

SUSTAINABILITY STATEMENT

EMBRACING SUSTAINABILITY

ELK-Desa Resources Berhad (“ELK-Desa” or “the Group”) is committed towards embracing the tenets of sustainability in a comprehensive manner. We believe that by adopting sustainability practices throughout our value chain, we are able to enhance value for our shareholders in a meaningful way while contributing positively to the well-being of our stakeholders at large.

ELK-Desa’s primary operation revolves around the provision of hire purchase financing solutions for the used car segment. As a non-bank lender in this niche market, the Group plays an important role in facilitating the transportation needs of those living and working in the Greater Kuala Lumpur area.

The Group is also making progress in expanding its furniture business. While still at the nascent stage, this division has the potential to spur economic activity and job creation, more so in and around areas of its operations.

In view of its business activities, ELK-Desa plays a vital role in the growth of our national economy and, as such, it is important that the Group consistently operates in a transparent and sustainable manner. During the year, ELK-Desa reviewed and implemented initiatives that accorded with the key principles of sustainability, specifically in relation to the three sustainability pillars of economic, environmental and social (“EES”) themes.

TONE FROM THE TOP

The Board of Directors (“Board”) of ELK-Desa holds ultimate responsibility for the sustainability performance of the Group. The Board provides leadership for business sustainability and ensures that the strategic plan of the Company supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability.

The Board has tasked the Group Executive Director/Chief Executive Officer (“GED/CEO”), who is supported by the Executive Director/Chief Financial Officer (“ED/CFO”), to review, deliberate and approve the Group’s sustainability strategy and initiatives. Sustainability strategies and initiatives developed by the GED/CEO are endorsed by the Board.

The GED/CEO is also responsible for assessing the economic, environmental and social risks and opportunities of the Group to identify those which are material to the Group, including the management and performance thereof.

When it comes to implementing and executing these initiatives, the GED/CEO delegates responsibilities to the relevant Heads of Department within the Group.

SUSTAINABILITY
STATEMENT (CONT'D)**MATERIALITY ASSESSMENT PROCESS**

ELK-Desa's business sustainability is based on a myriad of factors, both internal as well as external. Considering a range of economic, environmental and social aspects of the business, there are factors that are much more important than others in creating long-term value to stakeholders. For the financial year under review, ELK-Desa has undertaken a materiality assessment process to systematically assess the Group's sustainability matters.

The scope of the materiality assessment includes both the Group's business segments, i.e. Hire Purchase Financing division and Furniture division, which jointly contribute to 100% of the Group's revenue. Likewise, this Statement will report on the said scope, considering economic, environmental and social matters for both the Hire-Purchase Financing and Furniture divisions.

The materiality assessment is conducted by ELK-Desa's key Senior Management, led by the GED/CEO and the ED/CFO. During the conduct of materiality assessment, ELK-Desa has considered the following:

- (a) the level of significance a sustainability matter relates to our Group's strategic vision and business activities;
- (b) the impact, relevance and importance of the sustainability matter in relation to the Group's internal and external stakeholders; and
- (c) the ability of the Group to control and manage these matters.

Based on the criteria above, the ELK-Desa assesses and prioritise sustainability matters considering not only the Group's businesses, but also the views and concerns of the Group's internal and external stakeholders. The Group's stakeholders include, but are not limited to, customers, dealers, employees, regulators, shareholders, suppliers and communities. The Group has in place appropriate engagement channels with its key stakeholders to allow the views and concerns of stakeholders to be expressed and heard. Stakeholders' views and concerns, with regard to economic, environmental and social aspects of the Group's businesses, were considered during the materiality assessment process.

MATERIAL SUSTAINABILITY MATTERS

ELK-Desa has identified the following Material Sustainability Matters of the Group, considering the Group's significant economic, environmental and social aspects and their influence on stakeholders' assessments and decisions. The Material Sustainability Matters are discussed in detail in the following.

SUSTAINABILITY STATEMENT (CONT'D)

MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

Anti-corruption and Ethical Business Practices

It is of utmost importance that the Company and its subsidiaries, including management and employees, observe the highest standards of ethics and integrity in the conduct of business, especially where the core business of the Group involves financing and handling of money. Therefore, the Group's employees are required to adhere to strict ethics and integrity standards in the performance of their duties to ensure compliance with laws and regulations and safeguard the interest of the Group's business.

