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 financier in the used motor vehicles sector.

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") since 18 December 2012.

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.

As a public listed company, ELK-Desa strives to enhance its appeal as a resilient counter in Bursa Malaysia in order to attract quality investors that are seeking long term returns. 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 reputation as a reliable dividend stock amongst investors by consistently delivering dividend yield averaging approximately 5.0% per year along with a dividend payout ratio that averages around 62% per year.

REVIEW OF FINANCIAL RESULTS, PERFORMANCE AND FINANCIAL CONDITION

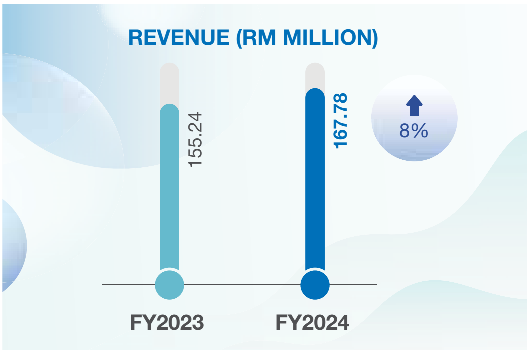
For the financial year ended 31 March 2024 ("FY2024"), ELK-Desa registered an 8% increase in revenue to RM167.78 million compared to RM155.24 million last year. This increase was due to higher contributions from the Group's hire purchase financing division.

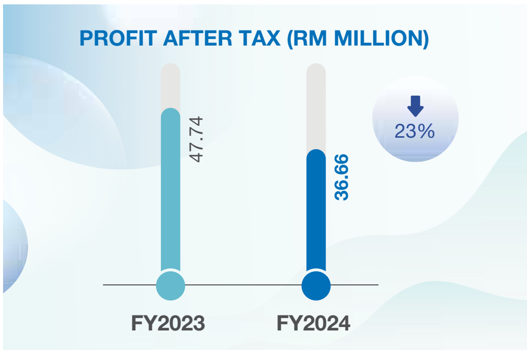
The Group's profit before tax for FY2024 decreased by 23% to RM49.04 million from RM63.31 million previously while profit after tax for FY2024 decreased by 23% to RM36.66 million compared to RM47.74 million a year ago. The decreases in profits were mainly due to lower contribution from both hire purchase financing and furniture divisions.

In tandem with the lower profits, the Group's basic Earnings per Share ("EPS") was 8.06 sen as compared to 10.50 sen in the previous financial year.

In FY2024, the Group's total assets increased by 16% to RM806.95 million while total liabilities increased by 46% to RM323.53 million as compared to FY2023 due to higher borrowings.

Total borrowings increased by 51% to RM301.17 million in FY2024, to support the growth in hire purchase receivables in the past one year. The Group's gearing as at 31 March 2024 remains at a manageable level of 0.62 times.





MANAGEMENT DISCUSSION & ANALYSIS
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As at 31 March 2024, the shareholders' funds grew by 2% to RM483.42 million and the Net Assets per Share ("NA") stood at RM1.06.

Return on equity ("ROE") decreased from 10.4% to 7.7%. Return on assets ("ROA") also decreased from 7.5% to 4.9%. The decline in both metrics were due to impairment allowances from the hire purchase division going back to a more realistic level in FY2024 as compared to exceptionally low levels last year.

Segmental Performance – Hire Purchase Financing Division

Hire Purchase Segment (RM)	FY2024	FY2023	*Variance*	*Variance*
Revenue	113,227,038	100,758,282	*12,468,756*	*12%*
Other Income	1,855,953	1,588,951	*267,002*	*17%*
Depreciation of Property, Plant and Equipment & Right of Use Assets	(1,356,691)	(1,433,658)	*76,967*	*5%*
Impairment Allowance	(26,385,893)	(6,986,805)	*(19,399,088)*	*-278%*
Other Expenses	(29,159,765)	(27,344,671)	*(1,815,094)*	*-7%*
Profit before Interest & Tax	**58,180,642**	**66,582,099**	***(8,401,457)***	***-13%***
Finance Costs	(12,127,278)	(8,761,716)	*(3,365,562)*	*-38%*
Profit before Tax	**46,053,364**	**57,820,383**	***(11,767,019)***	***-20%***
Credit Loss Charge	4.1%	1.2%		*2.9%*
Cost to Income Ratio	29.6%	30.8%		*-1.2%*

ELK-Desa's hire purchase financing division remains as the Group's main income generator, contributing 94% to the Group's FY2024 earnings.

