Management Discussion
& Analysis

Business Overview

ELK-Desa Resources Berhad (“ELK-Desa” or “the Group”) is a company incorporated and based in Malaysia that has been listed under Finance Sector on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) since 18 December 2012.

Being an investment holding company, ELK-Desa is involved in two business segments, namely hire purchase financing for used motor vehicles and furniture trading. Both business segments provide products and services targeted at the consumer market.

The Group’s hire purchase financing division remains its primary business activity and income generator, while its furniture division is a relatively new but growing business venture that has the potential to contribute positively to ELK-Desa’s earnings and growth in the future.

In the area of hire purchase financing, ELK-Desa has successfully differentiated itself from its competitors by focusing on a niche area within this highly competitive market. Over the years, the Group has carved a strong presence as a reputable lender in the used motor vehicles sector, specifically targeting buyers who are seeking small value financing. The Group’s hire purchase financing operations are currently concentrated in the Klang Valley area.

As a natural extension of its hire purchase financing business, the Group also cross-sells motor related general insurance products to its hire purchase customers. These products are mainly from leading insurance brands including Tokio Marine Insurans (Malaysia) Berhad and Berjaya Sompo Insurance Berhad.

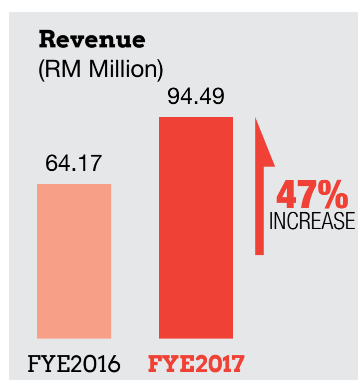
The Group’s furniture trading business, which started operations in mid-2015, is currently involved in the retail, wholesale, export and manufacturing of furniture products.

From a strategic perspective, ELK-Desa aims to enhance its appeal as a dynamic counter in the Finance Sector of the Main Market of Bursa Securities; possessing a unique exposure to a niche, under-served and growing automotive financing market in Malaysia.

In order to achieve this aim, the Group intends to generate sustainable earnings growth by increasing its hire purchase receivables at a reasonable pace without compromising asset quality; Group net hire purchase receivables have grown at a compounded annual growth rate (CAGR) of 12.9% over the last five years.

Review of Financial Results, Performance and Financial Condition

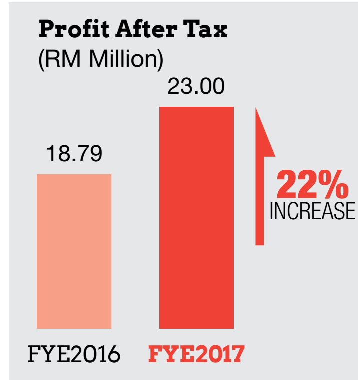
For the financial year ended 31 March 2017 (FYE 2017), ELK-Desa registered a 47% increase in revenue to RM94.49 million compared to RM64.17 million last year. This improvement was due to the higher contribution from both the Group’s hire purchase financing division as well as furniture business.



The Group’s profit before tax for FYE2017 jumped by a notable 21% to a record RM30.57 million from RM25.32 million previously due to higher contribution from its hire purchase financing division, lower finance costs and the absence of the RM1.00 million rights issue expenses that was captured in the financial year ended 31 March 2016 ("FYE2016"). Profit after tax for FYE2017 rose to RM23.00 million compared to RM18.79 million a year ago.

The Group's basic Earnings per Share ("EPS") was 10.66 sen as compared to 12.86 sen in the previous financial year. The lower EPS was mainly due to a larger share capital base as a result of the Irredeemable Convertible Unsecured Loan Stock ("ICULS") conversion to ordinary shares starting from 15 April 2016.

In FYE 2017, the Group's total assets grew by 3% to RM382.29 million while total liabilities decreased by 5% to RM48.20 million as compared to FYE 2016.



Even though bank borrowings increased by 44% to RM22.32 million in FYE2017 as compared to previous financial year, the Group's gearing as at 31 March 2017 fell to 0.08 times from 0.10 times a year ago, further reflecting ELK-Desa's strengthened financial position.

As at 31 March 2016, the shareholders' funds grew by 4% to RM334.09 million in comparison to the previous financial year and the Net Assets per Share ("NA") stood at RM1.45.

The Group's Return on Assets ("ROA") and Return on Equity ("ROE") improved to 6.1% and 7.0% respectively mainly due to the better performance for the financial year.