The Group has established policies on anti-corruption and guiding principles for ethical business practices, embedded in the Group's Code of Conduct and Ethics, Code of Conduct and Ethics for Directors in the Board Charter, and the Employees Handbook. The Group pledges to not bribe anyone nor accept bribe from anyone for any reasons, and customary business courtesies which may be customary shall be guided by reasonable ethical or cultural practices and shall not be inappropriately lavish or excessive, and shall not be material enough to influence, or appear to be able to influence, business decisions. Management is expected to set the tone at the top and demonstrating the carrying out of ethical business behaviours. Employees are encouraged to raise ethics-related concerns or questions while Management is expected to address the concerns or questions accordingly.

The Group also has established Standard Operating Procedures ("SOPs") guiding business operations, especially for the Group's hire-purchase Financing business, which has considered the application of ethical business practices. Through the internal audit function, the Group monitors employees' compliance with the Group's SOPs and governing laws and regulations. In addition, the Group has also established a whistleblowing mechanism accessible by internal and external stakeholders for the purpose of raising concerns, especially where business ethics is concerned, without fear of reprisal.

For the financial year, the Group has recorded zero cases of whistleblowing case concerning anti-corruption, anti-money laundering or ethical business practices.

The Group will continuously review its policies and processes in place to enable the observance of high ethical and integrity standards in the conduct of the Group's business.

SUSTAINABILITY
STATEMENT (CONT'D)**MATERIAL SUSTAINABILITY MATTERS (CONTINUED)****Responsible financing**

As a hire-purchase financier, ELK-Desa recognises the Group's roles and responsibility to ensure customers are adequately informed of the financial products procured. It is in the best interest of the customer, as well as the business, to be adequately informed to ensure obligations stipulated in the hire-purchase agreement are carried out by both the customer and the business.

Guided by the Hire-Purchase Act 1967, ELK-Desa's hire-purchase financing business complies strictly to provisions of the laws and relevant regulations in the conduct of its business. The Group ensures preparation of hire-purchase agreements includes all relevant information setting out clear details of the hire-purchase arrangement, including but not limited to the cash price, deposit, terms charges, number of instalments, instalment amount, etc. Other details in the hire-purchase agreement include the rights of the financier and the rights of the customer, amongst others. By clearly stipulating the terms in the hire-purchase agreement, customers will be provided with clear expectation of the financing amount and their contractual repayment obligations, amongst other important information, in enabling informed decision making. In addition, prior to signing of hire-purchase agreement, employees are required to verbally highlight and explain key terms of the hire-purchase arrangement to customers to ensure customers are well-informed of the agreement terms.

Furthermore, the Group has in place stringent credit approval process, which considers customers' financial background and capability, such as their sources of income, to avoid financing customers who may not seem to be able to take on further financial obligations. This process indirectly prevents the Group's hire-purchase financing business from causing customers to live beyond their means, as well as safeguarding the assets of the Group. As a result, the Group has been able to maintain a reasonably low non-performing loan ratio and credit loss charge, as follows:

| | FY2017 | FY2018 | FY2019 |
|---------------------------|---------------|---------------|---------------|
| Non-performing loan ratio | 1.20% | 1.00% | 0.77% |
| Credit loss charge | 6.32% | 5.45% | 3.81% |

Further analysis of the non-performing loan ratio and credit loss charge is set out in the Five (5) – Year Key Financial Information and the Management Discussion and Analysis section of this Annual Report respectively.

SUSTAINABILITY
STATEMENT (CONT'D)**MATERIAL SUSTAINABILITY MATTERS (CONTINUED)****Car Ownership Affordability**

The nature of ELK-Desa's hire-purchase financing business creates economic and social value especially to the community underserved by financial institutions. It provides financial solutions to this underserved segment to facilitate vehicle ownership for qualified low to middle-income individuals. Vehicle ownership in a fast-paced city environment such as the Klang Valley can serve as an enabler towards harnessing better economic opportunities, that in turn may translate into higher disposable income. ELK-Desa views its hire-purchase business as one that promotes financial inclusion, supporting the underserved community to not get left behind as the nation works towards a developed nation status.

By providing hire-purchase financing solutions to qualified individuals in an efficient and productive manner, ELK-Desa also contributes to the used-car industry by matching demand and supply, directly and in-directly generating business growth for players in the industry such as car dealers.

