

7. INDUSTRY OVERVIEW

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Date: 24 June 2021

The Board of Directors

Pappajack Berhad
No. 11B, Jalan TK 1/11A
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47180 Puchong, Selangor

Dear Sirs/ Madams,

Independent Market Research Report on the Pawnbroking Industry in Malaysia (“IMR Report”)

This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD (“SMITH ZANDER”) for inclusion in the draft Prospectus in conjunction with the proposed listing of Pappajack Berhad on the ACE Market of Bursa Malaysia Securities Berhad.

The research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research when required, which involves discussing the status of the industry with leading industry participants. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in business, industry and economic conditions.

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an “overall industry” perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies mentioned in this report or otherwise.

For and on behalf of SMITH ZANDER:



DENNIS TAN TZE WEN
MANAGING PARTNER

7. INDUSTRY OVERVIEW (Cont'd)

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The research for this IMR Report was completed on 10 June 2021.

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About SMITH ZANDER INTERNATIONAL SDN BHD

SMITH ZANDER is a professional independent market research company based in Kuala Lumpur, Malaysia, offering market research, industry intelligence and strategy consulting solutions. SMITH ZANDER is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other fund-raising and corporate exercises.

Profile of the signing partner, Dennis Tan Tze Wen

Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has 23 years of experience in market research and strategy consulting, including over 18 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.

7. **INDUSTRY OVERVIEW** (Cont'd)

1 INTRODUCTION

Objective of the Study

This IMR Report has been prepared in conjunction with the listing of Pappajack Berhad (“Pappajack”) on the ACE Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industry and market(s) in which Pappajack and its subsidiaries (“Pappajack Group”) operate and to offer a clear understanding of the industry and market dynamics. As Pappajack Group is principally involved in the provision of pawnbroking services through a network of pawnbroking outlets in Malaysia, the scope of work for this IMR Report will thus address the following areas:

- (i) The pawnbroking industry in Malaysia, the industry in which Pappajack Group operates;
- (ii) Industry performance, growth drivers and key industry risks and challenges; and
- (iii) Competitive overview.

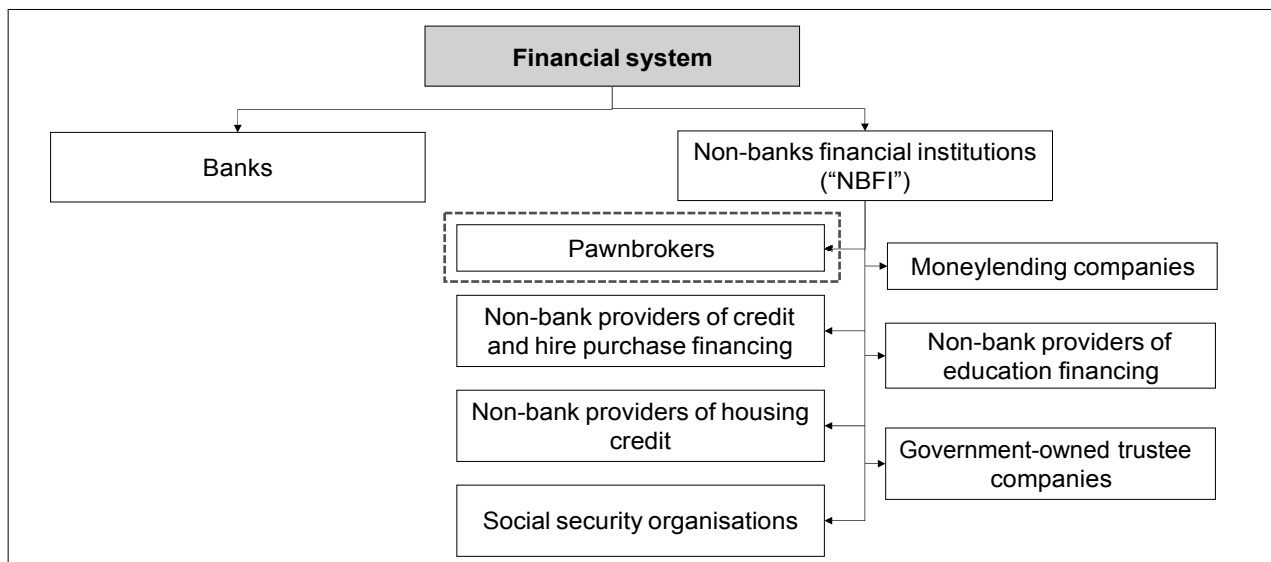
2 THE PAWNBROKING INDUSTRY IN MALAYSIA

Overview

The financial system is a set of financial institutions comprising banks and non-banks financial institutions (“NBFIs”) to facilitate exchange of funds between financial market participants such as lenders, borrowers and investors.

