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 expertise, the Group also cross-sells motor related general insurance products to its hire purchase customers. These products are mainly from leading insurance brands, namely 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 on the wholesaling of home furniture in the domestic market.

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

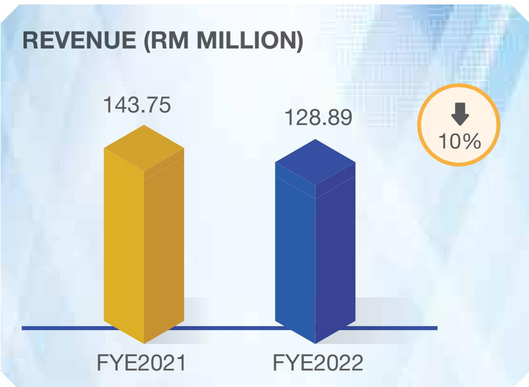
As a public listed organisation, ELK-Desa strives to enhance its appeal as a resilient counter in Bursa Malaysia in order to attract quality institutions and individual investors. That said, business sustainability has always been the Group's top priority. As such, the Group has embedded three important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

At the same time, the Group has also built itself a following as a reliable dividend stock amongst investors by consistently delivering dividend yield averaging approximately 5.2% per year along with a dividend payout ratio that averages around 64% 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 2022 ("FYE2022"), ELK-Desa registered a 10% decrease in revenue to RM128.89 million compared to RM143.75 million last year. This decline was due to lower contributions from both the Group's hire purchase financing and furniture divisions.



MANAGEMENT DISCUSSION & ANALYSIS
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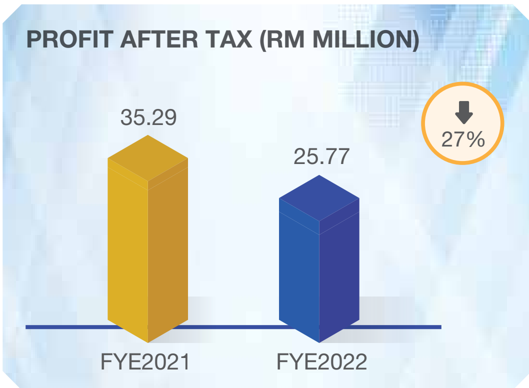
The Group's profit before tax for FYE2022 decreased by 24% to RM34.89 million from RM46.02 million previously while profit after tax for FYE2022 decreased by 27% to RM25.77 million compared to RM35.29 million a year ago. The decline in profits were mainly due to lower contribution from its hire purchase financing division.

In tandem with the lower profits, the Group's basic Earnings per Share ("EPS") was 8.66 sen as compared to 11.87 sen in the previous financial year.

In FYE2022, the Group's total assets decreased by 12% to RM582.26 million while total liabilities decreased by 39% to RM134.73 million as compared to FYE2021.



As the Group focused on asset quality and credit risk management coupled with lower hire purchase disbursements, surplus cash collections during the year were used to pare down borrowings. Total borrowings (excluding debt securities) decreased by 17% to RM117.26 million in FYE2022. Debt securities have been reduced significantly from RM54.50 million to approximately RM7,000 as the Senior Medium Term Notes ("MTN") were fully redeemed during the financial year. The Group's gearing as at 31 March 2022 remains at a low level of 0.26 times.

As at 31 March 2022, the shareholders' funds grew marginally to RM447.53 million and the Net Assets per Share ("NA") stood at RM1.50.

Return on equity ("ROE") decreased from 8.1% to 5.8%. Return on assets ("ROA") also decreased from 5.0% to 4.1%. The decline in both metrics were a result of the disruptions to the Group's operations due to the long periods of MCO lockdown during the year.

Segmental Performance – Hire Purchase Financing Division

Hire Purchase Segment (RM)	FYE2022	FYE2021	Variance	Variance
Revenue	85,300,811	93,310,318	(8,009,507)	-9%
Other Income	2,019,143	2,985,070	(965,927)	-32%
Depreciation of Property, Plant and Equipment & Right of Use Assets	(1,377,993)	(1,076,847)	(301,146)	28%
Impairment Allowance	(22,154,427)	(18,666,959)	(3,487,468)	19%
Other Expenses	(21,521,323)	(21,786,860)	265,537	-1%
Profit before Interest & Tax	**42,266,211**	**54,764,722**	**(12,498,511)**	**-23%**
Finance Costs	(9,543,542)	(12,983,865)	3,440,323	-26%
Profit before Tax	**32,722,669**	**41,780,857**	**(9,058,188)**	**-22%**
Credit Loss Charge	4.1%	3.2%		0.9%
Cost to Income Ratio	29.4%	27.4%		2.0%

ELK-Desa's hire purchase financing division remains as its main income generator, contributing 94% to the Group's FYE2022 earnings.