Human Capital Management and Development**(Talent Attraction and Retention/ Employment Benefit/ Labour Practices, Human Rights, Workforce Diversity and Equal Opportunities)**

The Group aims to create a conducive work environment that encourages development of employee talents and skills. This is in line with the Group's belief for equal opportunity, fair labour practices and the protection of human rights. The Group's human resources policies considers and adheres to fair labour practices, human rights and non-discrimination standards, where employees or candidates for employees are assessed based on their merit irrespective of race, religion, cultural background or gender. The Group has a balanced and diverse workforce reflective of the national demographics, as follows:

| | Hire-Purchase Financing Segment | | | Furniture Segment | | | Total | | |
|----------------------|---------------------------------|--------|--------|-------------------|--------|--------|--------|--------|--------|
| | FY2017 | FY2018 | FY2019 | FY2017 | FY2018 | FY2019 | FY2017 | FY2018 | FY2019 |
| Male | 27 | 38 | 58 | 57 | 62 | 58 | 84 | 100 | 116 |
| Female | 98 | 112 | 137 | 31 | 31 | 36 | 129 | 143 | 173 |
| Malay | 70 | 81 | 114 | 10 | 14 | 14 | 80 | 95 | 128 |
| Chinese | 44 | 52 | 56 | 53 | 54 | 55 | 97 | 106 | 111 |
| Indian | 9 | 16 | 24 | 8 | 8 | 8 | 17 | 24 | 32 |
| Others | 2 | 1 | 1 | 17 | 17 | 17 | 19 | 18 | 18 |
| Aged below 35 | 61 | 77 | 115 | 51 | 54 | 46 | 112 | 131 | 161 |
| Aged between 35 – 50 | 42 | 47 | 57 | 31 | 31 | 38 | 73 | 78 | 95 |
| Aged above 50 | 22 | 26 | 23 | 6 | 8 | 10 | 28 | 34 | 33 |

SUSTAINABILITY
STATEMENT (CONT'D)**MATERIAL SUSTAINABILITY MATTERS (CONTINUED)****Human Capital Management and Development (Continued)**

The Group believes that attracting and retaining the right talent is important to business and operation continuity as specific skills and experiences are required in each of its business segments. The Group's businesses are spearheaded by Management with extensive knowledge and experiences in areas such as credit, hire-purchase, the used-car industry and the furniture industry. Bearing in mind the need for grooming talents and skills and succession planning, the Group places efforts investing in technical and non-technical development of its employees by providing trainings to employees.

For the financial year under review, the Group has provided trainings on the following subjects to its employees:

- executive development;
- leadership development;
- hire-purchase law and regulations;
- fire safety;
- first aid; and
- teambuilding.

In addition, the Group also brings employees together by conducting company activities, such as team-building events and community contribution activities, to foster harmonious and closer working relationship among employees.

Occupational Health and Safety

As ELK-Desa's business involves financing activities, the Group is aware of its responsibility in ensuring the safety of the its employees. Some of the main concerns relating to occupational safety includes the risks of burglary and robbery. The Group has employed security measures such as installation of CCTVs, security guards, security management and logistics service providers throughout its hire-purchase financing business operations. Briefings are also provided on a periodic basis to guide employees on dealing with emergency situations, safety, fire prevention, etc.

For the Group's furniture segment, business focus is placed on wholesaling and trading activities and hence the risk of occupation safety and health risk is still minimal for this segment. Nevertheless, the Group undertakes necessary measures and ensures any relevant regulations and guidelines established by government authorities and regulators are complied with.

On a group-wide basis, the Group provides personal accident and medical coverage to all its employees in additions to contribution to social security organisation ("SOCSO").

For the financial year ended 31 March 2019, the Group has not recorded any serious injury or fatality.

SUSTAINABILITY STATEMENT (CONT'D)

MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

Cybersecurity

The Group's businesses leverage on technology to facilitate financial records and financial reporting, and thus protection of the infrastructure supporting the enabling technology is important in ensuring operational efficiency. In addition, information technology system used may contain sensitive information which may be detrimental to the Group if not safeguarded.

The Group has employed external professional expert to assist the management of the Group's IT system and cybersecurity, including ensuring necessary safeguards are established and effective. The established safeguards, such as anti-virus software, firewall, data mirroring and offsite backup, etc., provide protection to both hardware and software involved in the IT system and infrastructure.

In addition to actively ensuring safeguards are in place, the Group's also responds quickly to any compromise of IT systems to minimise the impact. Remedial actions will then be formulated to prevent recurrence. For the financial year under review, there were no cases of major IT breaches that caused significant disruption or loss to the Group's businesses.

Conclusion

The Group is aware that as the Group's businesses develop, sustainability risks and opportunities may shift and hence the Group will continue to adapt its strategic sustainability priorities accordingly.

Led by the Board, the Group will continue to monitor and assess the economic, environmental and social considerations of its businesses and review or develop policies, procedures, or initiatives to address sustainability matters so as to facilitate ELK-Desa's sustainability.