

## MANAGEMENT DISCUSSION AND 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 Sompoo 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.

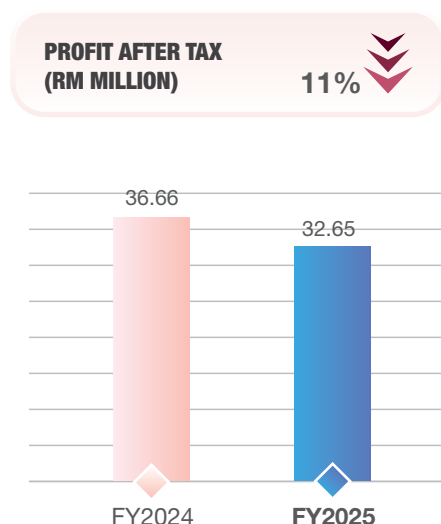
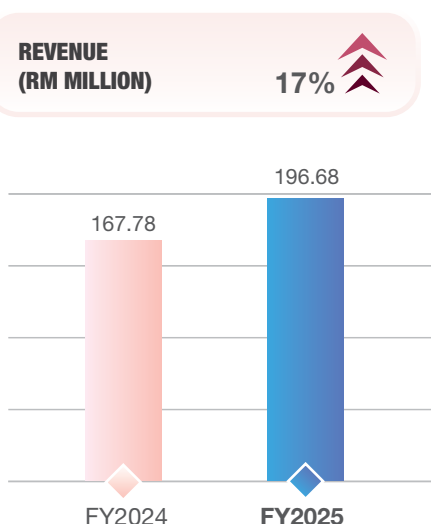
As a public listed company, ELK-Desa strives to enhance its appeal as a resilient counter in Bursa Malaysia in order to attract quality investors that are seeking long term returns. That said, business sustainability has always been the Group’s top priority. As such, the Group has embedded three important 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, over the last five years, delivering a dividend yield averaging approximately 4.6% 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 2025 (“FY2025”), ELK-Desa registered a 17% increase in revenue to RM196.68 million compared to RM167.78 million last year. This increase was due to higher contributions from both the Group’s hire purchase financing and furniture division.

The Group’s profit before tax for FY2025 decreased by 11% to RM43.72 million from RM49.04 million previously while profit after tax for FY2025 decreased by 11% to RM32.65 million compared to RM36.66 million a year ago. The decreases in profits were mainly due to lower contribution from the hire purchase financing division.



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In tandem with the lower profits, the Group's basic Earnings per Share ("EPS") was 7.18 sen as compared to 8.06 sen in the previous financial year.

In FY2025, the Group's total assets increased by 11% to RM892.86 million while total liabilities increased by 23% to RM399.53 million as compared to FY2024 due to higher borrowings.

Total borrowings increased by 25% to RM375.96 million in FY2025, to support the growth in hire purchase receivables in the past one year. The Group's gearing as at 31 March 2025 remains at a manageable level of 0.76 times.

As at 31 March 2025, the shareholders' funds grew by 2% to RM493.32 million and the Net Assets per Share ("NA") stood at RM1.08.

Return on equity ("ROE") decreased from 7.7% to 6.7%. Return on assets ("ROA") also decreased from 4.9% to 3.8%. The decline in both metrics were due to higher than expected impairment allowances from the hire purchase division.

### Segmental Performance – Hire Purchase Financing Division

Hire Purchase Segment (RM)	FY2025	FY2024	Variance	Variance
Revenue	128,039,483	113,227,038	14,812,445	13%
Other Income	2,201,898	1,855,953	345,945	19%
Depreciation of Property, Plant and Equipment & Right of Use Assets	(1,246,605)	(1,356,691)	110,086	8%
Impairment Allowance	(44,064,107)	(26,385,893)	(17,678,214)	-67%
Other Expenses	(29,277,821)	(29,159,765)	(118,056)	0%
<b>Profit before Interest &amp; Tax</b>	<b>55,652,848</b>	<b>58,180,642</b>	<b>(2,527,794)</b>	<b>-4%</b>
Finance Costs	(16,262,871)	(12,127,278)	(4,135,593)	-34%
<b>Profit before Tax</b>	<b>39,389,977</b>	<b>46,053,364</b>	<b>(6,663,387)</b>	<b>-14%</b>
Credit Loss Charge	6.3%	4.1%		2.2%
Cost to Income Ratio	26.8%	29.6%		-2.8%

ELK-Desa's hire purchase financing division remains as the Group's main income generator, contributing 90% to the Group's FY2025 earnings.

During the year under review, the division's revenue increased by 13% to RM128.04 million from RM113.23 million a year ago. Approximately 90% of the revenue was derived from hire purchase interest income, which recorded a 13% increase to RM114.78 million from RM101.60 million last year. Non hire purchase interest income increased to RM13.26 million from RM11.63 million last year.

Other income increased by 19% 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 67% from RM26.39 million to RM44.06 million. Credit loss charge (i.e. Impairment Allowance over Average Net Hire Purchase Receivables) increased from 4.1% to 6.3%. The substantially higher impairment allowance and credit loss charge were a result of slower hirer repayment and high losses incurred from repossessions during the financial period.

