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.

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.

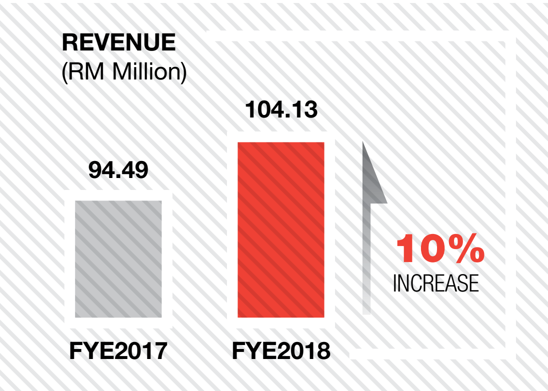
The Group's furniture trading business, which started operations in mid-2015, is currently focused in the retail and wholesale of home furniture in the domestic market.

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 addition, ELK-Desa has also successfully positioned itself as a reliable dividend stock amongst investors.

REVIEW OF FINANCIAL RESULTS, PERFORMANCE AND FINANCIAL CONDITION

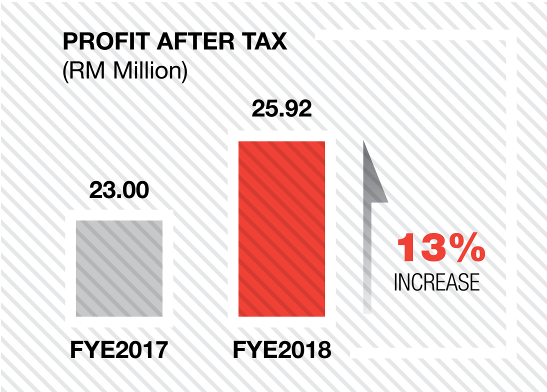
For the financial year ended 31 March 2018 (FYE2018), ELK-Desa registered a 10% increase in revenue to RM104.13 million compared to RM94.49 million last year. This improvement was mainly due to the higher contribution from the Group's hire purchase financing business.

The Group's profit before tax for FYE2018 jumped by a notable 16% to a record RM35.34 million from RM30.57 million previously due to higher contribution from its hire purchase financing division. Profit after tax for FYE2018 rose to RM25.92 million compared to RM23.00 million a year ago.



MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

The Group's basic Earnings per Share ("EPS") was 9.91 sen as compared to 10.66 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 during the financial year as well as the rights issue of ordinary shares that was completed in September 2017.



In FYE2018, the Group's total assets grew by 23% to RM470.34 million while total liabilities increased by 53% to RM73.94 million as compared to FYE2017.

Even though bank borrowings increased by 127% to RM50.64 million in FYE2018, mainly to support the larger hire purchase receivables, the Group's gearing as at 31 March 2018 increased to 0.13 times from 0.08 times a year ago, further reflecting ELK-Desa's ample capacity to increase its leverage.

As at 31 March 2018, the shareholders' funds grew by 19% to RM396.40 million in comparison to the previous financial year and the Net Assets per Share ("NA") stood at RM1.39.

The Group's Return on Assets ("ROA") and Return on Equity ("ROE") improved slightly to 6.1% and 7.1% respectively mainly due to the better performance for the financial year.

SEGMENTAL PERFORMANCE – HIRE PURCHASE FINANCING DIVISION

Hire Purchase Segment (RM'000)	FYE2018	FYE2017	Variance (Amount)	Variance (%)
Revenue	73,082	65,435	7,647	12%
Other Income	2,042	1,986	56	3%
Depreciation of Property, Plant and Equipment	(417)	(381)	(36)	9%
Impairment Allowance	(20,471)	(20,123)	(348)	2%
Other Expenses	(17,153)	(15,732)	(1,421)	9%
Profit before Interest & Tax	**37,083**	**31,185**	**5,898**	**19%**
Finance Costs	(2,330)	(985)	(1,345)	137%
Profit before Tax	**34,753**	**30,200**	**4,553**	**15%**
Credit Loss Charge	5.5%	6.3%		-0.8%
Credit Loss Charge (exclude collective impairment)	5.1%	5.8%		-0.7%

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

ELK-Desa's hire purchase financing division remains its main income generator, contributing 98% to the Group's FYE2018 earnings.

During the year under review, the Division's revenue increased by 12% to RM73.08 million from RM65.44 million a year ago. Approximately 85% of the revenue was derived from hire purchase interest income, which recorded an improvement of 15% to RM62.33 million from RM54.10 million last year.

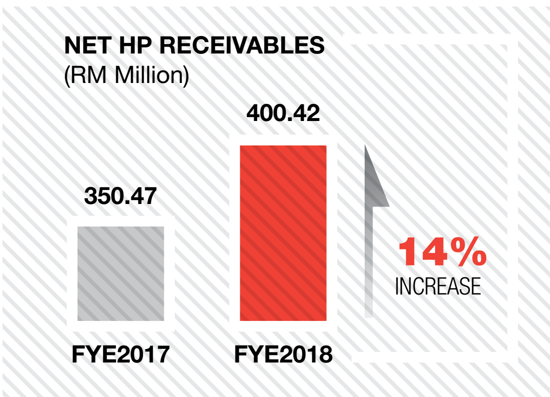
Other income increased by 3% mainly due to additional income received from short term funds. Generally, cash are placed in short term funds or fixed deposits, prior to them being utilised for higher yielding hire purchase disbursements.