Within the financial system, banks are regulated by Bank Negara Malaysia (“BNM”) whereas NBFIs are generally regulated by other authorities such as the Ministry of Finance, Ministry of Housing and Local Government or Kementerian Perumahan dan Kerajaan Tempatan (“KPKT”) and Malaysia Co-operative Societies Commission. NBFIs comprise pawnbrokers, moneylending companies, non-bank providers of credit and hire purchase financing, non-bank providers of education financing, non-bank providers of housing credit, government-owned trustee companies and social security organisations, amongst others.

Composition of the financial system



Notes:

- The examples listed are not exhaustive.
- [Dashed border] denotes the key segment Pappajack Group is involved in.

Sources: BNM, SMITH ZANDER analysis

7. INDUSTRY OVERVIEW (Cont'd)

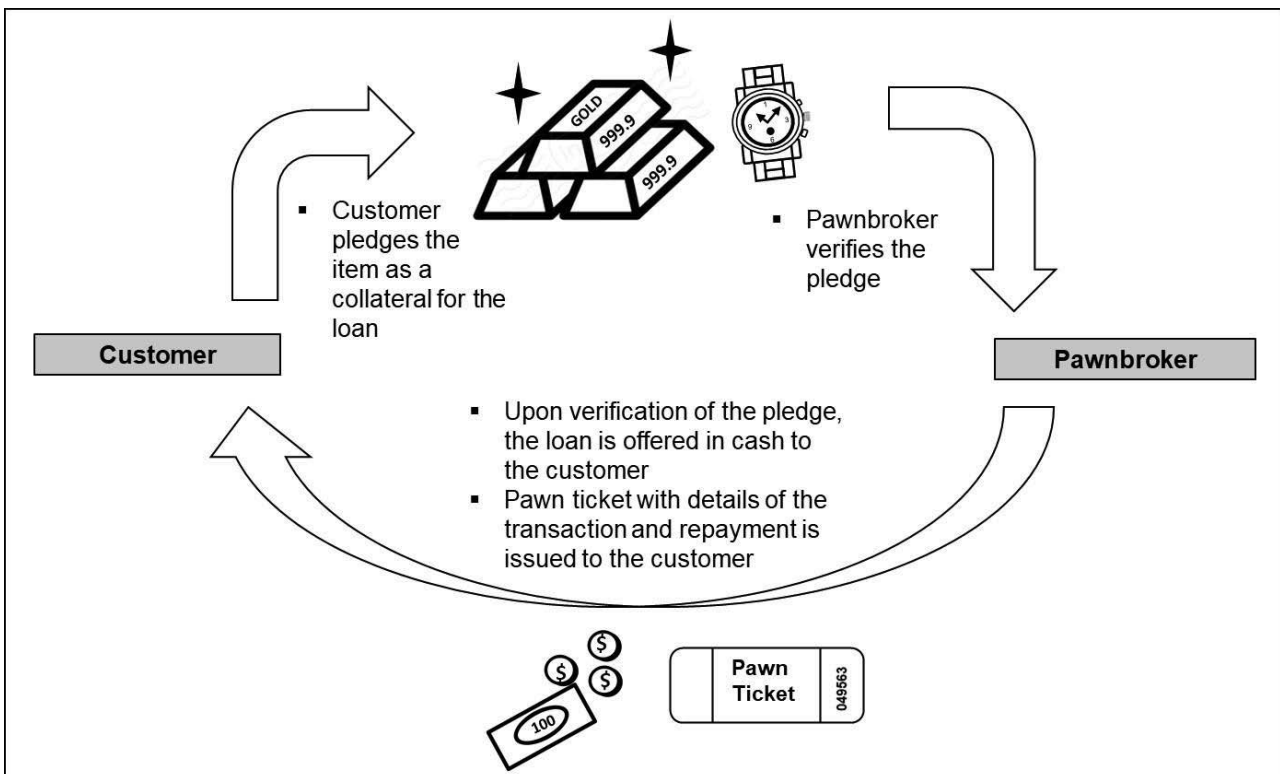
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Pawnbroking services are provided by pawnbrokers who principally offer pledge-backed short-term financing or pawn loan with a short repayment period for pawners (i.e. persons with pledges for pawn to pawnbrokers) who are the customers of pawnbroking services. A pawn loan is commonly defined as a micro-loan or microfinancing and is typically pledged against high value personal items such as gold jewellery and luxury watches. The loan offered will be based on the prevailing market value of the pledge which can be obtained from third party platforms such as MKS Precious Metals Sdn Bhd, Gold Price and World Gold Council. As the pledges hold an intrinsic value which allow pawnbrokers to recover the full loan amount disbursed to their customers by selling the pledges for cash, the short-term financing of pawn loans offered by pawnbrokers are secured and protect the pawnbrokers against potential losses from loan defaults.