Other expenses increased marginally to RM29.28 million mainly due to higher operating expenses 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 FY2025 is 26.8%, down from 29.6% last year. This is reflective of the Group's commitment to manage operating costs prudently and effectively.

Finance costs increased by 34% to RM16.26 million as a result of higher drawdown of block discounting facilities to support the increased hire purchase receivables.

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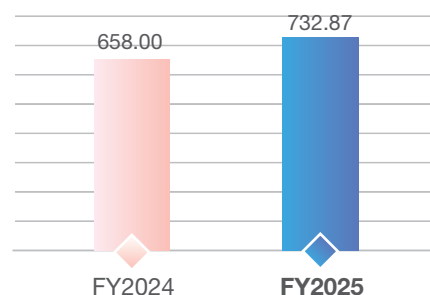
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Despite the 67% increase in impairment allowance, the profit before tax decreased by 14% to RM39.39 million, due to a larger hire purchase portfolio contributing to a significant increase in hire purchase revenue.

Net hire purchase receivables increased by 11% to RM732.87 million as at 31 March 2025. This is in tandem with the Group's strategy to expand its hire purchase receivables portfolio 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 12.4% over the last three years post covid pandemic.

### NET HP RECEIVABLES (RM MILLION)

11%



Gross Impaired Loans ratio decreased marginally to 1.8% as at 31 March 2025 compared to 1.9% in the previous year. Net Impaired Loans ratio remained at a low level of 0.6%. The impaired loans ratios are expected to remain at the current low levels in the short to medium term. 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)	FY2025	FY2024	Variance	Variance
Revenue	68,644,788	54,549,144	14,095,644	26%
Other Income	110,650	155,016	(44,366)	-29%
Cost of inventories sold	(44,628,160)	(35,733,165)	(8,894,995)	-25%
Depreciation of Property, Plant and Equipment & Right of Use Assets	(1,213,329)	(1,147,036)	(66,293)	-6%
Impairment Allowance	(437,330)	(358,403)	(78,927)	-22%
Other Expenses	(18,071,523)	(14,355,571)	(3,715,952)	-26%
Share of Results of Associates, Net of Tax	28,918	5,220	23,698	454%
<b>Profit before Interest &amp; Tax</b>	<b>4,434,014</b>	<b>3,115,205</b>	<b>1,318,809</b>	<b>42%</b>
Finance Costs	(104,300)	(129,428)	25,128	19%
<b>Profit before Tax</b>	<b>4,329,714</b>	<b>2,985,777</b>	<b>1,343,937</b>	<b>45%</b>

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 by 26% to RM68.64 million. Gross profit margin stayed at a stable level of approximately 35%.

Other expenses increased by 26% to RM18.07 million, mainly due to higher selling, distribution and staff costs, which are in line with the higher sales.

The furniture division recorded a higher profit before tax of approximately RM4.33 million for FY2025 mainly due to higher sales and stable margins.

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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 208 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 2025, the Group's hire purchase financing division has a hirer base of approximately 40,300 individuals. Its average outstanding net hire purchase receivables per hirer is approximately RM18,200. These numbers collectively show that the Group's credit exposure per hirer is relatively low.

Annual hire purchase disbursements exceeded RM270.00 million, reflecting our continued efforts to rebuild the portfolio after the slowdown during the pandemic years.

ELK-Desa continues to conduct its hire purchase financing business mainly through dealers in Kuala Lumpur and Selangor. As such, the Group prides itself for having cultivated an extensive active dealer network that is more than 450 strong.

In FY2025, 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 cash flow for their operation.

When it comes to risk management, the Group's hire purchase financing business is dependent on the economic environment that correlates with consumer confidence and spending habits. The business also faces credit risks that stem from the hirers' ability to repay instalments in a timely manner. To mitigate credit risks, the Group has implemented stringent credit management policies and closely monitors repayments. However, in FY2025, ELK-Desa faced higher impairment allowances, reflecting an increase in credit risk during the year. The Group will continue to maintain a cautious approach towards credit risk by focusing on low value hire purchase financing and through avoiding heavy reliance 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 141 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 focuses on the domestic wholesale market and distributes **ELK-DeSA**™ furniture products to more than 1,000 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.

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

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 plans to grow its furniture trading business steadily and sustainably, with a primary focus on strengthening its presence in East Malaysia, specifically Sabah and Sarawak, to increase its contribution to the overall Group's success. Meanwhile, the hire purchase financing business will continue to be the main source of income for the Group in the near future.

