customers by the existing pawnbroking outlets and also the additional 4 pawnbroking outlets set up in the FYE 2020 as compared to our pawnbroking operating costs which are stable.

The GP of our southern region improved by approximately RM0.96 million or 4,800.00% from gross loss of RM0.02 million in the FYE 2019 to gross profit of RM0.94 million in the FYE 2020. This was mainly attributed to the growth in revenue for southern region as a result of the wider reach of customers by the existing pawnbroking outlets and also the additional 2 pawnbroking outlets set up in the FYE 2020 as compared to our pawnbroking operating costs which are stable. Thus, the GP margin of our Group in the southern region improved from a gross loss margin of 23.81% in FYE 2019 to GP margin of 58.53% in FYE 2020.

12. FINANCIAL INFORMATION (Cont'd)**(iv) Other Income**

The breakdown of our other income for the FYE 2018 to FYE 2020 is as follows:

Other Income	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Government wage subsidy	-	-	-	-	250	68.31
Rental income	46	100.00	61	98.39	99	27.05
Interest income	-	-	-	-	9	2.46
Others #	-	-	1	1.61	8	2.18
Total	46	100.00	62	100.00	366	100.00

Note:

Others comprise mainly insurance refunds and rebates from licensed banks.

Financial Commentaries on Other Income**(a) Comparison between FYE 2019 and FYE 2018**

Our Group's other income increased by approximately RM0.01 million or 20.00% from RM0.05 million in FYE 2018 to RM0.06 million in FYE 2019. This was mainly due to an increase in rental received from an investment property and sub-letting of office spaces to a third party.

(b) Comparison between FYE 2020 and FYE 2019

Our Group's other income increased by approximately RM0.31 million or 516.67% from RM0.06 million in FYE 2019 to RM0.37 million in FYE 2020. This was mainly due to the wage subsidy received from the Government of Malaysia of RM0.25 million. The wage subsidy was a temporary financial assistance programme introduced to assist small and medium enterprises as a result of COVID-19 pandemic ("Wage Subsidy").

(v) Administrative Expenses

The breakdown of our administrative expenses for the FYE 2018 to FYE 2020 is as follows:

Administrative Expenses	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Staff costs ⁽¹⁾	228	15.28	307	13.26	739	31.74
Legal and professional fees	441	29.56	1,263	54.53	684	9.38
Repair and maintenance	104	6.97	198	8.55	364	15.64
Receivables written off	87	5.83	117	5.05	147	6.31
Travelling and accommodation expenses ⁽²⁾	17	1.14	66	2.85	110	4.73
Depreciation ⁽³⁾	134	8.98	122	5.27	65	2.79
Directors' remuneration	401	26.88	17	0.73	2	0.08
Rental expenses	1	0.07	2	0.09	22	0.95
Others ⁽⁴⁾	79	5.29	224	9.67	195	8.38
Total	1,492	100.00	2,316	100.00	2,328	100.00

12. FINANCIAL INFORMATION (Cont'd)

Notes:

- (1) Staff costs comprise of salaries, employees' provident funds contributions, commissions, bonuses, staff refreshments, and other staff related benefits
- (2) Travelling and accommodation expenses comprises accommodation, petrol, tolls and parking fees.
- (3) Depreciation comprises of depreciation charges incurred by non-operating entities. Upon the commencement of pawnbroking operations, the related depreciation of that entity will be recognised as cost of sales.
- (4) Others comprises mainly printing, stationery and postages, security charges, advertising expenses and insurances.

Financial Commentaries on Administrative Expenses**(a) Comparison between FYE 2019 and FYE 2018**

For FYE 2019, administrative expenses increased by approximately RM0.83 million or 55.70% from RM1.49 million in the FYE 2018 to RM2.32 million in the FYE 2019. The increase was mainly contributed by an increase in legal and professional fees by approximately RM0.82 million or 186.36% due mainly to professional fees incurred in relation to identifying and opening of new pawnbroking outlets.

The increase in the abovementioned administrative expenses was offset by the decrease in directors' remuneration by approximately RM0.38 million or 95.00% due to the special directors' fee of RM0.36 million incurred in the FYE 2018.

(b) Comparison between FYE 2020 and FYE 2019

The marginal increase in administrative expenses of approximately RM0.01 million or 0.43% to RM2.33 million in the FYE 2020 as compared with the FYE 2019 was mainly attributable to the increase in the staff costs by approximately RM0.43 million or 138.71% in the FYE 2020 as compared with the FYE 2019. This was a result of the staff recruitment in line with the business expansion of our Group. Our workforce increased from 51 employees as at 31 December 2019 to 74 employees as at 31 December 2020.

The said increase in the abovementioned administrative expenses was offset by the decrease in legal and professional fees by approximately RM0.58 million or 46.03%. The legal and professional fees incurred for the FYE 2020 comprise mainly the professional fees incurred for the Listing.

(vi) Finance Costs

The breakdown of our finance costs for the FYE 2018 to FYE 2020 is as follows:

Finance Costs	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Redeemable preference share interest	-	-	-	-	364	48.92
Lease liabilities	126	64.29	271	72.65	275	36.96
Term loan	41	20.92	38	10.19	29	3.90
Advances from shareholders	29	14.79	64	17.16	76	10.22
Total	196	100.00	373	100.00	744	100.00

12. FINANCIAL INFORMATION (Cont'd)

The proceeds from the issuance of redeemable preference shares were used to finance our Group's cash capital purposes, which bore interest at the rates ranging from 6.0% to 7.0% per annum. The redeemable preference shares were fully redeemed in the FYE 2020.

Interest on lease liabilities for the leasing of pawnbroking outlets for FYE 2018 to FYE 2020 are recognised pursuant to MRFS 16 Leases for leasing of the pawnbroking outlets.