Impairment allowance increased marginally by 2% to RM20.47 million mainly due to higher cost of debt recoveries. Despite the slight increase in impairment allowance, credit loss charge (i.e. Impairment Allowance over Average Net Hire Purchase Receivables) decreased from 6.3% to 5.5%. Excluding the collective impairment allowance, the credit loss charge for the financial year would be 5.1%, a decrease from 5.8%. The improvement was mainly due to a stable economic environment during financial year under review and coupled with the Group's concerted efforts in credit recovery.

Other expenses increased by 9% to RM17.15 million mainly due to higher staff costs attributed to the recruitment of a larger workforce and higher staff development expenses, which is in line with the larger hire purchase portfolio. Finance costs increased by 137% to RM2.33 million because of higher borrowings.

Profit before tax increased by 15% to RM34.75 million, in tandem with the increase in net hire purchase receivables and the Group's concerted efforts in credit recovery.

Net hire purchase receivables grew by a notable 14% to RM400.42 million as at 31 March 2018. This was a key factor that had led to the Division's increased revenue and profit during the year under review. Net hire purchase receivables have grown at a compounded annual growth rate (CAGR) of 15% over the last five years.



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 1.0%. Moreover, the NPLs have been fully impaired. Loan loss coverage increased to 342% as at 31 March 2018, providing a stronger buffer for the Group against future credit losses.

Cost to income ratio for the Hire Purchase Financing Division for FYE2018 is 24.1%, down from 24.3% last year. This is reflective of the Group's commitment to manage operating costs prudently and effectively.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

SEGMENTAL PERFORMANCE – FURNITURE DIVISION

Furniture Segment (RM'000)	FYE2018	FYE2017	Variance (Amount)	Variance (%)
Revenue	31,045	29,054	1,991	7%
Other Income	74	91	(17)	-19%
Cost of inventories sold	(19,422)	(18,759)	(663)	4%
Depreciation of Property, Plant and Equipment	(207)	(195)	(12)	6%
Impairment Allowance	(273)	(42)	(231)	549%
Other Expenses	(10,546)	(9,668)	(878)	9%
Profit before Interest & Tax	**671**	**481**	**190**	**39%**
Finance Costs	(89)	(114)	25	-22%
Profit before Tax	**582**	**367**	**215**	**59%**

ELK-Desa's furniture division, which is currently a small and non-core business activity of the Group, also contributed positively during the year under review.

Despite a 49% decrease in export sales amounting to RM2.95 million, the total furniture revenue increased by 7% to RM31.05 million which is in line with the Group's effort to focus its operations in the domestic market. Gross profit margin increased from 35% to 37%.

Impairment allowance increased by RM0.23 million to RM0.27 million, mainly due to slower payment from furniture dealers. Other expenses increased by 9% to RM10.55 million mainly due to higher operating expenses which is in tandem with the higher sales.

The furniture division continued to grow positively in its third year of commencing its business operations, recording a profit before tax of approximately RM0.58 million for FYE2018.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

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 150 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 2018, the Group's hire purchase financing division has a hirer base of approximately 34,000 individuals. Its average outstanding net hire purchase receivables per hirer is approximately RM12,000. These numbers collectively show that the Group's credit exposure per hirer is relatively low.

The Group has predominantly been providing hire purchase financing for loan amount not more than RM20,000. In FYE2018, the Group has stepped up its hire purchase financing efforts in a different business segment targeting at loan amount not more than RM35,000. This business segment allows the Group to expand its hire purchase financing coverage to include a larger range of popular vehicle models. As at 31 March 2018, this business segment made up 14% of the Group's Net Hire Purchase Receivables.

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 Group employs a total of 92 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, **ELK-DeSA**™ furniture products are currently being sold to more than 400 furniture retailers throughout Malaysia.

The Division has a small manufacturing facility catering to the demands and requirements from our four retail showrooms and the wholesale business. The facility specialises in sofa manufacturing and offers customers the opportunity to customise their sofa sets with a wide range of colour choices and add-on features to match their unique home designs. This is a value-added service that positions ELK-Desa attractively compared to competitors in the industry.

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. The furniture trading business is not expected to contribute significantly to the Group profit in the near term mainly due to the weak residential property market. As this business has the potential to become a viable contributor to ELK-Desa's earnings, the Group 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. During the financial year, the Company had issued 8.80 million new ordinary shares pursuant to conversions of 10.38 million units of ICULS. As at the 31 March 2018, a total of 79.21 million ICULS have been converted at the conversion price of RM1.18 to 67.13 million ordinary shares.

In September 2017, ELK-Desa has successfully completed a rights issue of 46.49 million new ordinary shares at an issue price of RM1.16 per rights share.