In Malaysia, the pawnbroking business is governed by the KPKT under the Pawnbrokers Act 1972. Every individual pawnbroking outlet is required to be licensed by the KPKT, whereby a company has to be incorporated and licensed to operate each pawnbroking outlet. According to the Pawnbrokers Act 1972, pawn loans provided by pawnbrokers are capped at RM10,000 per transaction, i.e. whereby the maximum pawn loan that can be provided under one pawn ticket is RM10,000 and can comprise one or more pledged items. If the pledged item exceeds RM10,000, then multiple pawn tickets will be issued that amounts to the value of the pledged item. In addition, pawnbrokers charge pawners a maximum monthly interest rate of 2% on the pawn amount and may also impose a one-off administrative fee of up to RM0.50 for the issuance of pawn tickets for any pawn loans amounting to more than RM10.

Pawn tickets are receipts that are issued to pawners as proof of pawn transactions. The repayment duration for the pawn loan is up to 6 months and pawners are entitled for extension of pawn loan durations subject to the renewal of pawn tickets.

Illustration of a pawnbroking transaction



Source: SMITH ZANDER

7. INDUSTRY OVERVIEW (Cont'd)

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Industry Performance and Growth Drivers

As the Pappajack Group owns 25 pawnbroking companies which are located in Johor, Kuala Lumpur, Negeri Sembilan, Perak, Pulau Pinang and Selangor, the performance of the pawnbroking industry in this report focuses on these 6 states.

The pawnbroking industry in Johor, Kuala Lumpur, Negeri Sembilan, Perak, Pulau Pinang and Selangor is computed based on the revenues of licensed pawnbroking industry players in these states. The pawnbroking industry in these 6 states grew from RM 0.71 billion in 2017 to RM 0.82 billion in 2019, registering a Compound Annual Growth Rate ("CAGR") of 7.84% during the period. In 2019, the pawnbroking industry in these 6 states represented approximately 54% of the pawnbroking industry in Malaysia.

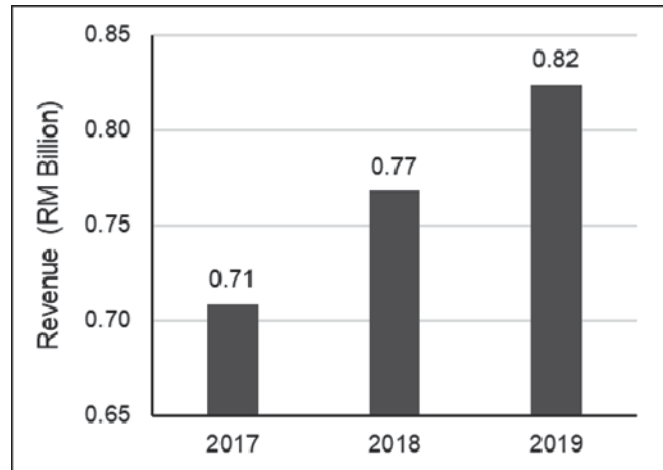
The outbreak of the coronavirus disease ("COVID-19") since early 2020 has impacted many countries around the world. On 30 January 2020, the World Health Organisation ("WHO") declared a public health emergency of international concern on COVID-19. Later, on 11 March 2020, the WHO made the assessment that COVID-19 can be characterised as a pandemic due to the alarming levels of spread and severity and levels of inaction.