Term loan facility was used to finance the purchase of our Group's investment property, which bore interest at the rate of bank's base lending rate minus 2.20% per annum. The base lending rates incurred by our Group ranges from 5.47% to 6.97% for the FYE 2018 to FYE 2020.

Advances from shareholders were used to finance our Group's pawnbroking cash capital purposes, which bore interests at the rates ranging from 4% to 7% per annum during the FYE 2018 to FYE 2020.

Financial Commentaries on Finance Costs**(a) Comparison between FYE 2019 and FYE 2018**

Our finance costs increased by approximately RM0.17 million or 185.00% from RM0.20 million in FYE 2018 to RM0.37 million in FYE 2019. The increase was due to increase in interest for lease liabilities incurred for leasing of pawnbroking outlets of RM0.14 million (107.69%) as well as interests on advances from shareholders of RM0.03 million (100.00%).

(b) Comparison between FYE 2020 and FYE 2019

Our finance costs increased by approximately RM0.38 million or 102.70% from RM0.37 million in FYE 2019 to RM0.75 million in FYE 2020 mainly due to the increase in redeemable preference share interest of RM0.36 million.

(vii) PBT and PBT Margin

	Audited		
	FYE 2018	FYE 2019	FYE 2020
PBT (RM'000)	2,316	3,317	11,112
PBT margin (%)	23.14	17.27	36.11

Financial Commentaries on PBT and PBT Margin**(a) Comparison between FYE 2019 and FYE 2018**

Our Group's PBT increased by approximately RM1.00 million or 43.10% from RM2.32 million in the FYE 2018 to RM3.32 million in the FYE 2019. This was mainly due to growth of GP by 50.25% for the FYE 2019 as compared with the FYE 2018. Despite increased in PBT, our Group recorded decrease in PBT margin from 23.14% in FYE 2018 to 17.27% in the FYE 2019. This was mainly due to the expenses incurred for the additional 9 new pawnbroking outlets set up in the FYE 2019 as well as the professional fees incurred for identifying and opening of new pawnbroking outlets.

12. FINANCIAL INFORMATION (Cont'd)**(b) Comparison between FYE 2020 and FYE 2019**

Our Group's PBT increased by approximately RM7.79 million or 234.64% from RM3.32 million in the FYE 2019 to RM11.11 million in the FYE 2020. This was due to growth in GP by 132.66% for the FYE 2020 as compared with the FYE 2019 resulting in an increase in PBT margin from 17.27% in FYE 2019 to 36.11% in the FYE 2020. The increase in PBT margin was mainly due to the further increase in our Group's revenue from our existing and new pawnbroking outlets as compared to our pawnbroking operating costs which are stable as well as the marginal increase in the administrative expenses of RM0.01 million or 0.43% from the FYE 2019 to FYE 2020.

(viii) Taxation

	Audited		
	FYE 2018	FYE 2019	FYE 2020
Taxation (RM'000)	745	1,355	2,907
Effective tax rate (%)	32.17	40.85	26.16
Statutory tax rate (%)	24.00	24.00	24.00

Financial Commentaries on Taxation**(a) Comparison between FYE 2019 and FYE 2018**

Our Group's tax expenses increased by approximately RM0.61 million or 81.33% to RM1.36 million in the FYE 2019 due to the increase in profits earned from the provision for pawnbroking services.

The effective tax rate for FYE 2019 was higher at 40.85% as compared to 32.17% in the FYE 2018 mainly due to no deferred tax assets being provided in respect of the unutilised losses and unabsorbed capital allowances of our loss-making subsidiaries during the FYE 2019.

(b) Comparison between FYE 2020 and FYE 2019

Our Group's tax expenses increased by approximately RM1.55 million or 113.97% to RM2.91 million in the FYE 2020 due to the increase in profits earned from the provision for pawnbroking services.

The effective tax rate for FYE 2020 was at 26.16% as compared to the statutory tax rate of 24.00% due to utilisation of the unutilised losses and unabsorbed capital allowances in which no deferred tax assets were provided in the prior financial years.

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12. FINANCIAL INFORMATION (Cont'd)**12.3.3 Review of financial position**

The following table sets out the summary of the assets and liabilities for the FYE 2018 to FYE 2020 which have been extracted from the Accountants' Report set out in Section 13 of this Prospectus and should be read with:

(i) Assets

	Audited		
	31 December		
	2018	2019	2020
	RM'000	RM'000	RM'000
Non-current assets			
Property, plant and equipment	4,429	7,257	9,156
Investment property	1,387	1,367	1,347
Deferred tax assets	8	25	-
Total non-current assets	5,824	8,649	10,503
Current assets			
Inventories	1,924	1,252	873
Current tax assets	1	23	24
Trade receivables	26,616	50,195	98,779
Other receivables	20,288	3,549	2,641
Cash and bank balances	5,910	11,643	15,658
Total current assets	54,739	66,662	117,975
TOTAL ASSETS	60,563	75,311	128,478

(a) Comparison between FYE 2019 and FYE 2018***Total non-current assets***

Our Group's total non-current assets increased by approximately RM2.83 million or 48.63%, mainly due to the renovation costs and the purchase of equipment amounted to RM1.92 million for the additional 9 new pawnbroking outlets set up in the FYE 2019 as well as the recognition of the additional rights-of-use assets of RM1.98 million in FYE 2019 pursuant to the adoption of MFRS 16 Leases for leasing of the pawnbroking outlets. This increase was offset by the depreciation expenses of RM1.07 million incurred in the FYE 2019.

