MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS OVERVIEW

ELK-Desa Resources Berhad ("ELK-Desa" or the "Group") is a fast growing non-bank lender that has carved a niche as a reputable hire purchase financer in the used motor vehicles sector.

Targeting specifically buyers who are seeking small value financing, a market segment that remains underserved by financial institutions, ELK-Desa has successfully differentiated itself in this highly competitive industry to deliver a 18% compound annual growth rate ("CAGR") in hire purchase loan portfolio over the past five years.

Further leveraging on its hire purchase financing presence, 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.

While its hire purchase financing business is still the Group's primary business activity and income generator, ELK-Desa is also involved in the furniture trading business. Having started operations in mid-2015, the furniture trading segment is currently focused in the wholesaling of home furniture in the domestic market.

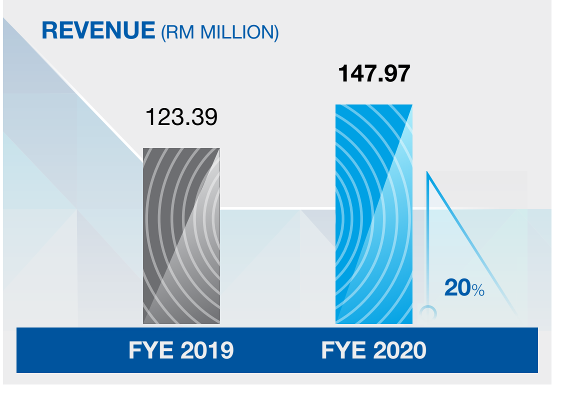
Incorporated and based in Malaysia, ELK-Desa has been listed under the Finance Sector on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") since 18 December 2012.

As a public listed organisation, ELK-Desa strives to enhance its appeal as a dynamic and growth-oriented counter in Bursa Securities in order to attract quality institutions and individual investors. At the same time, the Group has also built itself a reputation as a reliable dividend stock amongst investors by consistently delivering dividend yield averaging approximately 5.6% per year along with a dividend payout ratio that averages around 68% per year.

REVIEW OF FINANCIAL RESULTS, PERFORMANCE AND FINANCIAL CONDITION

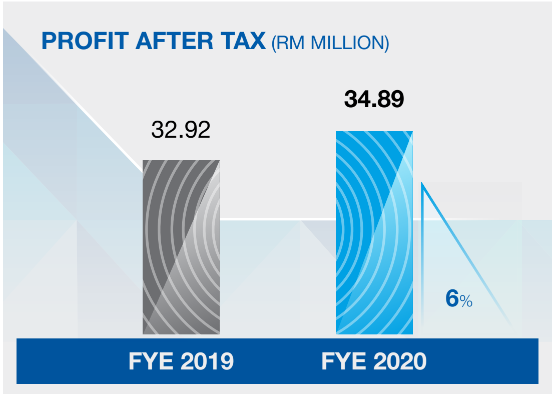
The ongoing Coronavirus ("Covid-19") outbreak and the unprecedented Movement Control Order ("MCO") declared by the Malaysian Government, have resulted in disruptions to our Group's business and operations as we do not fall under the essential services.

Despite the disruptions, for the financial year ended 31 March 2020 ("FYE2020"), ELK-Desa registered a 20% increase in revenue to RM147.97 million compared to RM123.39 million last year. This improvement was mainly due to higher contribution from the Group's hire purchase financing business.



MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

The Group's profit before tax for FYE2020 jumped by a notable 8% to a record RM47.52 million from RM43.81 million previously due to higher contribution from its hire purchase financing division. Profit after tax for FYE2020 rose to RM34.89 million compared to RM32.92 million a year ago.



In tandem with the Group's improved performance, the Group's basic Earnings per Share ("EPS") was 11.75 sen as compared to 11.22 sen in the previous financial year.

In FYE2020, the Group's total assets grew by 37% to RM750.58 million while total liabilities increased by 138% to RM325.46 million as compared to FYE2019.

In line with the current Group's capital management strategy to finance the growth in Hire Purchase Receivables through leveraging, the Group's total borrowings (excluding debt securities) increased by 71% to RM195.61 million in FYE2020.

