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 segment 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, Tokio Marine Insurans (Malaysia) Berhad and Berjaya Sompo Insurance Berhad.

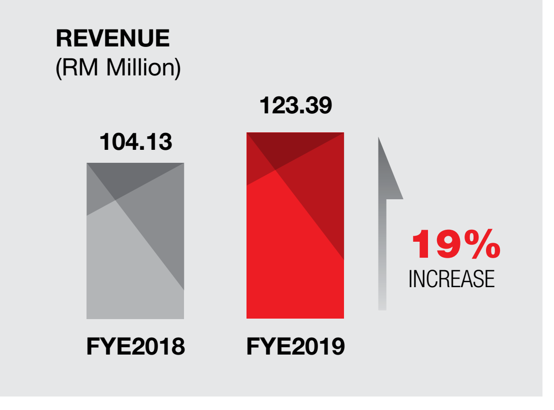
The Group's furniture trading business, which started operations in mid-2015, is currently focused in the wholesaling of home furniture in the domestic market.

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

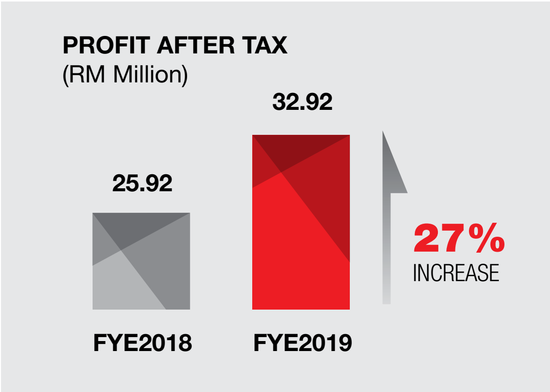
For the financial year ended 31 March 2019 (FYE2019), ELK-Desa registered a 19% increase in revenue to RM123.39 million compared to RM104.13 million last year. This improvement was due to the higher contribution from both the Group's hire purchase financing business and furniture segment.

The Group's profit before tax for FYE2019 jumped by a notable 24% to a record RM43.81 million from RM35.34 million previously due to higher contribution from its hire purchase financing division. Profit after tax for FYE2019 rose to RM32.92 million compared to RM25.92 million a year ago.



MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

In tandem with the Group's improved performance, the Group's basic Earnings per Share ("EPS") was 11.22 sen as compared to 9.91 sen in the previous financial year.



In FYE2019, the Group's total assets grew by 16% to RM547.56 million while total liabilities increased by 85% to RM136.62 million as compared to FYE2018.

In line with the current Group's capital management strategy to finance the growth in Hire Purchase Receivables through leveraging, the bank borrowings increased by 126% to RM114.30 million in FYE2019. Nevertheless, the Group's gearing as at 31 March 2019 remains at a low and manageable level of 0.28 times, further reflecting ELK-Desa's ample capacity to increase its leverage.

As at 31 March 2019, the shareholders' funds grew by 4% to RM410.94 million and the Net Assets per Share ("NA") stood at RM1.39.

The Group's ability to deliver strong and tangible profit growth for FYE2019 is reflected in the notable rise in return on assets ("ROA") and return on equity ("ROE"), which climbed to 6.5% and 8.2% respectively.

SEGMENTAL PERFORMANCE – HIRE PURCHASE FINANCING DIVISION

Hire Purchase Segment (RM'000)	FYE2019	FYE2018	Variance (Amount)	Variance (%)
Revenue	84,900	73,082	11,818	16%
Other Income	2,397	2,042	355	18%
Depreciation of Property, Plant and Equipment	(562)	(417)	(145)	35%
Impairment Allowance	(16,949)	(20,471)	3,522	-17%
Other Expenses	(22,685)	(17,153)	(5,532)	32%
Profit before Interest & Tax	**47,101**	**37,083**	**10,018**	**27%**
Finance Costs	(4,252)	(2,330)	(1,922)	82%
Profit before Tax	**42,849**	**34,753**	**8,096**	**23%**
Credit Loss Charge	3.8%	5.5%		-1.7%
Credit Loss Charge (exclude collective impairment)	3.4%	5.1%		-1.7%

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

ELK-Desa's hire purchase financing division remains its main income generator, contributing 98% to the Group's FYE2019 earnings.

During the year under review, the Division's revenue increased by 16% to RM84.90 million from RM73.08 million a year ago. Approximately 86% of the revenue was derived from hire purchase interest income, which recorded an improvement of 17% to RM73.02 million from RM62.33 million last year.

Other income increased by 17% mainly due to additional income derived from the insurance services provided to the hire purchase customers.

Impairment allowance decreased significantly by 17% to RM16.95 million mainly due to lower cost of debt recoveries and lower delinquent accounts. Credit loss charge (i.e. Impairment Allowance over Average Net Hire Purchase Receivables) decreased substantially from 5.5% to 3.8%. Excluding the collective impairment allowance, the credit loss charge for the financial year would be 3.4%, a decrease from 5.1%. The improvement was mainly due to a stable domestic economic environment during financial year under review and coupled with the Group's concerted efforts in credit recovery.