Total current assets

Our Group's total current assets increased by approximately RM11.92 million or 21.78% in the FYE 2019 mainly as a result of the following:

- (aa) a decrease in inventory by approximately RM0.67 million or 34.90% in FYE 2019 as compared with the FYE 2018, which was attributable to our Group adopting the strategy of expediting the cash recovery process in order to have sufficient cash capital for our pawnbroking operations;
- (bb) an increase in trade receivables by approximately RM23.58 million or 88.58% in FYE 2019 as compared with the FYE 2018, which was due to the trade receivables from the additional 9 new pawnbroking outlets set up in the FYE 2019 of RM15.18 million and also the increase in trade receivables from our existing pawnbroking outlets by approximately RM8.40 million or 31.56% from RM26.62 million in the FYE 2018 to RM35.02 million in the FYE 2019 due to the growth in our customer base from our existing pawnbroking outlets, resulting in the growth of our total pawn loans offered to our customers; and

12. FINANCIAL INFORMATION (Cont'd)

- (cc) cash and bank balances increased by approximately RM5.73 million or 96.95% in FYE 2019 as a result of the cash capital injections in the FYE 2019, which have yet to be deployed for new pawn loans.

The increase in our Group's total current assets was partially offset by the decrease in other receivables of RM16.74 million in the FYE 2019 mainly due to the repayments of amounts owing from shareholders of RM17.63 million.

(b) Comparison between FYE 2020 and FYE 2019***Total non-current assets***

Our Group's total non-current assets increased by approximately RM1.85 million or 21.39% mainly due to the renovation costs and the purchase of equipment amounted to RM2.29 million for the additional 8 new pawnbroking outlets set up in the FYE 2020 as well as the recognition of the additional rights-of-use assets of RM1.40 million in FYE 2020 pursuant to the adoption of MFRS 16 Leases for leasing of the pawnbroking outlets. This increase was offset by the depreciation expenses of RM1.51 million incurred in the FYE 2020.

Total current assets

Our Group's total current assets increased by approximately RM51.32 million or 76.99% in the FYE 2020 mainly due to:

- (aa) a decrease in inventory by approximately RM0.38 million or 30.40% in FYE 2020 as compared with the FYE 2019, which was attributable to our Group's continuous efforts to expedite the cash recovery process for our Group's cash capital requirements;
- (bb) an increase in trade receivables by approximately RM48.58 million or 96.77% in the FYE 2020 as a result of the trade receivables for the additional 8 new pawnbroking outlets in the FYE 2020 of RM13.58 million and the increase in trade receivables for our existing pawnbroking outlets by approximately RM34.92 or 69.56% from RM50.20 million in the FYE 2019 to RM85.12 million in the FYE 2020 as a result of the growth in our customer base for our existing pawnbroking outlets, resulted in the growth of our total pawn loans offered to our customers; and
- (cc) an increase in cash and bank balances by approximately RM4.02 million or 34.54% in the FYE 2020 as a result of the advances from shareholders of RM12.00 million to our Group in the last quarter of the FYE 2020 (advanced made in 3 equal tranches of RM4.00 million per month) which have yet to be fully deployed for new pawn loans.

The increase in our Group's total current assets was partially offset by the decrease in other receivables of approximately RM0.91 million or 25.63% in the FYE 2020 mainly due to:

- (aa) a decrease in repayments of amounts owing from shareholders of RM2.08 million;
- (bb) an increase in advances to a non-controlling interest of a subsidiary of RM0.78 million;

12. FINANCIAL INFORMATION (Cont'd)

- (cc) an increase in deposits and prepayments of RM0.16 million; and
 (dd) an increase in advances to staffs of RM0.23 million.

(ii) Liabilities

	Audited		
	31 December		
	2018	2019	2020
	RM'000	RM'000	RM'000
Non-current liabilities			
Loans and borrowings	3,621	8,801	4,732
Deferred tax liabilities	1	11	48
Other payables	-	-	12,000
Total non-current liabilities	3,622	8,812	16,780
Current liabilities			
Loans and borrowings	512	795	1,001
Current tax liabilities	746	521	1,151
Other payables	170	495	756
Contract liabilities	587	-	-
Total current liabilities	2,015	1,811	2,908
TOTAL LIABILITIES	5,637	10,623	19,688

(a) Comparison between FYE 2019 and FYE 2018***Total non-current liabilities***

Our Group's total non-current liabilities increased by approximately RM5.19 million or 143.37% in the FYE 2019 mainly due to:

- (aa) issuance of redeemable preference shares amounting to RM4.12 million during the FYE 2019 to finance our Group's pawnbroking operations (refers to Note 13(c) of the Accountants' Report in Section 13 of this Prospectus for the salient terms for the redeemable preference shares); and
 (bb) recognition of additional non-current lease liabilities of RM1.11 million pursuant to the adoption of MFRS 16 Leases for leasing of the pawnbroking outlets.

Total current liabilities

Our Group's total current liabilities decreased by approximately RM0.21 million or 10.40% due to the decrease contract liabilities of RM0.59 million as well as the decrease in current tax liabilities by RM0.23 million in the FYE 2019 mainly due to higher tax instalments paid during the FYE 2019 based on the estimated tax liabilities for the FYE 2019.

This decrease was partially offset by an increase in lease liabilities of RM0.28 million due to the additional 9 new pawnbroking outlets set up in the FYE 2019 as well as the increase in other payables of RM0.33 million due to increase in accrued staff costs for the month of December 2019 and audit fees for the FYE 2019.

12. FINANCIAL INFORMATION (Cont'd)**(b) Comparison between FYE 2020 and FYE 2019****Total non-current liabilities**

Our Group's total non-current liabilities increased by approximately RM7.97 million or 90.47% in the FYE 2020 mainly due to advances from shareholders of RM12.00 million in the fourth quarter of 2020 which are unsecured, bearing interest at the rate of 4.00% per annum, and will be repaid over 4 equal quarterly instalments commencing from 30 September 2022. The said increase was partially offset by the full redemption of redeemable preference shares via the proceeds from issuance of new ordinary shares during the FYE 2020.

