

# 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. Although the contribution from the furniture business is not significant, 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 (“CEO”), who is supported by the Executive Director/ Chief Financial Officer (“CFO”), to review, deliberate and approve the Group’s sustainability strategy and initiatives. Sustainability strategies and initiatives developed by the CEO are endorsed by the Board.

The 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 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, i.e. financial year ended 31 March 2020, 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 CEO and the 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.

Arising from the materiality assessment conducted during the financial year under review, the Group has included a new Material Sustainability Matter, i.e. Technology and Innovation, which it has identified as an increasingly crucial matter to consider in the age of rapid technological advancement as global businesses are increasingly faced with new risks and opportunities arising from technology advancement and adoption.

### **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)**

#### **Ethical, Transparent, and Fair 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 Ethics and Conduct 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. The Group also have a No-Gift Policy in its Code of Ethics and Conduct which prohibits its employees to solicit or receive any gifts which may influence business decision-making or put a person in a conflict of interest situation.

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.

Furthermore, to ensure that the Group has in place adequate procedures to prevent the conduct of bribery in its businesses, the Group has performed a review of its internal controls, processes, and procedures to identify areas to be improved upon. Arising from the review, the Group has developed an Anti-Bribery Management System which enables a systematic process for the assessment of bribery risk areas within the Group and the subsequent management and reporting of these risk areas.

Maintaining transparent and fair business dealings with dealers and customers remains to be a crucial factor to build and promote the reliability, trustworthiness, and stakeholders' confidence in the Group's products and services. The Group ensures open and transparent engagement channels, including a well-maintained and up-to-date corporate website, are in place to effectively communicate applicable policies and expectations to dealers and customers.

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. With these SOPs in place, employees are able to carry out their duties and responsibilities with clear guidance on acceptable and unacceptable practices, and business operations are able to function in a more systematic manner. 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. Furthermore, as a responsible organisation, the Group commits that if it has come to its knowledge any transaction is associated with corruption, human trafficking, smuggling activities or those prohibited by law, it will not support the financing of such activities or transactions.

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 the 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:

	FY2018	FY2019	FY2020
Non-performing loan ratio	1.0%	0.8%	1.4%
Credit loss charge	5.5%	3.8%	4.2%

Further analysis of the non-performing loan ratio and credit loss charge is set out in the Management Discussion and Analysis section of this Annual Report.

#### 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 and self-employed 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.

## SUSTAINABILITY STATEMENT (CONT'D)

### MATERIAL SUSTAINABILITY MATTERS (CONTINUED)

#### Car Ownership Affordability (Continued)

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 the 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 consider and adhere 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		
	FY2018	FY2019	FY2020	FY2018	FY2019	FY2020	FY2018	FY2019	FY2020
Male	38	58	57	62	58	59	100	116	116
Female	112	137	137	31	36	33	143	173	170
Malay	81	114	110	14	14	13	95	128	123
Chinese	52	56	57	54	55	56	106	111	113
Indian	16	24	25	8	8	7	24	32	32
Others	1	1	2	17	17	16	18	18	18
Aged below 35	77	115	110	54	46	46	131	161	156
Aged between 35 – 50	47	57	59	31	38	33	78	95	92
Aged above 50	26	23	25	8	10	13	34	33	38

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 training to employees.

## SUSTAINABILITY STATEMENT (CONT'D)

### **MATERIAL SUSTAINABILITY MATTERS (CONTINUED)**

#### **Human Capital Management and Development (Continued)**

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

- effective interviewing skill;
- law of attraction;
- leadership development program;
- executive development program;
- teambuilding;
- negotiation skill for credit control department;
- basic fire fighting;
- basic occupational first aid, CPR & AED;
- hire-purchase law and regulations; and
- brainstorming.

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 its employees. Some of the main concerns relating to occupational safety include 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").

As a response to the outbreak of the Covid-19 in Malaysia, the Management has set up a Covid-19 Preventive Measures Task Force ("CPM") to deal with the pandemic situation. CPM functions to look into the preventive measures to avoid the spreading of the virus in our office premises and to prevent our employees from contracting the deadly disease. Preventive measures undertaken include body temperature checks, face masks/shields for frontline staff, sanitiser dispensers located at the customer hall and offices, routine cleaning of the office premises especially the high touch points areas, education on hygiene care, work-from-home arrangements, staggered working hours, meeting and discussion through internet chat or tele-video conferences.

For the financial year ended 31 March 2020, the Group has not recorded any employee who has sustained serious injury, fatality, or infection of Covid-19, at the workplace.

## SUSTAINABILITY STATEMENT (CONT'D)

### **MATERIAL SUSTAINABILITY MATTERS (CONTINUED)**

#### **Technology and Innovation**

Faced with a global, fast-paced technology revolution, the Group is always keeping itself abreast of development and changes in the industries it operates in. Adaptation of technology and innovative business strategies and responses have never been more relevant to all businesses across various industries.

Aware of the potential of technology and innovation to enhance business efficiency, the Group continues to undertake initiatives which leverage on technology to enhance its business model and infrastructure. From time to time, the Group performs assessments and reviews on its systems, business processes and infrastructure to ensure its robustness and integrity, and, where opportunities arise, the Group invests to upgrade its systems and infrastructure through, amongst others, capability enhancement exercises.

In addition, during annual budget planning, the Group includes technology and capability enhancement as a specific budget item to ensure sufficient resources and attention are provided and invested in this area to support the long-term growth of the Group's business.

During the financial year under review, the Group has invested in electronic platforms that allow better human resource management and processes for its Hire Purchase Financing division which include, amongst others, electronic time attendance, leave management, overtime application and automation of employees' health benefits. The Group believe the investments are able to boost operating efficiencies and provide greater convenience for its employees in exchange for better productivity.

Furthermore, promoting innovative business includes strengthening the Group's engagement with its key stakeholders, such as customers, dealers, and employees. Through engagements with its key stakeholders, the Group is able to hear the voices and ideas of these stakeholders who are also the Group's business partners. Close business engagements with stakeholders have also allowed the Group's business to develop innovative business solutions, for example, the Group's partnership with banks and various payment gateways to enable hirers of the Group's Hire Purchase Financing division to conveniently make payment through the banks' ATMs, cash deposit machines, and online payment channels.

Leveraging on technology has also enabled the Group to be more prepared in responding to the Covid-19 outbreak, where Management and employees working remotely were able to communicate and engage more actively and effectively using technology such as teleconferencing for conducting remote meetings and discussions with various stakeholders, which has helped the business sustain its activities and operations during the Movement Control Order.

## 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.