Segmental Performance – Hire Purchase Financing Division

Hire Purchase Segment (RM'000)	FYE2017	FYE2016	Variance	Variance
Revenue	65,435	55,957	9,478	17%
Other Income	1,986	2,791	(805)	-29%
Depreciation of Property, Plant and Equipment	(381)	(369)	(12)	3%
Impairment Allowance	(20,123)	(15,570)	(4,553)	29%
Other Expenses	(15,732)	(13,946)	(1,786)	13%
Finance Costs	(985)	(2,565)	1,580	-62%
Profit before Rights Issue Expenses & Tax	**30,200**	**26,298**	**3,902**	**15%**
Rights Issue Expenses	–	(1,004)	1,004	-100%
Profit before Tax	**30,200**	**25,294**	**4,906**	**19%**
Credit Loss Charge	6.3%	5.5%		0.8%
Credit Loss Charge (exclude collective impairment)	5.8%	5.4%		0.4%

ELK-Desa's hire purchase financing division remains its main income generator, contributing 98% to the Group's FYE2017 earnings.

During the year under review, the Division's revenue increased by 17% to RM65.44 million from RM55.96 million a year ago. Approximately 83% of the revenue was derived from hire purchase interest income, which recorded an improvement of 14% to RM54.10 million from RM47.28 million last year.

Other income decreased by 29% mainly due to lower fixed deposit interest income, as the cash were utilised for higher yielding hire purchase disbursements.

Impairment allowance increased by 29% to RM20.12 million mainly due to higher delinquent accounts and higher collective impairment allowances. The increase in collective impairment allowances was a result of the general increase in hire purchase receivables.

Credit loss charge (i.e. Impairment Allowance over Average Net Hire Purchase Receivables) increased from 5.5% to 6.3%. Excluding the collective impairment allowance, the credit loss charge for FYE 2017 would be 5.8%, a slight increase from 5.4%.

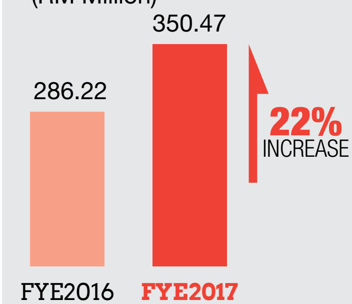
Other expenses increased by 13% to RM15.73 million,which is in line with the larger hire purchase portfolio. Finance costs decreased by 62% to RM0.99 million because of lower borrowings and outstanding ICULS.

Profit before tax increased by 19% to RM30.20 million mainly due to the larger hire purchase portfolio, lower finance costs and the absence of the RM1.00 million right issues expenses incurred in the previous financial year.

Net hire purchase receivables grew by a notable 22% to RM350.47 million. This was a key factor that had led to the Division's increased revenue and profit during the year under review.

As for the quality of its hire purchase assets, the Group's non-performing loans ("NPL") ratio remains at a low and manageable level of 1.2% while loan loss coverage increased slightly to 289% as at 31 March 2017, providing a stronger buffer for the Group against credit losses.

Net HP Receivables
(RM Million)



Cost to income ratio for the Hire Purchase Financing Division for FYE 2017 is 24.3%, down from 25.5% last year. This is reflective of the Group's commitment to manage operating costs prudently and effectively.

Segmental Performance – Furniture Division

Furniture Segment (RM'000)	FYE2017	FYE2016	Variance	Variance
Revenue	29,054	8,210	20,844	254%
Other Income	91	42	49	117%
Cost of inventories sold	(18,759)	(5,214)	(13,545)	260%
Depreciation of Property, Plant and Equipment	(195)	(80)	(115)	144%
Impairment Allowance	(42)	–	(42)	NA
Other Expenses	(9,668)	(2,869)	(6,799)	237%
Finance Costs	(114)	(59)	(55)	93%
Profit before Tax	**367**	**30**	**337**	**1111%**

ELK-Desa's Furniture Division commenced operations in July 2015. Despite being a relatively new business venture for the Group, the Division has already started contributing positively, albeit on a smaller scale, to the Group's earnings.

In addition to its operations in retail and export, the furniture division commenced its wholesale and manufacturing business at the beginning of the FYE 2017.

As a result of the larger business operations, revenue increased from RM8.21 million to RM29.05 million and cost of inventories sold increased from RM5.22 million to RM18.76 million.

Other expenses increased in tandem and mainly due to higher employee remuneration, rental of storage facilities, marketing and distribution expenses.

The furniture division continued to grow positively in its second year of commencing its business operations.

Review of Operations

Hire Purchase Financing Division

The Group operates its hire purchase financing business via its wholly-owned subsidiary, *ELK-Desa Capital Sdn Bhd.* With two offices, one in the heart of Kuala Lumpur and the other in Klang, Selangor, the Division employs a total of 128 individuals.