During the financial year under review, the Group established its maiden Medium Term Notes ("MTN") programme of up to RM1.00 billion in nominal value via Premier Auto Assets Berhad ("Premier Auto"). Premier Auto is a special purpose vehicle that was set up as the issuer of the MTN programme. The tenure of the MTN Programme is 10 years and Premier Auto may periodically issue MTNs of various tenures, up to an aggregate limit of RM1.00 billion.

The first tranche of Senior MTNs totalling RM105.00 million (comprising RM85.00 million of Class A MTNs rated AAA and RM20.00 million of Class B MTNs rated AA3), were issued in July 2019. This has been reflected in the substantial increase in the Group's total debt securities to RM104.15 million in FYE2020 as compared to RM0.63 million one year ago.

Nevertheless, the Group's gearing as at 31 March 2020 remains at a manageable level of 0.71 times.

As at 31 March 2020, the shareholders' funds grew by 3% to RM425.11 million and the Net Assets per Share ("NA") stood at RM1.43.

Return on equity ("ROE") increased slightly from 8.2% to 8.3%. However, it is important to note that the Group's business was affected by the Covid-19 pandemic and the subsequent MCO that started from 18 March 2020 onwards.

Return on assets ("ROA") decreased from 6.5% to 5.4% as a result of larger cash reserves of which bulk of the cash reserves was built as part of the requirements under the asset backed securitisation MTN structure. The sufficient level of cash reserves proved to be providential especially in view of the current crisis situation.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

SEGMENTAL PERFORMANCE – HIRE PURCHASE FINANCING DIVISION

Hire Purchase Segment (RM'000)	FYE2020	FYE2019	Variance (Amount)	Variance (%)
Revenue	104,673	84,900	19,773	23%
Other Income	3,811	2,397	1,414	59%
Depreciation of Property, Plant and Equipment & Right of Use Assets	(756)	(562)	(194)	35%
Impairment Allowance	(23,656)	(16,949)	(6,707)	40%
Other Expenses	(25,703)	(22,685)	(3,018)	13%
Profit before Interest & Tax	**58,369**	**47,101**	**11,268**	**24%**
Finance Costs	(12,377)	(4,252)	(8,125)	191%
Profit before Tax	**45,992**	**42,849**	**3,143**	**7%**
Credit Loss Charge	4.2%	3.8%		0.4%
Cost to Income Ratio	27.5%	28.0%		(0.5)%

ELK-Desa's hire purchase financing division remains its main income generator, contributing 97% to the Group's FYE2020 earnings.

During the year under review, the Division's revenue increased by 23% to RM104.67 million from RM84.90 million a year ago. Approximately 88% of the revenue was derived from hire purchase interest income, which recorded an improvement of 26% to RM91.79 million from RM73.02 million last year.

Other income increased by 59% mainly due to additional income derived from holding a higher level of cash reserves.

Impairment allowance increased significantly by 40% to RM23.66 million. Credit loss charge (i.e. Impairment Allowance over Average Net Hire Purchase Receivables) increased from 3.8% to 4.2%. The higher impairment allowance and credit loss charge were mainly due to a 29% larger hire purchase receivables portfolio and higher expected credit loss provisions in view of the uncertain economic effects arising from the ongoing Covid-19 outbreak. In addition, the unprecedented MCO has disrupted our hire purchase operations and payment behaviour of the hirers. During the financial year, the Group's impairment loss model was re-assessed and fine-tuned to better reflect the economic situations arising from the Covid-19 outbreak.

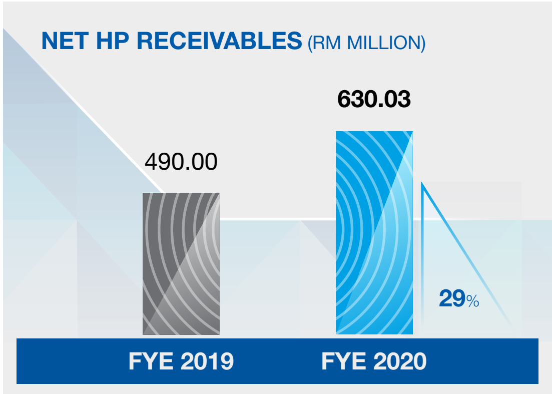
Other expenses increased by 13% to RM25.70 million mainly due to higher staff costs. Notably, during this financial year, the number of staff force remains at the same level as the previous financial year, despite having to serve and manage the significant growth in hirers' base.