During the year under review, the division's revenue increased by 12% to RM113.23 million from RM100.76 million a year ago. Approximately 90% of the revenue was derived from hire purchase interest income, which recorded a 14% increase to RM101.60 million from RM89.10 million last year. Non hire purchase interest income decreased marginally to RM11.63 million from RM11.66 million last year, as a result of lower overdue and service charges in FY2024.

Other income increased by 17% mainly due to higher interest income derived from short-term funds. This can be attributed to the higher level of cash, bank balances and short-term funds during the financial year.

Impairment allowance increased by 278% to RM26.39 million from RM6.99 million a year ago. Credit loss charge (i.e. Impairment Allowance over Average Net Hire Purchase Receivables) increased from 1.2% to 4.1%. The impairment allowance and credit loss charge for this financial year were higher mainly due to the higher losses incurred from sales of repossessed vehicles in contrast to exceptionally good collections in the first half of the last financial year.

Other expenses increased by 7% to RM29.16 million mainly due to higher operating expenses and staff costs which are in tandem with the increased level of hire purchase portfolio this year. Cost to income ratio for the hire purchase financing division for FY2024 is 29.6%, down from 30.8% last year. This is reflective of the Group's commitment to manage operating costs prudently and effectively.

Finance costs increased by 38% to RM12.13 million as a result of higher drawdown of block discounting facilities to support the increased hire purchase receivables.

Profit before tax decreased by 20% to RM46.05 million, as higher hire purchase revenue was offset by the higher impairment allowances.

MANAGEMENT DISCUSSION & ANALYSIS
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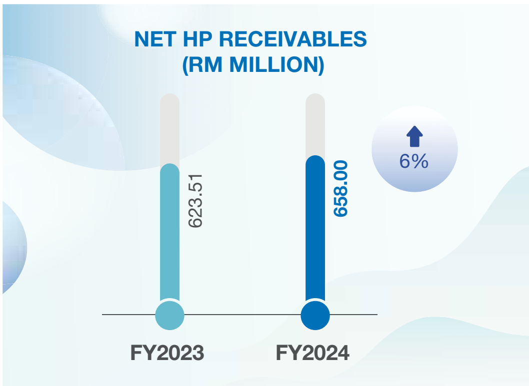
Net hire purchase receivables increased by 6% to RM658.00 million as at 31 March 2024. This is in tandem with the Group's strategy to bring its hire purchase receivables portfolio towards pre-pandemic levels while taking a cautious approach to protect our asset quality. Notably, net hire purchase receivables are at the highest level since the Company's commencement of hire purchase business and have grown at a compounded annual growth rate ("CAGR") of 6% over the last five years.



In the past few years since FY2021, there were many constraints to the Group's debt recovery activities as a result of the Temporary Measures for Reducing The Impact of Coronavirus Disease 2019 (COVID-19) Act 2020 ("COVID-19 Act") that generally protects the borrowers' interest. Upon the lapse of the COVID-19 Act, the Group resumed its full suite of debt recovery activities in FY2024. After exhausting all means of debt recovery actions, unrecoverable hire purchase receivables were written off during the financial year under review.

The positive recovery, repossession activities as well as the write off of those unrecoverable receivables resulted in the Group's Gross Impaired Loans ratio decreasing substantially to 1.9% as at 31 March 2024 compared to 7.4% in the previous year. Net Impaired Loans ratio decreased to 0.6% from 1.9% in the previous year.

Management strives to further bring down the impaired loans ratios to the pre-COVID levels. The Group rigorously reviews its impairment policy to ensure that adequate impairment provisions are made for potential future credit losses.