In view of the COVID-19 pandemic, Malaysia recorded a gross domestic product ("GDP") growth of -5.6% in 2020, indicating adverse economic conditions which has affected businesses and employment. Many businesses, particularly small and medium enterprises ("SMEs"), have closed down and as a result, many employers have undertaken cost-cutting measures such as salary cuts, reduction of allowances or employee retrenchment leading to a decline in disposable income and ultimately leading to a decline in purchasing power by consumers.

As such, consumers may be experiencing adverse impact on their financial position and thus are seeking to obtain immediate funds to support their temporary financial needs. As these consumers may not be able to obtain financing quickly from financial institutions due to their inability to meet loan requirements, pawnbrokers serve as avenues for these consumers to obtain immediate funds during this period of uncertainty arising from the COVID-19 pandemic. Nevertheless, BNM forecasts the GDP growth in 2021 to be in the range of 6.0% to 7.5%, indicating improvement in economic conditions alongside the National COVID-19 Immunisation programme that began in the first quarter of 2021.

Pawnbroking services is a form of microfinancing extended by NBFIs. Microfinancing is a type of financial service and refers to small loans at interest, with or without security, extended by financial institutions or NBFIs to businesses or individuals for business or personal financing purposes.

The microfinancing segment in Malaysia, as a percentage of total NBFIs' assets, grew from 5.24% in 2017 to 8.37% in 2019.

Pawnbroking Industry (Johor, Kuala Lumpur, Negeri Sembilan, Perak, Pulau Pinang and Selangor), 2017-2019

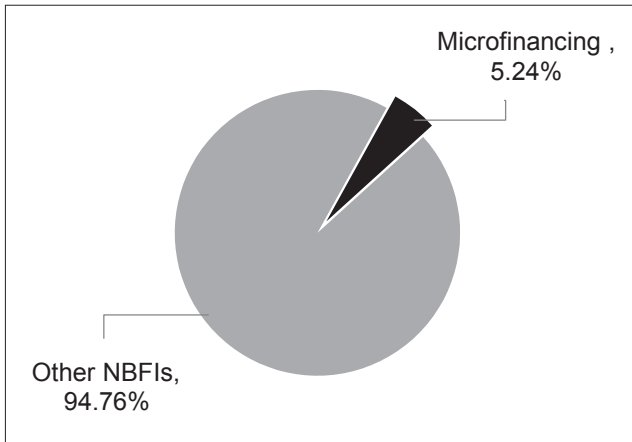
Sources: KPKT, SMITH ZANDER analysis

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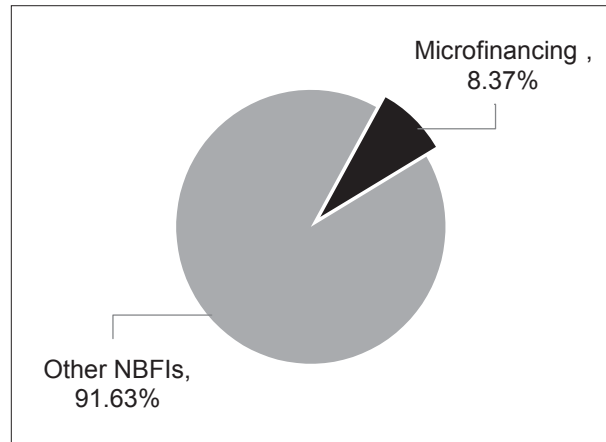
7. INDUSTRY OVERVIEW (Cont'd)

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Composition of NBFIs' assets which include microfinancing, 2017



Composition of NBFIs' assets which include microfinancing, 2019



Note:

* This data includes assets of pawnbrokers, moneylending companies, non-bank providers of credit and hire purchase financing, non-bank providers of education financing, non-bank providers of housing credit, government-owned trustee company and social security organisation, as data breakdown by these individual NBFIs is not publicly available.