Total current liabilities

Our Group's total current liabilities increased by approximately RM1.10 million or 60.77% in the FYE 2020 mainly due to the increase in tax payable of RM0.63 million as a result of the increase in tax payable arising from the additional 8 new pawnbroking outlets set up during the FYE 2020. In addition, the increase in lease liabilities was due to renting of additional 8 new pawnbroking outlets of RM0.21 million as well as the increase in other payables of RM0.26 million due to increase in accrued staff costs for the month of December 2020 and audit fees for the FYE 2020 had also contributed to the increase in our Group's total current liabilities.

12.3.4 Review of Cash Flows

The following table sets out the summary of the combined statements of cash flows for the FYE 2018 to FYE 2020 which have been extracted from the Accountants' Report set out in Section 13 of this Prospectus and should be read in with:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Net cash used in operating activities	(6,805)	(20,885)	(37,237)
Net cash used in investing activities	(587)	(1,917)	(2,288)
Net cash from financing activities	9,786	28,535	43,540
Cash and cash equivalents			
Net changes	2,394	5,733	4,015
At the beginning of the financial year	3,516	5,910	11,643
At the end of the financial year	5,910	11,643	15,658

In view of the inherent nature of our pawnbroking business operations which entails the continuous deployment of cash flows as pawn loans to earn interest income, higher external funding such as cash capital injections by our shareholders, issuance of preference shares, advances from shareholders to support increased business activities of our Group.

Our pawn loans extended to customers are classified as trade receivables as working capital cash flows while the source of funds for the pawn loans are capital injections by our shareholders, issuance of redeemable preference shares and advances from shareholders which were injected as cash flows for our operating activities were classified as financing activities. The classification of capital injection by our shareholders, proceeds from issuance of redeemable preference shares and advances from shareholders as financing activities is in accordance with the disclosure requirements of MFRS 7 Financial Instruments: Disclosures.

12. FINANCIAL INFORMATION (Cont'd)

As a result, our Group recorded negative operating cash flow position of RM6.81 million, RM20.89 million and RM37.24 million in the FYE 2018, FYE 2019 and FYE 2020 respectively.

FOR ILLUSTRATIVE PURPOSES, after adjusting the cash capital injection by our shareholders, issuance of redeemable preference shares and advances from our shareholders to working capital cash flows, we would have recorded positive operating cash flows as below:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Net cash used in operating activities	(6,805)	(20,885)	(37,237)
Adjusted for:			
Proceeds from issuance of ordinary shares	28,000	7,800	36,083
Proceeds from issuance of redeemable preference shares	-	4,125	4,190
Redemption of redeemable preference shares	-	-	(8,315)
Net change in advance from shareholders	(17,713)	17,626	14,155
Net change in amount owing to minority interest	-	-	(780)
Adjusted net cash generated from operating activities	3,482	8,666	8,096

Financial Commentaries on Cash Flows**(i) FYE 2018****(a) Net Cash Used in Operating Activities**

In the FYE 2018, our Group recorded net operating cash outflow of approximately RM6.81 million. We collected approximately RM52.84 million from the following:

- (i) receipts from the redemptions of pawn loans by our customers of approximately RM46.73 million;
- (ii) receipts from sale of unredeemed or bid pledges of approximately RM6.02 million;
- (iii) repayment of advances to staff of RM0.04 million; and
- (iv) other income received of approximately RM0.05 million.

The above collections were offset by cash payments of approximately RM59.64 million in respect of the following:

- (i) disbursement of pawn loans to our customers of approximately RM56.69 million;
- (ii) deposits paid of approximately RM0.01 million for new pawnbroking outlets' rental and utilities;
- (iii) payment of administrative and other pawnbroking operating expenses of approximately RM2.70 million; and
- (iv) payment of tax liabilities of approximately RM0.24 million.

12. FINANCIAL INFORMATION (Cont'd)

(b) Net Cash Used in Investing Activities

Our Group recorded a net cash outflow of RM0.59 million in our investing activities in the FYE 2018, which was attributable to renovation costs and the purchase of equipment for the additional 1 new pawnbroking outlet set up in FYE 2018.

(c) Net Cash for Financing Activities

In the FYE 2018, our Group recorded net cash inflow for financing activities of RM9.79 million mainly due to:

- (i) proceeds of RM28.00 million from the issuance of new ordinary shares by our subsidiaries for our Group's pawnbroking business operations;
- (ii) repayment of term loan of approximately RM0.07 million;
- (iii) advances to shareholders of approximately RM19.71 million;
- (iv) repayment from advances to shareholders of approximately RM2.00 million;
- (v) interests paid to shareholders of approximately RM0.03 million; and
- (vi) lease payments made for leasing of pawnbroking outlets of approximately RM0.40 million.

(ii) FYE 2019**(a) Net Cash Used in Operating Activities**

In the FYE 2019, our Group recorded net operating cash outflow of approximately RM20.89 million. We collected approximately RM85.94 million from the following:

- (i) receipts from the redemptions of pawn loans by our customers of approximately RM74.55 million;
- (ii) receipts from sale of unredeemed or bid pledges of approximately RM11.33 million; and
- (iii) other income received of approximately RM0.06 million.

The above collections were offset by cash payments of approximately RM106.83 million in respect of the following:

- (i) disbursement of pawn loans to our customers of approximately RM100.68 million;
- (ii) advances to staff of approximately RM0.02 million;

12. FINANCIAL INFORMATION (Cont'd)

- (iii) deposits paid of approximately RM0.17 million for new pawnbroking outlets' rental and utilities;
- (iv) payment of administrative and other pawnbroking operating expenses of approximately RM4.35 million; and
- (v) payment of tax liabilities of approximately RM1.61 million.