During the year under review, the Division's revenue decreased by 9% to RM85.30 million from RM93.31 million a year ago. Approximately 93% of the revenue was derived from hire purchase interest income, which recorded a 10% decline to RM79.20 million from RM87.73 million last year. Non hire purchase interest income increased by 9% to RM6.10 million from RM5.58 million last year, as a result of higher new hire purchase disbursements in FYE2022.

Other income decreased by 32% mainly due to lower interest income derived from fixed deposits. This can be attributed to the lower level of cash and bank balances during the financial year.

MANAGEMENT DISCUSSION & ANALYSIS
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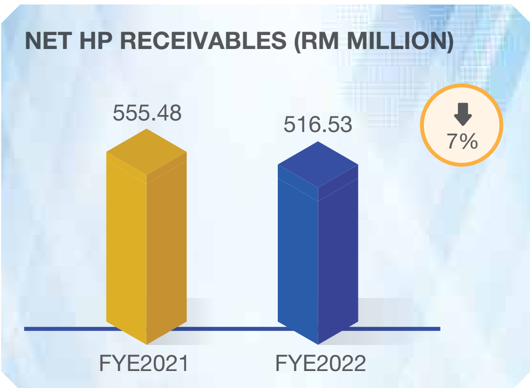
Impairment allowance increased by 19% to RM22.15 million. Credit loss charge (i.e. Impairment Allowance over Average Net Hire Purchase Receivables) also increased from 3.2% to 4.1%. The higher impairment allowance and credit loss charge were mainly due to an increase in impaired loan accounts during the financial year, largely caused by the disruptions of the hirers' repayment patterns amidst the movement restrictions and lockdowns imposed between June to September 2021.

Other expenses decreased marginally to RM21.52 million mainly due to lower operating expenses as well 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 29.4%. Notably, the number of employees remained at the same level year on year as there were no layoffs or salary reductions.

Finance costs decreased by 26% to RM9.54 million as a result of the Group's concerted effort to pare down its borrowing and early redeem the Senior MTNs during the financial year.

Profit before tax decreased by 22% to RM32.72 million, in view of the lower hire purchase revenue and higher impairment allowances that were mitigated by lower finance costs.

Net hire purchase receivables declined by 7% to RM516.53 million as at 31 March 2022. 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 8% over the last five years.



In the last two years, 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 continue to classify these borrowers whom we offered assistance, as impaired loan accounts when their outstanding months arrears are more than 3 months.

In this regard, the Group's Gross Impaired Loans ratio increased to 9.9% as at FYE2022 compared to 4.9% in the previous year. Net Impaired Loans ratio increased to 2.9% from 1.4% in the previous year. As explained in the earlier sections, the disruptions of the hirers' repayment patterns amidst the movement restrictions and lockdowns was the main cause to the increase in the impaired loans. This was exacerbated by the Group's constrained debt recovery activities as a result of the Temporary Measures for Reducing The Impact of Conoravirus Disease 2019 (Covid-19) Act 2020 ("Covid-19 Act 2020") that generally protects the borrowers' interest.

Nevertheless, given that the chances of future movement restrictions are low as Malaysia transitions towards endemicity, the Management is striving to gradually bring down the impaired loans ratios to the pre-Covid levels. The Group rigorously reviews its impairment policy, especially during the current pandemic crisis, to ensure that adequate impairment provisions are made for potential future credit losses. As a result of the higher impaired loans, loan loss coverage decreased from 121% to 94% as at 31 March 2022.

