MANAGEMENT DISCUSSION
& ANALYSIS

BUSINESS OVERVIEW

ELK-Desa Resources Berhad ("ELK-Desa" or "the Group") is an established 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 sustained profitable performance and uninterrupted dividend payouts over the last 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.

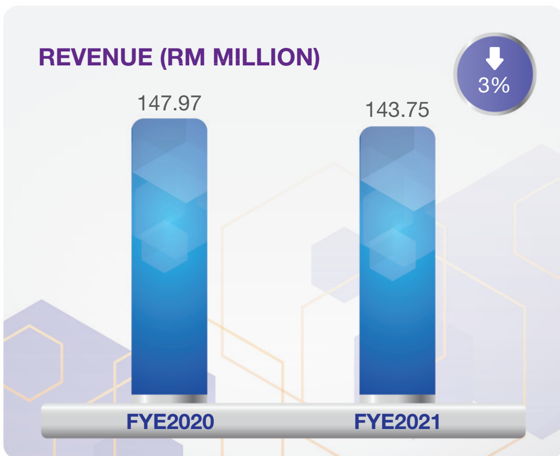
As a public listed organisation, ELK-Desa strives to enhance its appeal as a dynamic and growth-oriented counter in Bursa Malaysia in order to attract quality institutions and individual investors. That said, business sustainability has always been the Group's top priority. As such, the Group has embedded three important elements into its business operation as a guide for its sustainability goal. These elements include being mindful with its growth strategy by not expanding beyond its mean and take on higher risk, having a longer term strategies that would create solid stable returns on a longer period and prudent practices to ensure better asset quality over quantity.

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 66% per year.

REVIEW OF FINANCIAL RESULTS, PERFORMANCE AND FINANCIAL CONDITION

The global Coronavirus ("Covid-19") pandemic and the resulting Movement Control Order ("MCO") declared by the Malaysian Government, have resulted in disruptions to our Group's business and operations during the financial year.

Amidst the challenging business environment, for the financial year ended 31 March 2021 ("FYE2021"), ELK-Desa registered a 3% decrease in revenue to RM143.75 million compared to RM147.97 million last year. This decline was mainly due to lower contribution from the Group's hire purchase financing business.



MANAGEMENT DISCUSSION
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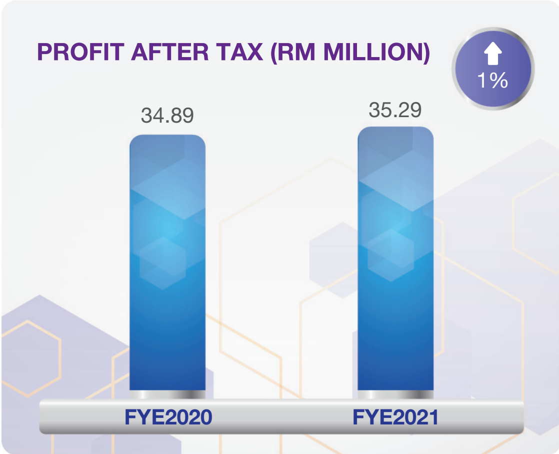
(cont'd)

The Group's profit before tax for FYE2021 decreased by 3% to RM46.02 million from RM47.52 million previously due to lower contribution from its hire purchase financing division. Profit after tax for FYE2021 increased marginally to RM35.29 million compared to RM34.89 million a year ago as a result of a lower effective tax rate due to recognition of deferred tax assets arising from impairment allowance on hire purchase receivables.



In tandem with the slightly higher profits, the Group's basic Earnings per Share ("EPS") was 11.87 sen as compared to 11.75 sen in the previous financial year.

In FYE2021, the Group's total assets decreased by 12% to RM663.01 million while total liabilities decreased by 32% to RM221.18 million as compared to FYE2020.

In line with the Group's focus on asset quality and credit risk management, hire purchase disbursements were tightened and surplus cash collections during the year were used to pare down borrowings. Total borrowings (excluding debt securities) decreased by 28% to RM141.33 million in FYE2021. Debt securities decreased by 48% to RM54.32 million mainly due to redemption of a Senior Medium Term Note on its maturity date during the financial year. The Group's gearing as at 31 March 2021 remains at a low level of 0.44 times.

As at 31 March 2021, the shareholders' funds grew by 4% to RM441.83 million and the Net Assets per Share ("NA") stood at RM1.49.

Return on equity ("ROE") decreased from 8.3% to 8.1% as a result of the disruptions to the Group's operations due to the pandemic.

Return on assets ("ROA") also decreased from 5.4% to 5.0% mainly due to a lower yield on the Hire Purchase Receivables as a result of a significant reduction in new hire purchase disbursements for the financial year.