As ELK-Desa's hire purchase business is centered on the small value used car sector, which is generally not an area of focus for the typical financial institution, the Group relies on a broad hirer base as a strategy to reduce its credit risk.

As of 31 March 2017, the Group's hire purchase financing division has a hirer base of approximately 32,000 individuals. Its average hire purchase disbursement per hirer is approximately RM16,000 while its average outstanding net hire purchase receivables per hirer is approximately RM11,000. These numbers collectively show that the Group's credit exposure per customer is relatively low.

ELK-Desa conducts its hire purchase financing business mainly through dealers. As such, the Group prides itself for having cultivated an extensive dealer network that is more than 1,000 strong.

ELK-Desa is committed to fostering a close and mutually beneficial relationship with its dealers by processing financing requests quickly and efficiently as well as paying out in a timely manner so that dealers are able to sell their used car stocks at a faster rate.

The Group's hire purchase financing business is dependent on the economic environment that correlates to consumer confidence and spending habits. The business also faces credit risks that stem from the hirers' ability to repay instalments in a timely manner. In order to mitigate credit risks, the Group has put in place a stringent credit management policy while monitoring repayments very closely. The Group also minimises its exposure to credit risk by not relying heavily on any single large hirer.

The hire purchase financing business also faces strategic risk, whereby the business may be impacted by the failure to respond to competition, changes in political, economic and regulatory conditions. On the latter, the industry is regulated under the Hire Purchase Act 1967 and the Group will be affected by any unfavorable terms of amendment to the said Act. Strategic risks are managed by paying close attention to all relevant trends and development that can potentially impact the Group's hire purchase financing business and putting in place the capability to react or adapt to changing situations quickly.

Furniture Division
The Group Furniture Division is spearheaded by its wholly-owned subsidiary, *ELK-Desa Furniture Sdn Bhd*. Furniture products are manufactured and distributed by the Group under its own brand, **ELK-DeSA**™ .

To date, the Division employs a total of 88 individuals and has four furniture retail showrooms located in Klang and Shah Alam. These showrooms primarily cater to customers who live in and around their respective areas. In spite of **ELK-DeSA**™ being a new brand in the furniture market, the feedback from visitors and customers have been positive. Most customers find the contemporary and urban-centric design of **ELK-DeSA**™ furniture, along with a reasonable price tag, highly appealing.

In terms of wholesale and export, **ELK-DeSA**™ furniture products are currently being sold to more than 400 furniture retailers throughout Malaysia and distributed to countries like the United States, Australia, Singapore, Brunei, Africa and the Middle East.

When it comes to manufacturing, the Division is currently focused on sofa manufacturing, producing both fabric and leather sofa sets. These sofas are designed to meet mass market requirements and comfort is a priority.

In terms of risks, the performance of the furniture industry is subject to a myriad of factors ranging from macro-economic conditions to consumer and business confidence. Even though the furniture trading business is not expected to contribute significantly to the Group profit in FYE 2018, the Group is confident that this business can grow to become a viable contributor to ELK-Desa's earnings and as such, will seek to expand the business while keeping a close eye on the risks that may impact the business.

Corporate Developments

The Company's RM100.00 million ICULS issued on 15 April 2014 became convertible on 15 April 2016. As at the end of FYE 2017, a total of 68.83 million ICULS have been converted at the conversion price of RM1.18 to 58.33 million ordinary shares. This has contributed to the increase in share capital base to RM243.13 million at 31 March 2017 from RM184.80 million in the previous financial year.

On 11 November 2016, ELK-Desa proposed a renounceable rights issue of up to 51,589,369 new ordinary shares at an issue price of RM1.16 per rights share on the basis of one rights share for every five existing ordinary shares held on an entitlement date to be determined later. The proposed rights issue is expected to be completed in the third quarter of 2017.