(b) Net Cash Used in Investing Activities

Our Group recorded a net cash outflow of RM1.92 million in our investing activities in the FYE 2019, which was attributable to renovation costs and the purchase of equipment for the additional 9 new pawnbroking outlets set up in the FYE 2019.

(c) Net Cash for Financing Activities

In the FYE 2019, our Group recorded net cash inflow for financing activities of RM28.54 million mainly due to:

- (i) proceeds of RM7.80 million from the issuance of new ordinary shares by our subsidiaries for our Group's pawnbroking business operations;
- (ii) proceeds from issuance of redeemable preference shares of approximately RM4.12 million to finance our Group's pawnbroking business operations;
- (iii) repayment of term loan of approximately RM0.07 million;
- (iv) interests paid on advances from shareholders of approximately RM0.06 million;
- (v) repayment from advances to shareholders of approximately RM17.63 million; and
- (vi) lease payments made for leasing of pawnbroking outlets of approximately RM0.88 million.

(iii) FYE 2020

(a) Net Cash Used in Operating Activities

In the FYE 2020, our Group recorded net operating cash outflow of approximately RM37.24 million. We collected approximately RM155.35 million from the following:

- (i) receipts from the redemptions of pawn loans by our customers of approximately RM138.10 million;
- (ii) receipts from sale of unredeemed or bid pledges of approximately RM16.89 million;
- (iii) Wage Subsidy received of approximately RM0.25 million;

12. FINANCIAL INFORMATION (Cont'd)

- (iv) interest received of approximately RM0.01 million; and
- (v) other income received of approximately RM0.10 million.

The above collections were offset by cash payments of approximately RM192.59 million in respect of the following:

- (i) disbursement of pawn loans to our customers of approximately RM184.99 million;
- (ii) advances to staff of approximately RM0.24 million;
- (iii) deposits paid of RM0.01 million for new pawnbroking outlets' rental and utilities;
- (iv) payment of administrative and other pawnbroking operating expenses of approximately RM5.14 million; and
- (v) payment of tax liabilities of approximately RM2.21 million.

(b) Net Cash Used in Investing Activities

We recorded a net cash outflow of RM2.29 million for our investing activities in the FYE 2020, which was attributable to renovation costs and the purchase of equipment for the opening of 8 new pawnbroking outlets.

(c) Net Cash for Financing Activities

During the FYE 2020, we recorded a net cash inflow for financing activities of RM43.54 million which was mainly due to:

- (i) proceeds of RM36.08 million from the issuance of new ordinary shares by a subsidiary in which RM27.76 million for our Group's pawnbroking business operations and RM8.32 million to fund the full redemption of redeemable preference shares;
- (ii) proceeds from issuance of redeemable preference shares of RM4.19 million for our Group's pawnbroking business operations;
- (iii) cash payment for the full redemption of redeemable preference shares issued in the FYE 2019 and FYE 2020 totalling RM8.32 million;
- (iv) interests paid in respect of redeemable preference share of approximately RM0.36 million;
- (v) repayment of term loan of approximately RM0.03 million;
- (vi) repayment from advances to shareholders of approximately RM2.08 million;
- (vii) advances from shareholders of approximately RM12.00 million for our Group's pawnbroking business operations;

12. FINANCIAL INFORMATION *(Cont'd)*

- (viii) advances to non-controlling interests of approximately RM0.78 million;
- (ix) dividends paid of approximately RM0.19 million; and
- (x) lease payments made for leasing of pawnbroking outlets of approximately RM1.13 million.

12.4 LIQUIDITY AND CAPITAL RESOURCES

12.4.1 Working Capital

Our business operation depends on the sufficiency of funds to support our pawn loan business. Our operations are funded by a combination of internal and external sources of funds. Our internal sources of funds comprise share capital and cash generated from our operating activities, while our external sources of funds are advances from our shareholders. Our primary uses of cash are to disburse pawn loans to our customers and to satisfy our working capital needs.

Our Board is of the opinion that after taking into consideration the existing level of cash and cash equivalents, impact of COVID-19 as detailed in Section 6.10 of this Prospectus as well as the gross proceeds raised from our Public Issue, our Group will have adequate working capital for a period of 12 months from the date of this Prospectus.

As at LPD, we have cash and bank balances of RM7.12 million.

Based on the pro forma consolidated statements of the financial position of our Group as at 31 December 2020 (after the Pre-IPO Reorganisation but before the Public Issue), our NA position stood at RM108.79 million and our gearing level was approximately 0.01 times. Our NA position and gearing level after the Pre-IPO Reorganisation and Public Issue (and utilisation of proceeds) is RM[●] and approximately [●] times respectively.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our trade receivables and our allowance for impairment loss in respect of our doubtful debts is low.

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12. FINANCIAL INFORMATION (Cont'd)**12.5 BORROWINGS**

Our total outstanding borrowings as at 31 December 2020 stood at RM5.73 million, details of which are set out as follows. All our borrowings are interest-bearing and denominated in RM.

	Purpose	Tenure	Interest Rate % Per Annum	Audited as at 31 December 2020 RM'000
Interest bearing short-term borrowings, payable within 1 year:				
Term loan	Financing the purchase of investment properties	15 years	BLR-2.2%	25
Lease liabilities	Rental of premises	2 to 9 years	5.49%	976
			Sub-total	1,001
Interest bearing long-term borrowings, payable after 1 year:				
Term loan	Financing the purchase of investment properties	15 years	BLR-2.2%	776
Lease liabilities	Rental of premises	2 to 9 years	5.49%	3,956
			Sub-total	4,732
			Total borrowings	5,733
Pro forma gearing (excluding lease liabilities) (times)				
After the Pre-IPO Reorganisation before the Public Issue ⁽¹⁾				0.01
After the Public Issue ⁽²⁾				[●]

Notes:

- (1) Computed based on our pro forma shareholders' funds of RM108.79 million in the pro forma consolidated statements of financial position after the Pre-IPO Reorganisation before the Public Issue.
- (2) Computed based on our pro forma shareholders' funds of RM[●] in the pro forma consolidated statements of financial position after the Pre-IPO Reorganisation and Public Issue (and utilisation of proceeds).