SEGMENTAL PERFORMANCE – HIRE PURCHASE FINANCING DIVISION

Hire Purchase Segment (RM)	FYE2021	FYE2020	Variance	Variance
Revenue	93,310,318	104,673,252	(11,362,934)	-11%
Other Income	2,985,070	3,811,171	(826,101)	-22%
Depreciation of Property, Plant and Equipment & Right of Use Assets	(1,076,847)	(756,129)	(320,718)	42%
Impairment Allowance	(18,666,959)	(23,656,214)	4,989,255	-21%
Other Expenses	(21,786,860)	(25,703,391)	3,916,531	-15%
Profit before Interest & Tax	**54,764,722**	**58,368,689**	**(3,603,967)**	**-6%**
Finance Costs	(12,983,865)	(12,376,951)	(606,914)	5%
Profit before Tax	**41,780,857**	**45,991,738**	**(4,210,881)**	**-9%**
Credit Loss Charge	3.2%	4.2%		-1.0%
Cost to Income Ratio	27.4%	27.5%		-0.1%

ELK-Desa's hire purchase financing division remains its main income generator, contributing 91% to the Group's FYE2021 earnings.

MANAGEMENT DISCUSSION
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(cont'd)

During the year under review, the Division's revenue decreased by 11% to RM93.31 million from RM104.67 million a year ago. Approximately 94% of the revenue was derived from hire purchase interest income, which recorded a 4% decline to RM87.73 million from RM91.79 million last year. Non hire purchase interest income decreased by 57% to RM5.58 million from RM12.88 million last year, as a result of lower new hire purchase disbursements in FYE2021.

Other income decreased by 22% mainly due to lower interest income derived from fixed deposits and short term funds. This can be attributed to the generally low interest rate environment in Malaysia during the financial year.

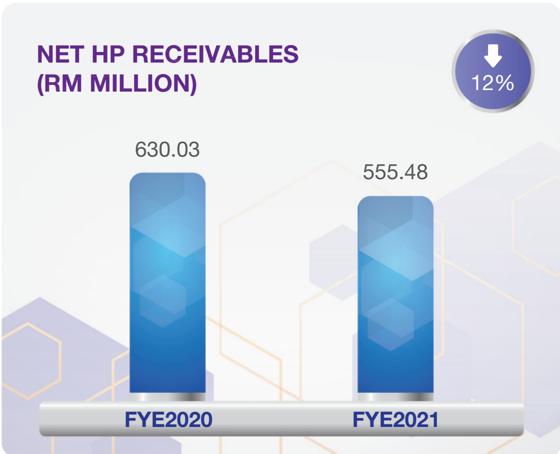
Notably, impairment allowance decreased by 21% to RM18.67 million. Credit loss charge (i.e. Impairment Allowance over Average Net Hire Purchase Receivables) also decreased from 4.2% to 3.2%. The lower impairment allowance and credit loss charge were mainly due to lower losses incurred for repossession and positive repayment efforts from our hire purchase customers in spite of the global pandemic.

Other expenses decreased by 15% to RM21.79 million mainly due to lower staff costs. 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 remains at a low 27.4%. Notably, the number of employees remained at the same level year on year as there were no layoffs or salary reductions.

Finance costs increased by 5% to RM12.98 million because of higher borrowings at the beginning of the financial year. As the year progressed, finance cost came down reducing gradually as a result of the Group's concerted effort to pare down its borrowing.

Profit before tax decreased by 9% to RM41.78 million, in view of the lower hire purchase revenue.

Net hire purchase receivables declined by 12% to RM555.48 million as at 31 March 2021. This is in tandem with the Group's strategy to preserve asset quality instead of driving receivables growth. Notably, net hire purchase receivables have grown at a compounded annual growth rate ("CAGR") of 14% over the last five years.



Since the beginning of the financial year, the Group had increased its engagement with its borrowers and have offered assistance to those eligible, on a case-by-case basis. As a result, these borrowers were more willing to come forward to make regular payments. Notably, the Group will classify these borrowers whom we offered assistance, as non-performing when their outstanding months arrears are more than 3 months.

In this regard, the Group's non-performing loans ("NPL") ratio increased to 4.9% as at FYE2021 compared to 1.4% in the previous year. Nevertheless, the NPL ratio of 4.9% remains at a manageable level and the Management is striving to gradually bring it down to the pre-Covid levels. The Group rigorously reviews its impairment policy, especially during the current pandemic crisis, to ensure that sufficient impairment provisions are made for future credit losses. As a result of the higher NPL, loan loss coverage decreased from 220% to 121% as at 31 March 2021.