Segmental Performance – Furniture Division

Furniture Segment (RM)	FY2024	FY2023	*Variance*	*Variance*
Revenue	54,549,144	54,483,770	*65,374*	*0%*
Other Income	155,016	259,221	*(104,205)*	*-40%*
Cost of inventories sold	(35,733,165)	(33,908,817)	*(1,824,348)*	*-5%*
Depreciation of Property, Plant and Equipment & Right of Use Assets	(1,147,036)	(1,233,317)	*86,281*	*7%*
Impairment Allowance	(358,403)	(553,915)	*195,512*	*35%*
Other Expenses	(14,355,571)	(13,403,642)	*(951,929)*	*-7%*
Share of Results of Associates, Net of Tax	5,220	0	*5,220*	*100%*
Profit before Interest & Tax	**3,115,205**	**5,643,300**	***(2,528,095)***	***-45%***
Finance Costs	(129,428)	(155,656)	*26,228*	*17%*
Profit before Tax	**2,985,777**	**5,487,644**	***(2,501,867)***	***-46%***

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 increased marginally to RM54.55 million. Gross profit margin decreased from 38% to 35% mainly due to higher imported goods purchase costs as a result of weaker foreign exchange, write down of inventory cost and general margin squeeze resulting from stiffer competition.

Other expenses increased by 7% to RM14.36 million mainly due to higher selling, distribution and staff costs which are in line with the higher sales.

The furniture division recorded a lower profit before tax of approximately RM2.99 million for FY2024 mainly due to the lower gross profit margin explained above.

MANAGEMENT DISCUSSION & ANALYSIS
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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 204 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 2024, the Group's hire purchase financing division has a hirer base of approximately 39,000 individuals. Its average outstanding net hire purchase receivables per hirer is approximately RM16,900. These numbers collectively show that the Group's credit exposure per hirer is relatively low.

Annual hire purchase disbursements exceeded RM240.00 million for the second consecutive year after slowing down during the pandemic years of FY2021 and FY2022, in our efforts to bring our hire purchase receivables towards pre-pandemic levels.

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 disbursements 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.

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 order to mitigate credit risks, the Group has in place stringent credit management policy while monitoring repayments very closely. The Group has also remained firm 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 furniture division employs 125 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.

Besides 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.

MANAGEMENT DISCUSSION & ANALYSIS
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The ELK-DeSA™ brand continues to strengthen its presence in the furniture market, as many of its customers find the contemporary and urban-centric design of ELK-DeSA™ furniture and its 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 will continue to be the primary income generator in the foreseeable future.

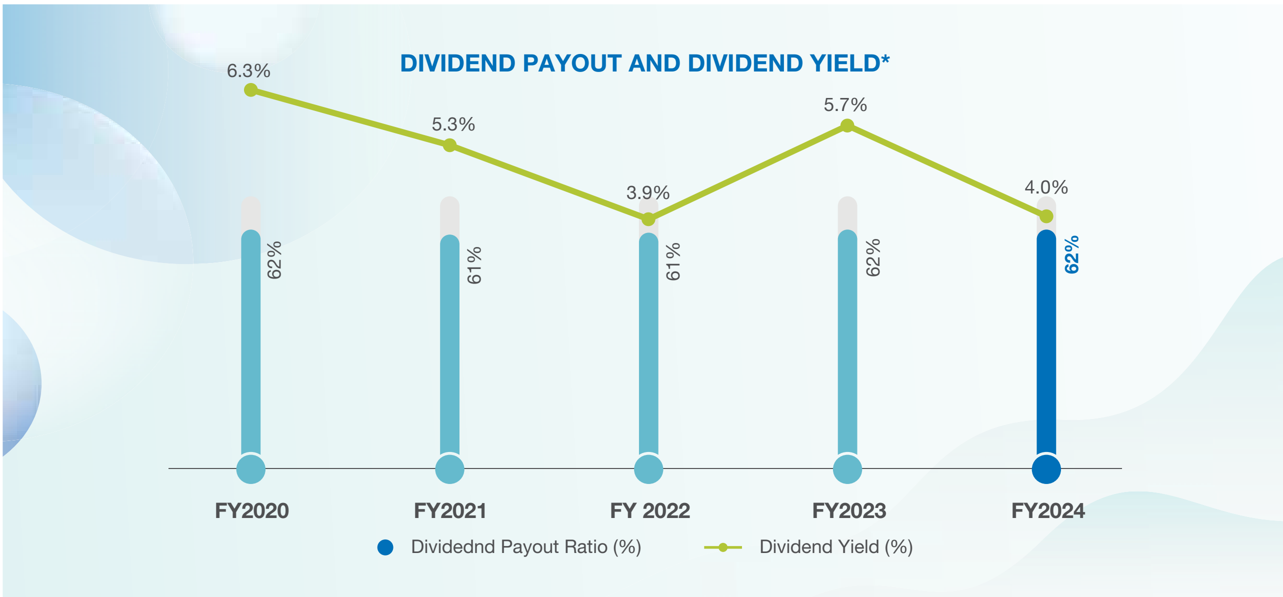
In terms of risks, the performance of the furniture industry is subject to a myriad of factors ranging from macroeconomic conditions to consumer and business confidence.