Sources: BNM, SMITH ZANDER analysis

Pawnbrokers play a vital role in providing short-term micro-loans to individuals who may be financially underserved. As such, pawnbroking services complement the role of conventional financial institutions in the provision of loans to individual consumers.

Financing from conventional financial institutions is approved based on requirements such as the borrowers' income levels and credit score ratings, where these requirements are more extensive and involves a thorough loan application process. If the borrowers are unable to meet these loan requirements, they will not qualify for financing from conventional financial institutions. Thus, individuals who do not meet the income requirements and credit score ratings will have little access to personal financing from conventional financial institutions. As such, short-term micro-loans offered by pawnbrokers are alternative financing solutions to borrowers.

As the processing time for pawnbroking services is relatively quick, pawn loans can be disbursed on an immediate basis upon verification, enabling individuals to have convenient and quick access to funds for their immediate needs. While the requirements to be approved for pawn loans are deemed to be relatively straightforward, pawnbrokers are mitigated against potential losses from loan defaults as the pledges from the pawners hold intrinsic value which allow pawnbrokers to recover the loan by selling the pledges for cash. Further, pawnbrokers adopt and practise a strict set of standard operating procedures to ensure they are in compliant with the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001.

Further, during the current times of uncertainty arising from the COVID-19 pandemic, some businesses, particularly SMEs, have closed down as a result, and employers have undertaken cost-cutting measures such as salary cuts, reduction of allowances or employee retrenchment leading to a decline in disposable income and ultimately leading to a decline in purchasing power of consumers. Consumers who are experiencing adverse impact on their income may seek to obtain immediate funds to support their temporary financial needs during this period of uncertainty.

7. INDUSTRY OVERVIEW (Cont'd)

SMITH ZANDER**Key Industry Risks and Challenges**

□ Exposure to volatility of gold prices

Pawnbrokers extend loans pledged against high value personal items, and gold jewellery is widely used as pledged items as collateral. The loan amount is dependent on the loan margin and prevailing market prices of gold. Any unredeemed gold will be put up for public auction by the pawnbrokers in exchange for cash.

Gold is a commodity which is exposed to price volatility as a result of market demand and supply conditions. As such, pawnbrokers may be exposed to volatility of gold prices between the periods of when the pawn item is pledged and when any unredeemed item is put up for auction which will be based on prevailing market price of gold at the point of the auction. According to the World Gold Council, gold prices have increased from USD1,268.49 per troy ounce in 2018 to USD1,769.59 per troy ounce in 2020 at a CAGR of 18.11%.

However, any significant prolonged downward movement in the price of gold will result in a fall in the value of the pledged gold items. If borrowers do not repay their loans (i.e. do not redeem their pledged gold items), these pledged items will decrease in value, and pawnbrokers may not be able to recover the full principal amount of the loans extended to these borrowers. As such, the financial performance of pawnbrokers may be adversely impacted.

□ Exposure to unlawful and suspicious pawn transactions and transactions of stolen luxury items

Pawnbroking is a regulated industry in Malaysia as it involves the pawning of luxury items in exchange for money. According to the Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") Sectoral Guidelines 8 for licensed moneylenders and pawnbrokers by Bank Negara Malaysia, pawnbroking businesses form part of moneylending activities in Malaysia.

Pawnbrokers offer pawn loans where valuable items are used as pledges. If a borrower fails to repay the pawn loan, the pawnbroker will the pledge via public auction as settlement for the pawn loan. Hence, certain parties and/or individuals may use pawnbroking as a way to exchange valuable items which are proceeds from illegal activities for pawn loans.

Pawnbroking outlets must identify and assess the risks associated with the luxury items pawned at their outlets by conducting customer due diligence in identifying and verifying the customer as stipulated in the Standard Guidelines on AML/CFT. By practising tight internal controls, pawnbrokers should be able to detect illegal items from being pawned and to report such suspicious transactions to the relevant authorities.