MANAGEMENT DISCUSSION
& ANALYSIS
(cont'd)

SEGMENTAL PERFORMANCE – FURNITURE DIVISION

Furniture Segment (RM)	FYE2021	FYE2020	Variance	Variance
Revenue	50,441,082	43,297,084	7,143,998	16%
Other Income	728,449	200,661	527,788	263%
Cost of Inventories Sold	(33,738,921)	(28,132,326)	(5,606,595)	20%
Depreciation of Property, Plant and Equipment & Right-of-Use Assets	(1,618,482)	(1,544,261)	(74,221)	5%
Impairment Allowance	(41,461)	(558,765)	517,304	-93%
Other Expenses	(11,453,839)	(11,572,062)	118,223	-1%
Profit before Interest & Tax	**4,316,828**	**1,690,331**	**2,626,497**	**155%**
Finance Costs	(82,255)	(158,820)	76,565	-48%
Profit before Tax	**4,234,573**	**1,531,511**	**2,703,062**	**176%**

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. In fact, the contribution from this division grew to a strong 9% from 3% last financial year.

The total furniture revenue increased by 16% to RM50.44 million. After the MCO was uplifted in May 2020, the furniture division experienced an upsurge in business activity, driven by pent up consumer demand for home quality furniture. Gross profit margin decreased marginally from 35% to 33%. This was due to cost pressures as a result of supply chain disruptions and rising material costs that impacted the industry during the financial year.

Impairment allowance for the furniture division decreased substantially to RM0.04 million from RM0.56 million last year. This was due to a significantly better repayment effort by furniture dealers during the period. Other expenses decreased marginally by 1% to RM11.45 million mainly due lower selling and distribution cost.

The furniture division continued to grow positively in its sixth year of commencing its business operations, recording a profit before tax of approximately RM4.23 million for FYE2021.

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 188 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 2021, the Group's hire purchase financing division has a hirer base of approximately 41,000 individuals. Its average outstanding net hire purchase receivables per hirer is approximately RM13,500. These numbers collectively show that the Group's credit exposure per hirer is relatively low.

Annual hire purchase disbursements fell significantly to RM80.19 million from RM288.15 million a year ago as the Group shifted its strategy to focus on preserving asset quality and credit recovery during the Covid-19 crisis.

ELK-Desa continues to conduct 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.

MANAGEMENT DISCUSSION
& ANALYSIS
(cont'd)

In spite of the challenging operating landscape during the financial year, ELK-Desa has remained steadfast in fostering a close and mutually beneficial relationship with its dealers. The Group value adds to our dealers' business 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.

When it comes to risk management, 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 view of the uncertainties brought about by the pandemic and in order to mitigate credit risks, the Group further enhanced its credit management policy while monitoring repayments very closely during the year. The Group has also remained firmed in minimising 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 90 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 also has a small furniture assembly facility, specializing in sofa assembly, catering to the demands and requirements from our two retail showrooms and the wholesale business.

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.

Moving forward, the Group intends to grow its furniture trading business at a sustainable pace to strengthen its contribution to the Group's performance, while the hire purchase financing division continues to be the primary income generator in the foreseeable future.

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.

MANAGEMENT DISCUSSION
& ANALYSIS
(cont'd)

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 92,330 new ordinary shares pursuant to conversions of 108,951 units of ICULS. As at 31 March 2021, the number of outstanding ICULS stood at 7,043,910 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 6.0 million. The maturity date of the ICULS is on 15 April 2022 and any ICULS which are not converted would be mandatorily converted into new ELK-Desa shares.