Other expenses increased by 32% to RM22.69 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. Notably, a significant proportion of the new recruits are for our credit recovery team, enabling them to better engage and manage our continuous growth in hirers' base.

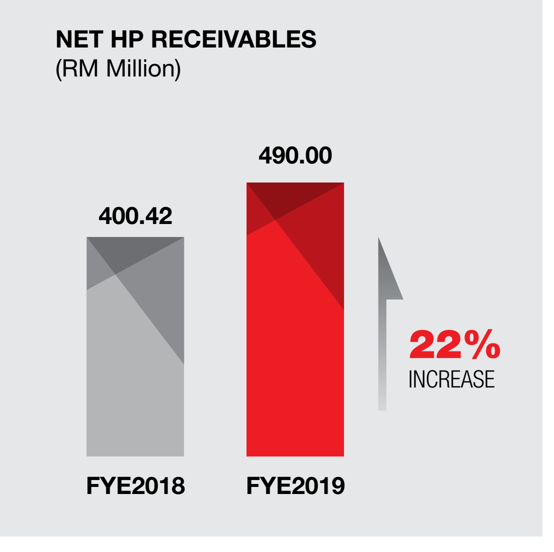
Finance costs increased by 82% to RM4.25 million because of higher borrowings to support the growth of our hire purchase portfolio.

Profit before tax increased by 23% to RM42.85 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 22% to RM490.00 million as at 31 March 2019. This was one of the key factors 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 14% over the last five years, reinforcing ELK-Desa's commitment towards expanding its hirer base without compromising the quality of its assets.

On the quality of its hire purchase assets, the Group's non-performing loans ("NPL") ratio remains at a low and manageable level of 0.8%. Moreover, the NPLs have been fully impaired. Loan loss coverage increased slightly to 359% as at 31 March 2019, providing a stronger buffer for the Group against future credit losses.



MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

As a result of the Group's on-going efforts to manage operating costs prudently and effectively, cost to income ratio for the hire purchase financing division for FYE2019 remains at a low 28.0%. This was slightly higher compared to 24.1% last year mainly due to the above-mentioned expansion in staff strength in handling our continuous growth in our hire purchase portfolio.

SEGMENTAL PERFORMANCE – FURNITURE DIVISION

Furniture Segment (RM'000)	FYE2019	FYE2018	Variance (Amount)	Variance (%)
Revenue	38,494	31,045	7,449	24%
Other Income	141	74	67	91%
Cost of inventories sold	(24,439)	(19,422)	(5,017)	26%
Depreciation of Property, Plant and Equipment	(361)	(207)	(154)	74%
Impairment Allowance	(579)	(273)	(306)	112%
Other Expenses	(12,299)	(10,635)	(1,664)	16%
Profit before Tax	**957**	**582**	**375**	**64%**

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.

The total furniture revenue increased by 24% to RM38.49 million. Gross profit margin decreased marginally to 37%.

Impairment allowance increased by RM0.31 million to RM0.58 million, mainly due to slower payment from furniture dealers. Other expenses increased by 17% to RM12.30 million mainly due to higher operating expenses which is in tandem with the higher sales.

The furniture division continued to grow positively in its fourth year of commencing its business operations, recording a profit before tax of approximately RM0.96 million for FYE2019.

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 195 individuals as at 31 March 2019.

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 2019, the Group's hire purchase financing division has a hirer base of approximately 38,500 individuals. Its average outstanding net hire purchase receivables per hirer is approximately RM13,000. These numbers collectively show that the Group's credit exposure per hirer is relatively low.

In the past two years, the Group has stepped up its hire purchase financing efforts by increasing the loan size to a maximum of RM35,000 to include a larger range of popular vehicle models.

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.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

Furniture Division

The Group Furniture Division is spearheaded by its wholly-owned subsidiary, ELK-Desa Furniture Sdn Bhd. The Division employs 94 individuals as at 31 March 2019.

Furniture products are predominantly manufactured by contract manufacturers locally and from overseas. These products are distributed by the Group under its own brand, ELK-DeSA®.

The Group Furniture Division focuses on the domestic wholesale market and distributes its furniture products to more than 800 furniture retailers throughout Malaysia.

Beside distributing our furniture products via our extensive dealers' network, we have two furniture retail showrooms located in Klang, Selangor. These showrooms primarily cater to customers who live in and around their respective areas.

The Division has a small furniture assembly facility catering to the demands and requirements from our two retail showrooms and the wholesale business. The facility specialises in sofa assembly 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.

Despite 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 our furniture, along with a reasonable price tag, highly appealing.

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.

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 10.56 million new ordinary shares pursuant to conversions of 12.46 million units of ICULS. As at 31 March 2019, the number of outstanding ICULS stood at 8,330,437 units.