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7. INDUSTRY OVERVIEW (Cont'd)

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3 COMPETITIVE OVERVIEW**Competitive Landscape**

In Malaysia, the Pawnbrokers Act 1972 is a regulation enacted to regulate the pawnbroking industry. Under the Pawnbrokers Act 1972, a license is required to carry out a business as a pawnbroker. Every pawnbroking outlet is required to be licensed by the KPKT, whereby a licence holding company is licensed to operate one pawnbroking outlet. As at 10 June 2021, there were 716 companies with pawnbroking licenses issued by the KPKT in Malaysia.

Key Industry Players of Pawnbroking Industry

The basis for selection of the key industry players in the pawnbroking industry in Malaysia is as follows:

- (i) Industry players holding a valid pawnbroking license issued by the KPKT;
- (ii) Industry players that own pawnbroking outlets in Johor, Kuala Lumpur, Negeri Sembilan, Perak, Pulau Pinang and Selangor, which are the states in which Pappajack Group's pawnbroking outlets are located; and
- (iii) The top 5 companies in each of the 6 states, based on their respective revenues in their latest available financial years.

The industry players in this IMR Report are shown as individual companies, with each company holding a valid pawnbroking license issued by the KPKT. These companies may be part of larger groups of pawnbroking chains. However, as the relationship of these companies is not publicly available, the industry players are presented as individual companies and not as groups of companies. In instances where industry players are exempt private companies for the latest available financial year, or where industry players have no publicly available financial reports, these industry players are excluded from the basis of selection as the audited financial statements of these companies are not publicly available.

The following sets out the key industry players in the pawnbroking industry in Malaysia on the basis for selection above:

State	Pawnbroking outlets	Latest available financial year	Revenue (RM million) ^(a)
Johor	Kedai Pajak Well Chip Sdn Bhd	31 December 2019	37.47
	Thye Shing Pawnshop Sdn Bhd	31 December 2019	19.18
	Pajak Gadai Bintang Sdn Bhd	31 December 2019	17.80
	Pajak Gadai Shinegold Sdn Bhd	31 December 2019	14.35
	Thye Cheong Pawnshop Sdn Bhd	31 December 2019	13.88
Kuala Lumpur	Pajak Gadai Heng Seng Sdn Bhd	31 December 2019	7.64 ^(b)
	Pajak Gadai Kotaniaga Sdn Bhd	30 June 2020	7.62
	LBCOM Resources Sdn Bhd	30 June 2020	7.31 ^(c)
	Pajak Gadai Heng Hua Sdn Bhd	31 March 2019	7.17 ^(d)
	Pajak Gadai Thoong Heng Sdn Bhd	31 December 2019	6.62 ^(e)

7. INDUSTRY OVERVIEW (Cont'd)**SMITH ZANDER**

State	Pawnbroking outlets	Latest available financial year	Revenue (RM million) ^(a)
Negeri Sembilan	Pajak Gadai Kwon Tung Kee Sdn Bhd	31 December 2019	3.22
	Pajak Gadai Choong Sin Sdn Bhd	31 December 2019	2.44
	Pajak Gadai Pure Merit Sdn Bhd	31 December 2019	2.42
	Pajak Gadai BB Hundred Sdn Bhd	31 March 2020	2.01
	Pajak Gadai Sheng Hoong Sdn Bhd	30 June 2020	1.93
Perak	Pajak Gadai Hoong Heng Sdn Bhd	30 September 2020	11.86
	Tye For Sdn Bhd	31 December 2019	7.31
	Ban Loong Tong Sdn Bhd	31 December 2019	6.88
	Ban Yong Pawn Brokers Sdn Bhd	31 December 2019	5.47 ^(f)
	Len Shen Pawnshop Sdn Bhd	31 December 2019	4.96
Pulau Pinang	Pajak Gadai Kah Hin Sdn Bhd	31 December 2019	35.85 ^(g)
	Pajak Gadai Emas Jaya Sdn Bhd	31 December 2019	30.21 ^(h)
	Yeaik Loong (Butterworth) Sdn Bhd	30 June 2020	27.40
	Pajak Gadai YS Sdn Bhd	31 December 2019	26.31 ⁽ⁱ⁾
	Shun Chang Sdn Bhd	31 December 2019	15.43
Selangor	Kedai Pajak Shin Ngien Sdn Bhd	31 December 2019	17.40
	Kedai Pajak Mun Fong Sdn Bhd	31 December 2019	17.20
	Choong Thye Pawn Shop Sdn Bhd	31 December 2020	9.65
	Choong Yee Pawnshop Sdn Bhd	31 December 2019	9.19
	Pajak Gadai Mun Tung Sdn Bhd	31 December 2019	6.61