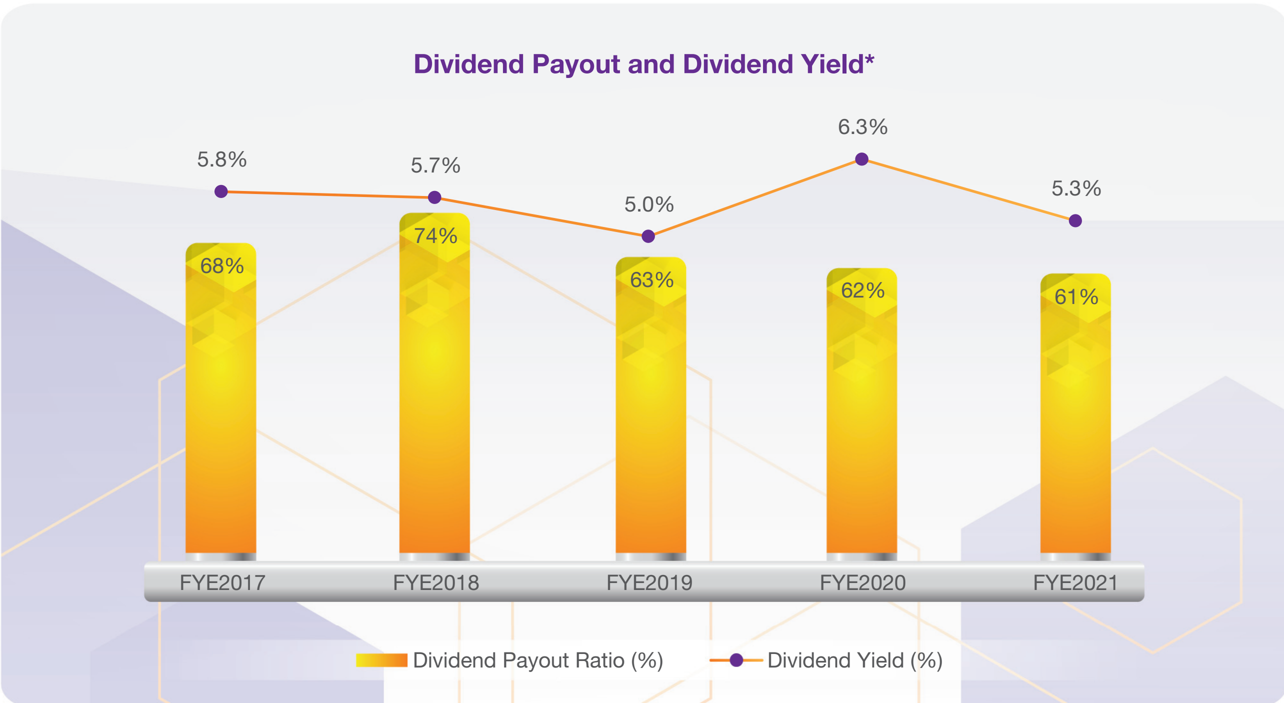
DIVIDENDS

The Board of Directors has declared a second single tier interim dividend of 4.75 sen per share in respect of the financial year ended 31 March 2021. The dividend was paid on 18 June 2021 to the shareholders whose name appear in the record of depositors of the Company as at 9 June 2021.

In addition to the first single tier interim dividend of 2.50 sen per share which was paid on 18 December 2020, the total dividend for the financial year ended 31 March 2021 is 7.25 sen per share (FY2020: 7.25 sen). This represents a dividend payout ratio of approximately 61% 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.

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 2021.

In spite of the short-term challenges brought about by the pandemic, the Board is mindful of sustaining, if not, improving the shareholders return while conserving sufficient financial resources 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.*

MANAGEMENT DISCUSSION
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(cont'd)

FORWARD-LOOKING STATEMENT

The operating landscape in the current financial year ("FYE2022") is expected to have less uncertainties compared to a year ago. This stems from the on-going roll-out of the national vaccination programme, additional economic stimulus packages by the Government and the gradual recovery of global trade and economy.

Nevertheless, uncertainties still persist. The Covid-19 crisis is far from over as the entire country was placed under Full MCO or total lockdown starting from 1 June 2021. Prior to this, a nationwide MCO 3.0 was put in place on 12 May 2021. More MCOs in the foreseeable future cannot be ruled out.

Although Bank Negara Malaysia, in its Economic and Monetary Review 2020, expects the Malaysian economy to recover in 2021, the central bank also cautioned that recovery will be gradual and uneven across economic sectors, and that speed bumps can be expected.

As we move into the second half of 2021, ELK-Desa expects demand for used-car financing to remain strong on the back of stable macro-economic factors including manageable unemployment rate, improving consumer and business confidence as well as controllable inflation. Barring any unforeseen shocks to the economy, we anticipate demand to continue to out-pace supply as this niche market remains underserved.

Demand for hire purchase solutions may be strong but prolonged disruptions to the economy caused by the pandemic may eventually hamper our customers' ability to fulfill their loan obligations. Moving forward, ELK-Desa is maintaining its cautious stance to protect the quality of its assets while ensuring that its hire purchase receivables does not decline any further. In addition, the Group will also remain vigilant in credit risk management while continuing to improve operational efficiencies and optimise operating cost.

For the Group's furniture trading business, demand for furniture products is also expected to remain resilient. The lifestyle in the new normal will see more and more people working and studying from home. Hence, we foresee an uptrend in consumers spending to make their homes better equipped for work and study.

In spite of the increased demand for affordable quality furniture products, raw material supply locally and globally have been hampered by logistic problems due to the pandemic while travel restrictions as well as foreign labour policies have caused labour shortages. ELK-Desa aims to focus on overcoming these supply chain issues by working closely with our suppliers.

Concurrently, being a furniture wholesaler for the domestic market, ELK-Desa is also committed to building strong relationships with furniture retailers across Malaysia in order to solidify our brand presence and grow.

For the financial ending 31 March 2022, the Board of ELK-Desa will strive to maintain its performance levels in tandem with FY2021. The Board is also committed to delivering its dividend policy of distributing not less than 60% of the Group's annual net profits after tax to shareholders.