Finance costs increased by 191% to RM12.38 million because of higher borrowings to support the growth of our hire purchase portfolio.

Profit before tax increased by 7% to RM45.99 million, in view of the increased hire purchase interest income that was offset by the higher impairment allowances arising from Covid-19 effects.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

Net hire purchase receivables grew by a notable 29% to RM630.03 million as at 31 March 2020. 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 18% 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 increased to 1.4% as at FYE2020 compared to 0.8% in the previous year. This was largely due to the closure of all our operating units and office premises in view of the MCO declared across Malaysia from 18 March 2020 to 3 May 2020. Nevertheless, the NPL ratio of 1.4% remains at a manageable level and the Management strives towards bringing it down to the pre-MCO levels. As a result of the higher NPL, loan loss coverage decreased from 359% to 220% as at 31 March 2020, which still provides a strong buffer for the Group against future credit losses.

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 FYE2020 remains at a low 27.5%.

SEGMENTAL PERFORMANCE – FURNITURE DIVISION

Furniture Segment (RM'000)	FYE2020	FYE2019	Variance (Amount)	Variance (%)
Revenue	43,297	38,494	4,803	12%
Other Income	200	141	59	42%
Cost of inventories sold	(28,132)	(24,439)	(3,693)	15%
Depreciation of Property, Plant and Equipment & Right of Use Assets	(1,544)	(361)	(1,183)	328%
Impairment Allowance	(559)	(579)	20	(3)%
Other Expenses	(11,572)	(12,299)	727	(6)%
Profit before Interest & Tax	**1,690**	**957**	**734**	**77%**
Finance Costs	(159)	-	(159)	NA
Profit before Tax	**1,531**	**957**	**574**	**60%**

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 12% to RM43.30 million. Gross profit margin decreased marginally from 37% to 35%. This is because of steeper discounts offered to dealers during the year.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

Impairment allowance decreased by 3% to RM0.56 million, mainly due to improved payment cycle from furniture dealers. Other expenses decreased by 6% to RM11.57 million mainly due to reclassification of rental expenses of premises from Other Expenses category to the Depreciation of Rights of Use Assets category pursuant to the adoption of MFRS16 Leases on 1 April 2019.

The furniture division continued to grow positively in its fifth year of commencing its business operations, recording a profit before tax of approximately RM1.53 million for FYE2020.

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 194 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 institutions, the Group relies on a broad hirer base as a strategy to reduce its credit risk.

As of 31 March 2020, the Group's hire purchase financing division has a hirer base of approximately 44,000 individuals. Its average outstanding net hire purchase receivables per hirer is approximately RM14,300. These numbers collectively show that the Group's credit exposure per hirer is relatively low.

In the past three years, the Group has stepped up its hire purchase financing efforts by increasing the maximum loan size to RM35,000. This effectively allowed the Group to include a larger range of popular vehicle models and re-balance its vehicle financing mix.

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. The Division employs 92 individuals.

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 focus on the domestic wholesale market and distribute ELK-DeSA™ furniture products to more than 800 furniture retailers throughout Malaysia.

Beside distributing our ELK-DeSA™ 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 relatively 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 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 997,937 new ordinary shares pursuant to conversions of 1,177,576 units of ICULS. As at 31 March 2020, the number of outstanding ICULS stood at 7,152,861 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 6.1 million. The maturity date of the ICULS is on 14 April 2022 and any ICULS which are not converted would be mandatorily converted into new ELK-Desa shares.