Our pro forma gearing ratio (excluding lease liabilities) is expected to register approximately 0.01 times before the Public Issue, and approximately [●] times after the Public Issue (and utilisation of proceeds) after inclusion of proceeds arising from the issuance of new Shares pursuant to the Public Issue.

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12. FINANCIAL INFORMATION (Cont'd)

Our borrowings carry the following interest rates for the financial years under review:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
	% Per Annum		
Floating rates			
Term loans	6.97%	6.72%	5.47% to 6.47%
Fixed rates			
Lease liabilities	6.95%	6.74%	5.49%
Redeemable preference shares	-	7.0%	6.0% to 7.0%

The following table sets out the maturities of our borrowings:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Term loan			
Within the next 12 months	39	48	25
After the next 12 months:			
Later than 1 year but not later than 2 years	48	28	26
Later than 2 years but not later than 5 years	89	95	164
Later than 5 years	672	638	586
Lease liabilities			
Within the next 12 months	473	747	976
After the next 12 months:			
Later than 1 year but not later than 5 years	1,710	2,926	3,385
Later than 5 years	1,102	989	571
Redeemable preference shares			
Later than 2 years but not later than 3 years	-	4,125	-

As at the LPD, we do not have any bank borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any bank borrowings throughout the financial years under review and the subsequent financial period up to the LPD.

As at the LPD, neither the Company nor our subsidiaries are in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of our securities. We do not encounter any seasonality in our bank borrowings trend and there are no restrictions on our committed borrowing facilities i.e. our banker.

12. FINANCIAL INFORMATION (Cont'd)**12.6 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES**

From an accounting perspective, financial instruments may include trade and other receivables, other payables and bank borrowings as shown on our combined statements of financial position. These financial instruments are used in our ordinary course of business.

As at the LPD, save as disclosed in Section 12.4 of this Prospectus, we do not have or utilise any other financial instruments. We finance our operations mainly through cash generated from our operations and external sources of funds are mainly advances from shareholders. The principal use of the term loan is for financing the purchase of investment properties.

12.7 MATERIAL CAPITAL COMMITMENTS

As at the LPD, we do not have any material capital commitments.

12.8 MATERIAL LITIGATION AND CONTINGENT LIABILITIES

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and our Directors do not know of any proceeding pending or threatened or of any facts likely to give rise to any proceeding which might materially or adversely affect our position or business as at the LPD.

Our Directors are not aware of any contingent liability incurred by us or our subsidiaries, which upon becoming enforceable, may have a material effect on our financial position or our subsidiaries as at the LPD.

12.9 KEY FINANCIAL RATIOS

The key financial ratios of our Group for the FYE 2018 to FYE 2020 are as follows:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
Trade receivables turnover (days) ⁽¹⁾	134	130	137
Inventory turnover (days) ⁽²⁾	92	55	31
Current ratio (times) ⁽³⁾	27.17	36.81	40.57
Gearing ratio (times) ⁽⁴⁾	0.02	0.08	0.01

Notes:

- (1) Computed based on the average trade receivables over the aggregate of total pawn loans and interest income from pawnbroking services for the financial year multiplied by 365 days for each financial year.
- (2) Computed based on the average inventory over cost for sale of unredeemed or bid pledges for the financial year multiplied by 365 days for each financial year.
- (3) Computed based on current assets over current liabilities as at each financial year end.
- (4) Computed based on our total loans and borrowings (excluding lease liabilities) over total equity attributable to the owners of the Company for each financial year end.

12. FINANCIAL INFORMATION (Cont'd)**12.9.1 Trade Receivables Turnover**

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Opening trade receivables	18,205	26,616	50,195
Closing trade receivables	26,616	50,195	98,779
Average trade receivables	22,411	38,406	74,487
Total pawn values	56,688	100,680	184,987
Interest income from pawnbroking services	4,581	7,292	13,884
	61,269	107,972	198,871
Average trade receivables turnover period (days)	134	130	137

For our pawnbroking business, we offer pawn loans to our customers based on the pawn pledges. The validity of the pawn tickets to customers is up to 6 months period. For our pawnbroking segment, we charged monthly interest rates ranging from 1.3% to 2.0% on the pawn loan amounts during the financial years under review, which are payable upon redemption of pledges.

Our average receivables turnover periods for the FYE 2018, FYE 2019 and FYE 2020 were 134, 130 and 137 days respectively. Our average pawn loan receivables turnover periods for the FYE 2018, FYE 2019 and FYE 2020 are within the validity of 6 months. The fluctuations in the average trade receivables turnover periods for the financial years under review depend on the timing our customers redeem their pawn tickets.

Our Group will assess the collectability of trade receivables on an individual customer basis where there is uncertainty in the recoverability, impairment will be made for those customers.

We have recorded receivables written-off of RM0.09 million, RM0.12 million and RM0.15 million for the FYE 2018, FYE 2019 and FYE 2020. These receivables were wrote-off mainly due to the unrecoverable unredeemable pawn loans during the cash recovery process. Included in the receivables written-off for the FYE 2020 was amounts totalling RM0.02 million in relation to 2 cases under police investigations.