The ICULS conversion and rights issue of ordinary shares have contributed to the increase in share capital base to RM307.44 million at 31 March 2018 from RM243.13 million in the previous financial year.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

DIVIDENDS

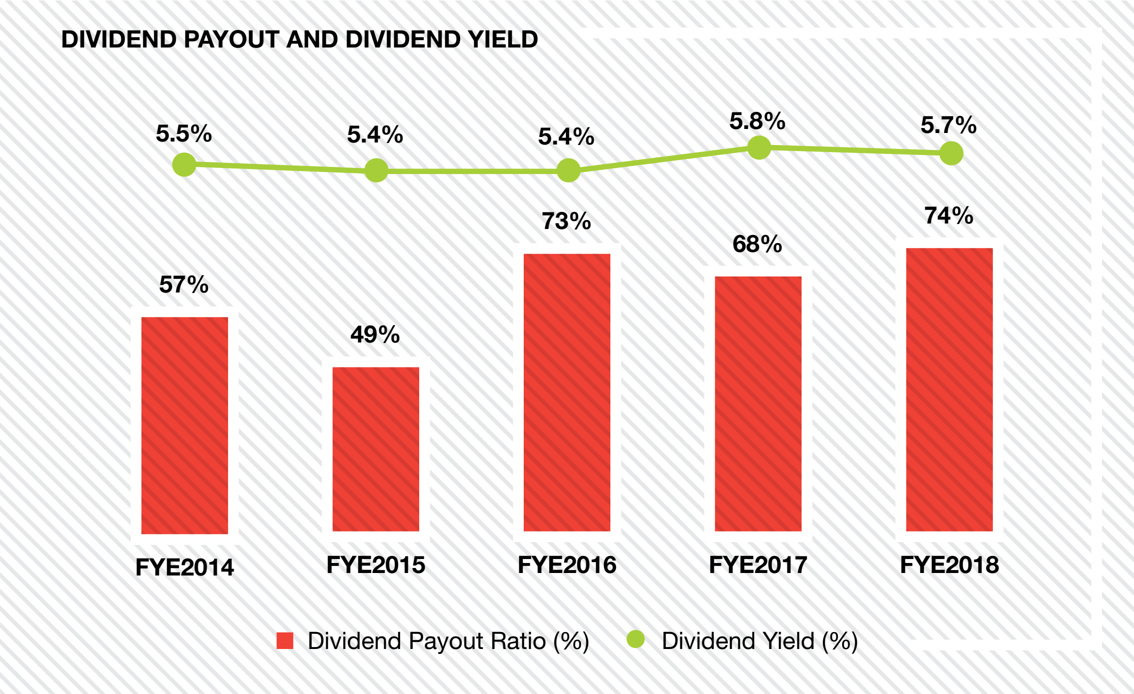
The Board of Directors has recommended a single tier final dividend of 3.50 sen per share (FYE2017: 3.50 sen) for the financial year ended 31 March 2018. This is subject to shareholders' approval at the forthcoming annual general meeting.

In addition, a single tier interim dividend of 3.25 sen per share (FYE2017: 3.25 sen) was declared and paid on 8 February 2018. Hence, the total dividend for the financial year ended 31 March 2018 would be 6.75 sen per share (FYE2017: 6.75 sen).

This marks the third consecutive year the Group has paid out total annual dividends amounting to 6.75 sen per share, which is higher than the annual dividend policy of 60% set by the Board of Directors.

Over the last five consecutive financial years, ELK-Desa's dividend yield averaged approximately 5.6% per year based on the share price at the end of the financial year, while its dividend payout ratio averaged to around 64% 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

The significant change in Malaysia's political landscape following the nation's 14th General Elections may impact the business operating landscape in the short to medium term as new economic policies are being put into place by the new Government.

In spite of the uncertainties in the near future, the Group strongly believes that Malaysia's overall economic outlook remains resilient. Fundamentals such as low non-performing loans and high liquidity in the capital market continue to augur well for the country's economic prospects.

Furthermore, the new leadership's commitment towards curbing inflation and lowering cost of living while expanding job opportunities and increasing the minimum wages may impact consumer sentiments in a positive manner. This may in turn benefit the Group's business in the foreseeable future.

Moving forward, while the Group is cautious and ever-vigilant of developments that may impact our business, we expect demand for used car hire purchase financing to remain strong. We intend to maintain our positive momentum of growing our hire purchase portfolio in a robust manner without compromising on the quality of its assets.

The niche we have carved as a hire purchase financing provider concentrating solely on the underserved second hand car market has provided us with ample room to grow. Moreover, our market share currently is just a small fraction of the automobile hire purchase segment. Nevertheless, we believe in steady and sustainable growth. We will remain diligent in our efforts towards credit recovery while embracing prudent risk management processes.

Our furniture division, which is a small and non-core business at this juncture, will continue to focus its operations in the domestic market. However, the short-term sales could be affected by changes in the GST policies.

In conclusion, the Board is confident that the Group's performance for the financial year ending 31 March 2019 is expected to be better than financial year ended 31 March 2018.