DIVIDENDS

The Board of Directors has declared a second single tier interim dividend of 3.00 sen per share in respect of the financial year ended 31 March 2024 and the dividend was paid on 20 June 2024. 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 2024.

In addition to the first single tier interim dividend of 2.00 sen per share, which was paid on 18 December 2023, the total dividend for the financial year ended 31 March 2024 is 5.00 sen per share (FY2023: 6.50 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 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

MANAGEMENT DISCUSSION & ANALYSIS
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FORWARD-LOOKING STATEMENT

The Malaysian economy is projected to grow between 4% and 5% in 2024, according to the Economic Monetary Review 2023 by Bank Negara Malaysia ("BNM"). This growth will be underpinned by continued expansion in domestic demand and improvement in external demand.

BNM also reported that inflation is expected to remain modest, broadly reflecting stable cost and demand conditions. Nevertheless, the central bank also cautioned that inflation may be impacted by changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.

In FY2024, ELK-Desa had delivered a commendable performance, which was reflected in the second highest profit levels ever recorded in our history. This was primarily due to the expansion of our hire purchase receivables, which have surpassed pre-COVID levels to reach record highs.

In FY2025, we aim to sustain this growth momentum further by expanding our hire purchase receivables moderately between the lower and mid teens in terms of percentage.

We have also started our new financial year on a positive note with our gross impaired loans ratio of 1.9% as at 31 March 2024. This was mainly due to our ability to resume full scale recovery activities throughout FY2024. Prior to this, our recovery activities have been curtailed as a result of the pandemic. As we move further into FY2025, the Group will be focused on driving down impaired loans ratio even more by pro-actively engaging our customers and maintaining our pace in recovery efforts.

ELK-Desa does not expect the subsidy rationalisation initiative by the government to significantly affect our hire purchase financing segment as our customers are mostly those who qualify for subsidies. Nevertheless, we will continue to keep a close eye on developments in this area as there could be indirect consequences such as higher cost of goods and services that may impinge on people's ability to repay their loans.

In supporting our continued growth in the hire purchase financing segment, we intend to rely on internally generated funds and banks borrowings in light of our strong balance sheet and favourable interest rate regime. We do not expect to tap into the capital markets to raise funds at this point in time.

In the next few years, the Group is also committed to enhance our ROE so as to consistently exceed 8%. Our efforts will be focused towards improving the yield on hire purchase receivables and improve cost efficiencies throughout our operating units.

For our furniture segment, we will continue to grow our presence in Sabah and Sarawak. We plan to bolster our logistic arrangements in order to have a competitive edge over other wholesalers from Peninsular Malaysia. In an effort to become more competitive within the markets in Sabah and Sarawak, we aim to offer more in terms of diversity and range of products, while positioning ourselves as a trusted partner in delivering quality and value for money furniture products.

Moving forward, in view of the improving operating landscape and our drive to expand our hire purchase portfolio in a robust yet sustainable manner, we look forward to delivering an improved performance in FY2025.