MANAGEMENT DISCUSSION & ANALYSIS
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Segmental Performance – Furniture Division

Furniture Segment (RM)	FYE2022	FYE2021	Variance	Variance
Revenue	43,593,042	50,441,082	(6,848,040)	-14%
Other Income	400,738	569,213	(168,475)	-30%
Cost of inventories sold	(29,327,617)	(33,738,921)	4,411,304	-13%
Depreciation of Property, Plant and Equipment & Right of Use Assets	(1,320,177)	(1,618,482)	298,305	-18%
Impairment Allowance	(251,952)	117,775	(369,727)	-314%
Other Expenses	(10,866,000)	(11,453,839)	587,839	-5%
Profit before Interest & Tax	**2,228,034**	**4,316,828**	**(2,088,794)**	**-48%**
Finance Costs	(56,603)	(82,255)	25,652	-31%
Profit before Tax	**2,171,431**	**4,234,573**	**(2,063,142)**	**-49%**

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

The total furniture revenue decreased by 14% to RM43.59 million mainly due to the business and operational disruptions caused by the full MCO imposed between June and September 2021. Gross profit margin remained at 33%.

Impairment allowance for the furniture division increased to RM0.25 million. This was due to a slower repayment from furniture dealers during the period. Other expenses decreased by 5% to RM10.87 million mainly due lower selling and distribution cost.

The furniture division continued to contribute positively in its seventh year of commencing its business operations, recording a profit before tax of approximately RM2.17 million for FYE2022.

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 187 individuals.

As ELK-Desa's hire purchase business is centred 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 2022, the Group's hire purchase financing division has a hirer base of approximately 38,900 individuals. Its average outstanding net hire purchase receivables per hirer is approximately RM13,300. These numbers collectively show that the Group's credit exposure per hirer is relatively low.

Annual hire purchase disbursements increased to RM110.66 million from RM80.19 million a year ago as a result of our efforts to minimise the decline in our receivables during the financial year.

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.

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 expeditiously and efficiently as well as paying out in a timely manner. By doing so, dealers are able to sell their used car stocks at a faster rate and have better cashflow for their operation.

MANAGEMENT DISCUSSION & ANALYSIS
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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 unfavourable 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 97 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, specialising 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.

CORPORATE DEVELOPMENTS

The Company's RM100.00 million ICULS issued on 15 April 2014 became convertible on 15 April 2016. The maturity date of the ICULS was on 15 April 2022 and all remaining ICULS which were not converted have been mandatorily converted into new ELK-Desa shares. Upon full conversion, the number of outstanding ordinary shares stood at 303,207,119.

MANAGEMENT DISCUSSION & ANALYSIS
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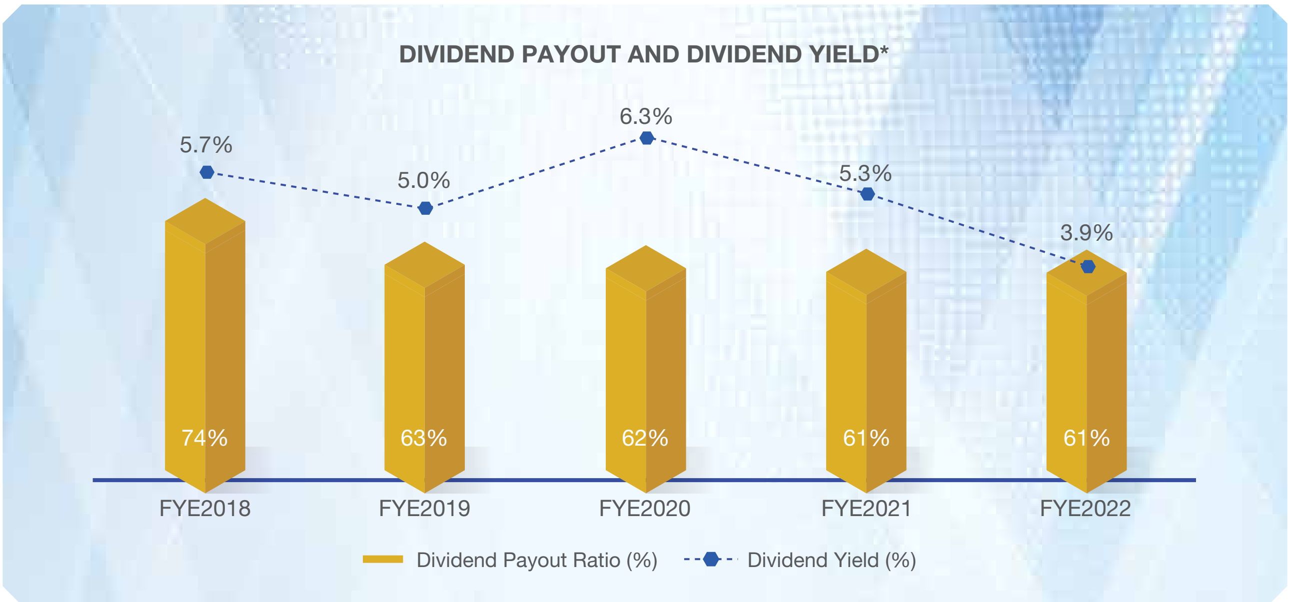
DIVIDENDS