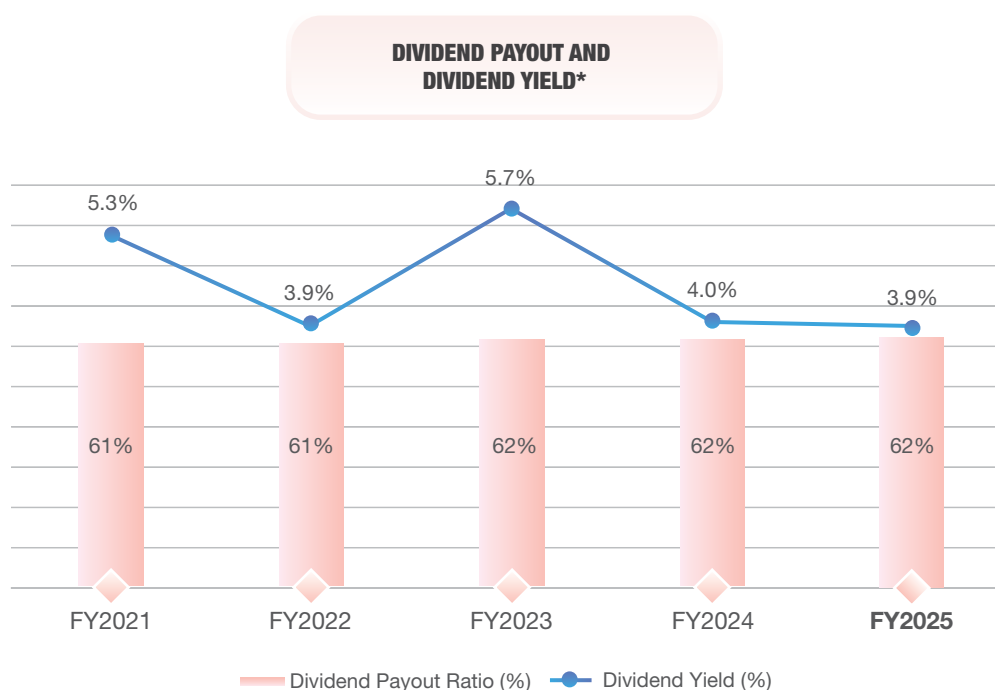
In terms of risks, the performance of the furniture industry is subject to a myriad of factors ranging from macroeconomic conditions to consumer and business confidence.

### DIVIDENDS

The Board of Directors has declared a second single-tier interim dividend of 2.50 sen per share in respect of the financial year ended 31 March 2025, and the dividend was paid on 26 Jun 2025. 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 2025.

In addition to the first single-tier interim dividend of 2.00 sen per share, which was paid on 18 December 2024, the total dividend for the financial year ended 31 March 2025 is 4.50 sen per share (FY2024: 5.00 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 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

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### FORWARD-LOOKING STATEMENT

Bank Negara Malaysia (“BNM”) projects the Malaysian economy to grow between 4.5% and 5.5% in 2025, driven by sustained domestic demand, robust investment activities, and resilient household spending. However, this outlook is subject to revision due to escalating global trade tensions, including the ongoing tariff war, which may affect the domestic labour market and disrupt Malaysia’s export activities.

Inflation is anticipated to trend higher in 2025, with headline inflation projected between 2.0% and 3.5%, and core inflation between 1.5% and 2.5%. The implementation of domestic policy reforms such as fuel subsidy rationalisation—particularly the potential impact of RON95 price adjustments—and the expansion of the sales and services tax are expected to be key inflationary drivers.

ELK-Desa’s performance for FY2025 was lower than expectations, despite net hire purchase receivables growing at a healthy 11% year-on-year. Nonetheless, we acknowledge emerging pressures in collections and recovery activities, particularly due to uncertainties stemming from subsidy rationalisation and rising living costs.

Moving forward, we are paying very close attention to emerging macroeconomic risks. These include uncertainties in global trade, with rising shipping costs possibly impacting cost of living. While some of these costs may be temporarily offset by significantly lower-priced products entering our market, we also have to be mindful of how the influx of these products impacts local players and the local labour market.

Volatility in global financial markets could also affect consumer sentiment. Moreover, in the automotive sector, the aggressive pricing strategy by Chinese electric vehicle (“EV”) manufacturers is beginning to alter the competitive landscape, forcing downward price adjustments on internal combustion engine (“ICE”) vehicles. This trend could influence overall demand patterns and residual values of ICE vehicles, with implications for credit risk and asset recovery in our hire purchase segment.

Looking ahead to FY2026, ELK-Desa remains committed to sustainable growth, focusing on expanding our hire purchase portfolio within our niche and underserved market segment. We will continue leveraging internally generated funds, with no immediate plans to raise funds through capital markets, given our solid balance sheet. As part of our prudent efforts in capital management, we will take a moderate approach when acquiring new banking facilities.

We aim to optimise yields from our receivables and improve operational efficiency, targeting a Return on Equity (“ROE”) of over 8% in the medium term. Recognising the potential rise in credit risk and collection challenges, we will adopt a proactive and rigorous approach to credit management.

In the furniture segment, to further strengthen our competitive edge, our strategy remains focused on enhancing logistics and product variety across all geographical locations in Malaysia, specifically reinforcing our wholesale presence in Sabah and Sarawak.

Despite the macroeconomic and sectoral headwinds, the Board of Directors remain confident in the Group’s resilience and its ability to deliver long-term value to shareholders and stakeholders as we transition into FY2026 and beyond.