Based on the conversion price of RM1.18, the number of new shares pending to be issued pursuant to the conversion is at approximately 7.1 million.

In February 2019, the Company had cancelled 12,830,000 treasury shares. As at 31 March 2019, the number of ordinary shares were 296,148,507 shares.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

DIVIDENDS

The Board of Directors has recommended a single tier final dividend of 3.50 sen per share (FYE2018: 3.50 sen) for the financial year ended 31 March 2019. This is subject to shareholders' approval at the forthcoming Annual General Meeting.

In addition, a single tier interim dividend of 3.50 sen per share (FYE2018: 3.25 sen) was declared and paid on 30 January 2019. Hence, the total dividend for the financial year ended 31 March 2019 would be 7.00 sen per share (FYE2018: 6.75 sen).

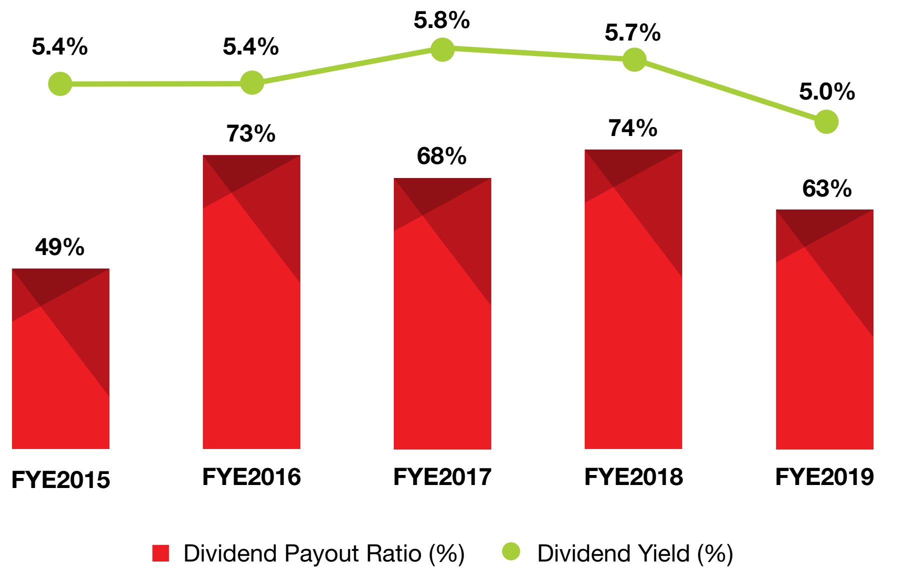
Upon shareholders' approval, the dividend payout for the financial year ended 31 March 2019 would represent approximately 63% of the net profit, which is higher than the annual dividend policy of 60% set by the Board of Directors.

Over the last five consecutive financial years, ELK-Desa's dividend yield averaged approximately 5.5% per year while its dividend payout ratio averaged to around 65% per year.

The Board is mindful of sustaining, if not, improving the shareholders return while conserving sufficient financial resources in the Group for future expansion.

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.

DIVIDEND PAYOUT AND DIVIDEND YIELD*



**Note: Dividend yield is computed based on the share price at the end of the financial year.*

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

FORWARD-LOOKING STATEMENT

Bank Negara Malaysia reported that Malaysia's economy grew by 4.5% in the first quarter of 2019 with private sector activity remaining the key growth driver. The central bank also projected the economy to grow between 4.3% and 4.8% for the year. *(Source: Bank Negara Malaysia's Economic and Financial Developments in the First Quarter of 2019)*

In view of this, we expect Malaysia's economy to remain resilient despite external uncertainties such as the on-going trade dispute between the United States of America and China.

Moreover, Malaysia's low inflation rate, stable employment outlook and sustained consumer and business confidence augur well for our hire purchase financing business in terms of growing our hire purchase receivables as well as enabling credit recovery.

ELK-Desa has expanded our hire purchase financing portfolio over the last five years and we intend to sustain our continuous growth momentum without compromising our assets quality. The used-car segment that we have found our niche remains underserved and our market share to date is comparatively small when compared to the nation's automobile hire purchase segment. As the Group has ample capacity to increase its leverage, we will consider various source of debt financing to support the growth in the near term.

Asset quality, robust credit recovery and prudent cost management will remain at the heart of our corporate strategy moving forward. We have also fortified our team with the capability and talent in credit recovery, which plays an important role in delivering our bottom-line performance.

Our Furniture Division will remain small and non-core business at this juncture. The intense competition and the sluggish residential property market have significantly impacted the growth of the furniture business resulting in a much slower progress than our earlier expectation. However, we will continue to focus more on the domestic market, working alongside furniture dealers across the nation.

In line with the current operating landscape, the Board is confident that the Group's performance for the financial year ending 31 March 2020 is expected to be better than financial year ended 31 March 2019.