The Board of Directors has declared a second single tier interim dividend of 3.25 sen per share in respect of the financial year ended 31 March 2022 and the dividend will be paid on 16 June 2022. 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 2022.

In addition to the first single tier interim dividend of 2.00 sen per share, which was paid on 16 December 2021, the total dividend for the financial year ended 31 March 2022 is 5.25 sen per share (FY2021: 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 has and will remain committed towards sustaining, if not, improving shareholders return while at the same time conserving sufficient financial resources for future expansion. ELK-Desa's consistency in distributing dividends has further solidified the counter as a reliable dividend stock amongst investors.



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

FORWARD-LOOKING STATEMENT

Malaysia's transition to the endemic phase starting from 1 April 2022 augurs well for the national economy as a whole. The removal of restrictions related to business operating hours, workforce limit in offices and interstate travel signals a clear light at the end of the tunnel for businesses and commercial enterprises after numerous operational disruptions caused by the global health crisis over the last two years.

The resumption of international travel and the reopening of the Malaysian land borders with Singapore and Thailand are also critical contributing factors towards the recommencement of trade and tourism activities that can reinvigorate the economy.

In view of this, the domestic economy is expected to improve further in 2022, with growth projected between 5.3% to 6.3%, according to Bank Negara Malaysia. This is underpinned by stronger domestic demand, continued expansion in external demand, and further improvement in the labour market.

Supporting this improved outlook, the threat of further operational disruptions caused by Movement Control Orders or lockdowns, which had impacted the performance of the Group in FY2022, has also dissipated due to the high vaccination rate among the national population.

MANAGEMENT DISCUSSION & ANALYSIS
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Naturally, the socio-economic normalisation following the COVID-19 crisis will be vital towards spurring business activities, attracting foreign direct investments, generating jobs and bolstering consumer spending, all of which are core macro-economic factors that affect the performance of our hire purchase financing and furniture trading divisions.

From an operational stand-point, ELK-Desa aims to gradually bring its hire purchase receivables portfolio towards pre-pandemic levels while taking a cautious approach to protect our asset quality. We believe that the overall demand for used-car hire purchase financing will remain strong as the economy shifts towards recovery. Additionally, the growth of online trading platforms for used car may contribute towards a slower price reduction rate for older used cars and the introduction of a higher minimum wage rate of RM1,500 may also bolster purchasing sentiments and borrowers' repayment ability.

Moving forward, ELK-Desa is still mindful of the uncertainties that remain within the operating landscape. These include the rising cost of living due to supply chain and logistic disruptions; expiry of loan moratoriums given out by banks that will impact consumers' disposable incomes and their repayment ability. Moreover, the Group's debt recovery activities continue to be constrained by the Covid-19 Act 2020 which generally protects borrowers' interest.

In view of this, we intend to keep a watchful eye on market developments while remaining steadfast on strengthening our debt recovery efforts.

For the furniture segment, the improving business and consumer sentiments are expected to drive demand for quality and value for money furniture products. Home renovation and office remodelling works are also being carried out more actively across the country as Malaysians return to the workplace or work on a hybrid-basis as we transition to the endemic phase. Furthermore, with the resumption of residential and commercial construction projects, more people will be moving into their newly completed properties, which will in turn result in higher demand for home furnishings.

ELK-Desa plans to sustain revenue growth for its furniture segment by working closely with furniture dealers to identify the right furniture products that appeal to Malaysian consumers. This is in tandem with our strategy to solidify our presence in the wholesaling of home furniture in the domestic market.

Concurrently, the Group will also be optimising its capabilities in stock and logistics management in order to ensure the timely delivery of our furniture products to our customers. We are especially focused on pro-actively managing the severe supply chain constraints caused by logistics disruptions.

For the financial ending 31 March 2023, the Board of ELK-Desa will strive to deliver improved performance as compared to FY2022. 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 in the current financial year.