DIVIDENDS

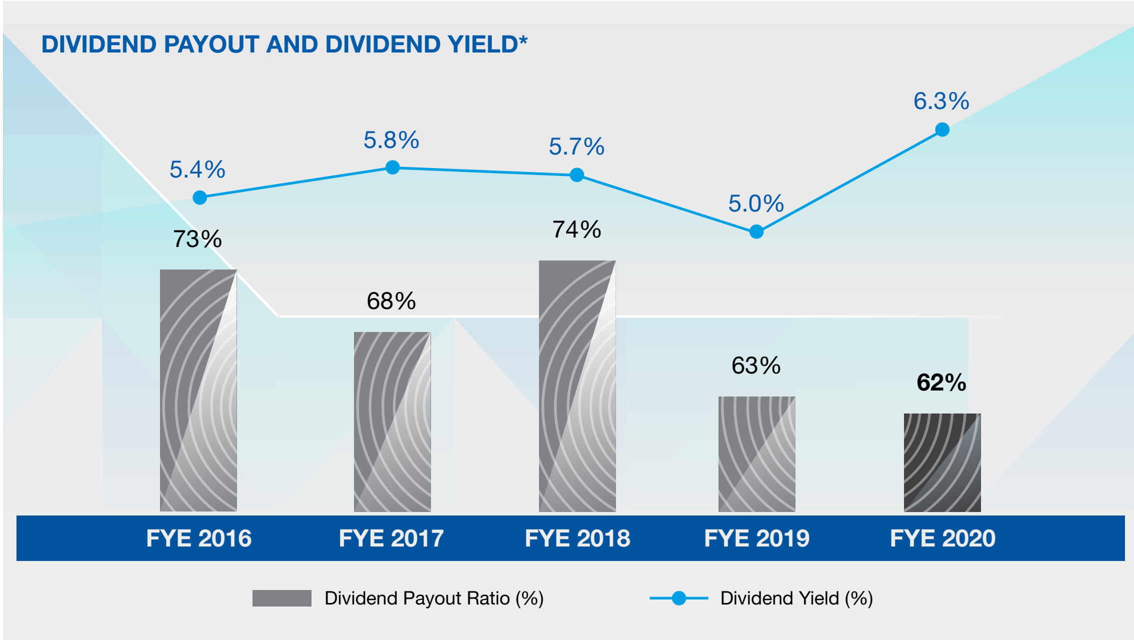
The Board of Directors has declared a second single tier interim dividend of 3.75 sen per share in respect of the financial year ended 31 March 2020. The dividend shall be paid on 16 July 2020 to the shareholders whose name appeared in the record of depositors of the Company as at 30 June 2020.

In addition to the first single tier interim dividend of 3.50 sen per share which was paid on 15 January 2020, the total dividend for the financial year ended 31 March 2020 was 7.25 sen per share (FY2019: 7.00 sen). This represents a dividend payout ratio of approximately 62% of the net profit, which is higher than the dividend policy of 60% set by the Board. The Board is committed to uphold its dividend policy.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

With the declaration of the second interim dividend, the Board of Directors will not recommend any final dividend for the financial year ended 31 March 2020.

The Board is mindful of sustaining, if not, improving the shareholders return while conserving sufficient financial resources in the Group for future expansion. ELK-Desa's consistency in distributing dividends has positioned the counter amongst investors as a reliable dividend stock.



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

FORWARD-LOOKING STATEMENT

The current financial year (FY2021) is expected to be a very challenging year for the used car financing industry following the Covid-19 global crisis. The Group expects overall transactions in the used car market to decline significantly due to several unfavorable macro-economic conditions.

Unemployment is expected to increase significantly as we move further towards the second half of 2020. This would translate into a lower propensity to spend by consumers. Business confidence is also expected to remain low as the total impact and cost of the pandemic have yet to be determined. Investments by the private sector are expected to be subdued.

These factors play a vital role in the decision making process when it comes to purchasing a used car. At the same time, they may also affect our borrowers' ability to fulfill their repayment commitment.

MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

In view of this muted operating outlook, ELK-Desa does not expect its hire purchase portfolio to grow further in the near future and is bracing itself for performance to be adversely affected in the next 12 months.

As such, in the immediate to medium term, the Group intends to preserve the quality of its assets by intensifying its credit risk management. It will also remain agile and focused on streamlining its existing processes to improve operational efficiencies and optimise operating cost.

Negative consumer sentiment amidst a sluggish property market will also affect the Group's furniture trading business. As a wholesaler for the domestic market, ELK-Desa must now take a more cautious approach in engaging and working with credible and reliable furniture dealers in order to protect its cash flow and minimise defaults.

While we are paying close attention to these developments, we believe that the second hand car and furniture industries would be able to withstand the difficulties in the medium to long term, given the various economic stimulus packages announced by the Government to enhance the cash flows for households and businesses.

In view of the bleak outlook ahead, the Board and the Management of ELK-Desa are committed to working diligently and cohesively to protect the shareholders' value and ensure that the Group is able to weather the storm for the financial year ending 31 March 2021.