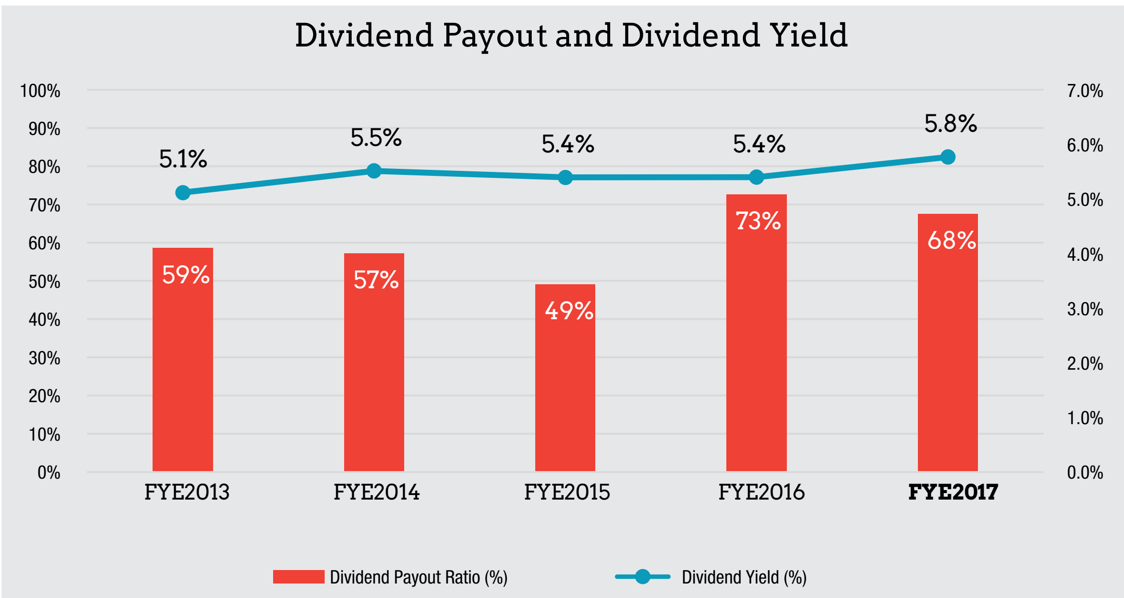
Dividends

The Board of Directors has recommended a single tier final dividend of 3.50 sen per share (FYE 2016: 3.50 sen) for the financial year ended 31 March 2017. This is subject to shareholders' approval at the forthcoming annual general meeting.

In addition, a single tier interim dividend of 3.25 sen per share (FYE 2016 : 3.25 sen) was declared and paid on 8 February 2017. Hence, the total dividend for the financial year ended 31 March 2017 would be 6.75 sen per share (FYE 2016 : 6.75 sen), which is in line with the ELK-Desa's dividend policy of maintaining a dividend payout ratio of not less than 60% of the Group's annual profits after tax.

Over the last five consecutive financial years, ELK-Desa's dividend yield averaged approximately 5.4% per year while its dividend payout ratio averaged to around 61% per year.

Apart from meeting the terms of its dividend policy, ELK-Desa's consistency in distributing dividends has positioned the counter amongst investors as a reliable dividend stock.



Forward-Looking Statement

Malaysia's economy expanded by a better-than-expected 5.6% in the first quarter of 2017, according to Bank Negara Malaysia's Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2017 issued on 19 May 2017. This was higher compared to 4.1% in the first quarter of 2016 and 4.2% in the immediate preceding quarter. The improvement was driven mainly by the turnaround in the agriculture sector and higher growth in manufacturing and services sectors. Headline inflation, however, rose to 4.3% due to higher fuel and food prices.

From the Group's perspective, inflation, whereby Malaysians have to manage a higher cost of living leading to reducing disposal income, is a primary cause of concern as it will likely impact its hire purchase financing business as well as its furniture business.

In spite of this cautious outlook, the Group is confident that demand for used-car financing will remain strong throughout the financial year ending 31 March 2018. Moreover, the niche market segment in which ELK-Desa currently operates in is still relatively under-served when compared to the overall auto financing industry.

Today, ELK-Desa is financing less than 1% of the total used-passenger cars registered in Kuala Lumpur and Selangor. The Group believes that there is still much more room to grow, even within its existing area of operations. As such, the Group will continue to focus its growth in Kuala Lumpur and Selangor. At the same time, it is also committed towards ensuring that credit risk remains within its tolerance level.

For ELK-Desa's furniture division, while the domestic property industry is still in a recovery phase, demand for affordable homes in key urban centers throughout the country continues to out-strip supply. This, coupled with the expected improvement in consumer sentiment, may generate demand for well-crafted, contemporary-designed and price-friendly furniture products that the ELK-DeSA™ brand offers.

With this in view, the Group will continue to invest and grow its furniture business. In addition to enhancing awareness and affinity for its ELK-DeSA™ furniture brand, the Group will also be focused on fortifying operational and cost efficiencies across its furniture business pillars including retail, wholesale, manufacturing and export.

In conclusion, despite the challenging operating environment, there are favourable opportunities that are present in the areas the Group operates in, the Board of Directors of ELK-Desa Resources Berhad is optimistic that ELK-Desa will turn in an improved performance for its financial year ending 31 March 2018.