Notes:

- Latest available as at 10 June 2021.
- (a) The revenue which comprises income derived from sale of unredeemed pledges and interest earned from pawnbroking services are disclosed where such information is publicly available. However, when the breakdown of revenue derived from income from sale of unredeemed pledges and interest earned from pawnbroking is not publicly available, a separate note will be indicated as the total revenue of the company may include sale of pledges redeemed and/or revenue derived from other businesses not related to pawnbroking.
- (b) Revenue comprises sale of pledges (redeemed and/or unredeemed), interest and property rental income.
- (c) Revenue comprises sale of pledges and rental income.
- (d) Revenue comprises sale of pledges (redeemed and/or unredeemed), interest, property rental income and dividend income.
- (e) Revenue comprises sale of pledges (redeemed and/or unredeemed) and interest earned from pawnbroking services.
- (f) Revenue comprises sale of pledges (redeemed and/or unredeemed) and interest earned from pawnbroking services.
- (g) Revenue comprises sale of pledges (redeemed and/or unredeemed) and interest earned from pawnbroking services.
- (h) Revenue comprises sale of pledges (redeemed and/or unredeemed) and interest earned from pawnbroking services.

7. INDUSTRY OVERVIEW (Cont'd)

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(i) Revenue comprises sale of pledges (redeemed and/or unredeemed) and interest earned from pawnbroking services.

Sources: KPKT, various company websites, Companies Commission of Malaysia, SMITH ZANDER analysis

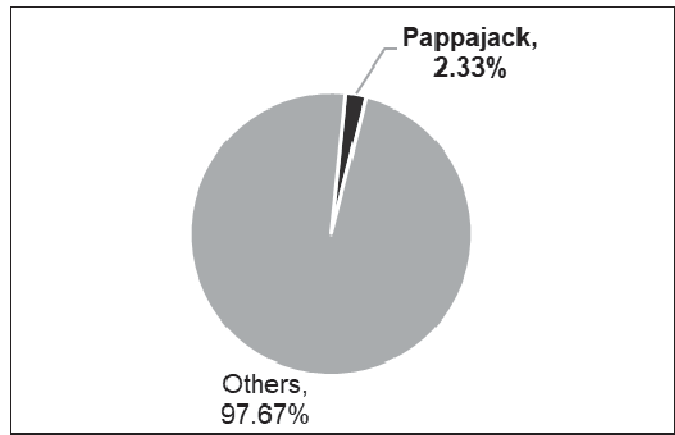
There are pawnbroking outlets in Malaysia which are subsidiaries or associate companies of three public-listed companies in Singapore, namely ValueMax Group Limited, MoneyMax Financial Services Ltd and Maxi Cash Financial Services Corporation Ltd. Save for Kedai Pajak Well Chip Sdn Bhd, Thye Shing Pawnshop and Pajak Gadai Bintang which are associate companies of ValueMax Group Limited and Pajak Gadai Pure Merit Sdn Bhd which is a subsidiary of MoneyMax Financial Services Ltd, none of the other companies listed in the table above are subsidiaries or associate companies of these three public-listed companies in Singapore. There are no subsidiaries or associate companies of Maxi Cash Financial Services Corporation Ltd shown in the table above.

Industry Share

Based on the latest available information, in 2019, the size of the pawnbroking industry in the 6 states which Pappajack Group operates, namely Johor, Kuala Lumpur, Negeri Sembilan, Perak, Pulau Pinang and Selangor, was recorded at RM 0.82 billion.

For the year ended 31 December 2019, the revenue for Pappajack Group (comprising interest from pawnbroking and sale of unredeemed or bid pledges) was recorded at RM19.21 million and thereby, Pappajack Group captured a market share of 2.33% in the 6 states which it operates.

Pawnbroking industry share, 2019



Sources: Pappajack Group, SMITH ZANDER analysis

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