Ageing analysis of trade receivables as at 31 December 2020

	Audited as at 31 December 2020		Amount Collected from 1 Jan 2021 up to the LPD RM'000 (b)	Balance of Trade Receivables Which Have Yet to be Collected as at the LPD RM'000 (c) = (a)-(b)
	RM'000 (a)	Percentage of Trade Receivables (a)/ total of (a)		
Within credit period	89,507	90.61	79,210	10,297
Past due:				
• 1 to 30 days	6,003	6.08	6,003	-
• 31 to 60 days	2,747	2.78	2,603	144
• 61 to 90 days	-	-	-	-
• 91 to 120 days	173	0.18	102	71
• More than 120 days	349	0.35	132	217
	9,272	9.39	8,840	432
Total	98,779	100.0	88,050	10,729

12. FINANCIAL INFORMATION (Cont'd)

As at the LPD, approximately RM10.73 million of the outstanding trade receivables as at 31 December 2020 has yet to be collected. 4.03% of the total trade receivables net of subsequent collections as at the LPD of approximately RM0.43 million have exceeded the credit period.

The trade receivables which were past due of approximately RM0.43 million were remained unsettled as at the LPD mainly due to limited auction activities conducted by the KPKT which has caused our Group being not able to auction the unredeemed pledges for our cash recovery process. There were no impairment loss on these past due trade receivables as the pawn loans disbursed are secured by the pledges of gold jewellery and watches.

12.9.2 Inventories

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Opening inventories	398	1,924	1,252
Closing inventories	1,924	1,252	873
Average inventories	1,161	1,588	1,063
Costs for sale of unredeemed or bid pledges	4,629	10,527	12,546
Average inventory turnover period (days)	92	55	31

Our inventories comprise of bid pledges purchased by our Group via public auction and are pending for the subsequent resell to the scrap collectors at an agreed amount which is guided by the prevailing market rate. We have a computerised pawnbroking system in place which tracks the movement of our inventory on a real time basis.

Our average inventories turnover periods for the FYE 2018, FYE 2019 and FYE 2020 were 92, 55 and 31 days respectively. The decrease in inventory turnover periods for FYE 2019 and FYE 2020 were mainly due to our Group has adopted the strategy to expedite the cash recovery process in order to turnaround our cash capital for our pawnbroking operations.

12.9.3 Current Ratio

Our current ratio throughout the financial years under review is as follows:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Current assets	54,739	66,662	117,975
Current liabilities	2,015	1,811	2,908
Net current assets	52,724	64,851	115,067
Current ratio (times)	27.17	36.81	40.57

Our current ratio ranges from 27.17 times to 40.57 times for the financial years under review. Our Group can meet our current obligations as our inventories and trade receivables, which comprise of the bid pledges (for inventories) and the related pledged items (for trade receivables) are majority commodity in nature (gold) and can be easily and readily monetised based on the prevailing market price, and together with our bank balances are sufficient to meet our current liabilities.

12. FINANCIAL INFORMATION (Cont'd)

In the FYE 2019, our current ratio increased from 27.17 times as at 31 December 2018 to 36.81 times as at 31 December 2019 mainly contributed by the increase in trade receivables of approximately RM23.58 million, which was mainly due to an increase in total pawn values disbursed to our customers of RM43.99 million, and was funded by the proceeds from the issuance of redeemable preference shares by a subsidiary and new ordinary shares issued by some of our subsidiaries.

In the FYE 2020, our current ratio further increased to 40.57 times mainly due to the increase in trade receivables of approximately RM48.58 million, which was mainly due to an increase in total pawn values disbursed to our customers of RM84.31 million, which was funded by the proceeds from the issuance of redeemable preference shares, new ordinary shares issued by some of our subsidiaries and advances from shareholders and related parties.

Our operations are funded by a combination of internal and external sources of funds. Our internal sources of funds comprise share capital and cash generated from our operating activities, while our external sources of funds are advances from our shareholders.

12.9.4 Gearing Ratio

Our gearing ratio throughout the financial years and financial period under review is as follows:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Loans and borrowings (excluding lease liabilities)	848	4,934	801
Total equity attributable to the owners of the Group	54,926	64,688	108,014
Gearing ratio (times)	0.02	0.08	0.01

Our Group's gearing ratio ranged from 0.01 times to 0.08 during the FYE 2018 to FYE 2020. As at 31 December 2020, our Group has no unutilised credit facilities.

12.10 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

There were no government, economic, fiscal, or monetary policies or factors which materially affected our operations during the financial years under review. However, there is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward.

Our business operations are governed by the KPKT, and are governed by the regulations under the Pawnbrokers Act 1972. Under the Pawnbrokers Act 1972, a pawnbroking licence is mandatory for opening and operating a pawnbroking outlet. Such licence is valid for a period of 2 years and is subject to renewal provided that the pawnbroking outlet adheres to the regulations enforced by the KPKT.

Further, if there are any changes in legislation, regulations and/or policies governing the pawnbroking industry leading to further and/or stricter requirements being imposed by the KPKT in which we are required to comply with, our business operations may be restricted or we may incur higher operating costs. In the event that the increased operating costs cannot be passed on to our customers, we will have to absorb any cost increments which may adversely impact our business operations and profitability.

12. FINANCIAL INFORMATION (Cont'd)**12.11 IMPACT OF INFLATION**

During the financial years under review, our financial performance was not materially affected by the impact of inflation. However, there is no assurance that our financial performance will not be adversely affected by the impact of inflation moving forward. Any significant increase in the pawnbroking operating costs in the future may adversely affect our operations and performance in the event that we are unable to generate adequate pawnbroking revenue to cover the said increase.

12.12 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES ON OUR GROUP'S OPERATIONS**12.12.1 Impact of foreign exchange rates**

Our transactions are solely denominated in RM.

12.12.2 Impact of interest rates

	Audited		
	FYE 2018	FYE 2019	FYE 2020
Interest coverage ratio (times)#	12.82	9.89	15.92

Note:

Computed based on EBIT over finance costs.

Our interest coverage ratio was between 9.89 times to 15.92 times for the FYE 2018 to FYE 2020, indicating that our Group has been able to generate sufficient profits from operations to meet our interest serving obligations.

Our Group's financial results for the FYE 2018 to FYE 2020 were not materially affected by fluctuations in interest rates.

12.12.3 Impact of commodity prices

We primarily receive gold as pledges for the provision of pawn loans to our customers. In the past 3 FYE 2018 to FYE 2020, the pledge value of gold against total pledge value was 100.00%, 99.55% and 99.42%, respectively. As such, the pledge value is influenced by gold price volatility as we offer pawn loans to our customers against the pledges of gold based on a loan margin which factors in the prevailing market value of the pledge. Further, we also sell our unredeemed or bid pledges (i.e. gold) to scrap collectors at an agreed amount which is guided by the prevailing market value of gold. Gold is a commodity and hence, its price fluctuates. Gold prices are affected by various factors, amongst others, interest rates, fluctuation in USD, global or regional economic or political circumstances, market speculations as well as market supply and demand of gold.

For the past 3 FYE 2018 to FYE 2020 up to the LPD, the price of gold has fluctuated between USD1,178.40 per ounce (equivalent to approximately USD37.89 per gram) and USD2,067.15 per ounce (equivalent to approximately USD66.46 per gram).

12.13 ORDER BOOK

Due to the nature of our pawnbroking business, we do not have an order book.

12. FINANCIAL INFORMATION *(Cont'd)*

12.14 TREND INFORMATION

Based on our track record for the FYE 2018 to FYE 2020, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

- (i) During the FYE 2018 to FYE 2020, the revenue from provision of pawnbroking services is the main driver for our Group's profit. In view of our plan to further expand our pawnbroking segment as stated in Sections 4.9(i) and 7.17 of this Prospectus, we expect the pawnbroking segment continued to be the key revenue contributor of our Group in the future;
- (ii) During the FYE 2018 to FYE 2020, we derived all our revenue from the domestic market. As we intend to focus and further expand our presence in the domestic market, we expect Malaysia to continue to be our principal market; and
- (iii) We expect our operating expenses to increase due mainly to (i) the increase in employee benefits expenses as a result of higher headcount and increments in salaries and wages as we expand our business; (ii) the increase in lease liabilities as we set up new pawnbroking outlets; (iii) the Service Agreement with our Executive Director; and (iv) professional fees and expenses in relation to the Listing and the costs of maintaining a listing on the Ace Market of Bursa Securities.

As at the LPD, after all reasonable enquiries, our Board confirms that our operations have not been and are not expected to be affected by any of the following:

- (i) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those discussed in Sections 12.2, 12.9, 12.10 and 12.11 of this Prospectus;
- (ii) Material commitments for capital expenditure;
- (iii) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as discussed in Sections 12.2, 12.9, 12.10 and 12.11 of this Prospectus;
- (iv) Known trends, demands, commitments, events, or uncertainties that have resulted in a substantial increase in our Group revenue save for those that were discussed in Sections 12.2, 12.9, 12.10 and 12.11 of this Prospectus; and
- (v) Known trends, demands, commitments, events, or uncertainties that are reasonably likely to make our Group's historical financial statements not necessarily indicative of the future financial performance and position other than those discussed in Sections 12.2, 12.9, 12.10 and 12.11 of this Prospectus.

Our Board is optimistic about the future prospects of our Group given our Group's competitive strengths as set out in Section 7.16 and the outlook of the pawnbroking industry in Malaysia as set out in the IMR Report in Section 7 of this Prospectus.

12. FINANCIAL INFORMATION (Cont'd)**12.15 DIVIDEND POLICY**

As our Company is an investment holding company, our income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiaries, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from the financiers of our Group as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Moving forward, the payment of dividends or other distributions by our subsidiaries will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective boards of directors deem relevant.

Our Group presently does not have any formal dividend policy, the declaration of dividends is subject to the discretion of our Board. It is our intention to pay dividends to shareholders in the future. However, such payments will depend upon a number of factors, including our Group's financial performance, capital expenditure requirements, general financial condition and any other factors considered relevant by our Board.

As at the LPD, there are no dividend restrictions imposed on our subsidiaries.

Investors should note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our Company's future dividends which are subject to modification (including non-declaration thereof) at our Board's discretion. We cannot assure you that we will be able to pay dividends or that our Board will declare dividends in the future. There can also be no assurance that future dividends declared by our Board, if any, will not differ materially from historical dividend pay-outs.

Dividends declared by our Group from the FYE 2018 to FYE 2020 are as follows:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Dividends declared	-	-	186

12.16 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 1 May 2021 and after adjusting for the effects of the Pre-IPO Reorganisation and Public Issue including the utilisation of proceeds.

	Unaudited As at 1 May 2021 RM'000	I After the Pre- IPO Reorganisation RM'000	II After I and Public Issue RM'000	III After II and Utilisation of Proceeds RM'000
Capitalisation				
Shareholders' equity	-	110,284	[•]	[•]
Total capitalisation	-	110,284	[•]	[•]
Indebtedness ⁽¹⁾				
<u>Current</u>				
Secured and guaranteed				
- Term loans	-	49	49	49

12. FINANCIAL INFORMATION (Cont'd)

	Unaudited As at 1 May 2021 RM'000	I After the Pre- IPO Reorganisation RM'000	II After I and Public Issue RM'000	III After II and Utilisation of Proceeds RM'000
<u>Non-current</u> Secured and guaranteed Term loans	-	736	736	736
Total indebtedness	-	785	785	785
Total capitalisation and indebtedness	7	111,069	[•]	[•]
Gearing ratio ⁽²⁾	-	0.007	[•]	[•]

Notes:

- (1) *All of our indebtedness is secured and guaranteed.*
(2) *Calculated based on total indebtedness divided by total capitalisation.*

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