Issuer: Versalink Holdings Limited
Security: Versalink Holdings Limited

Meeting details:
Date: 29 June 2017
Time: 11:00H
Venue: 8 Wilkie Road #03-01 Wilkie Edge Singapore 228095

Company Description
Versalink Holdings Limited, an investment holding company, engages in the design, manufacture, supply, and export of system furniture products under the Versalink brand name. It offers reception products; architectural wall systems; panel, desking, and modular systems; filing and storage products; metal and panel leg meeting, and flip tables; executive series products; and seating products. The company also provides worktools comprising CPU holders, keyboard trays, monitor arms, wire trays, and stationary trays and holders; power options, such as cable boxes and accessories, and cable channels; and whiteboards. In addition, it offers value-added services, such as workspace planning and consulting services. Further, the company is involved in the resale of premium office furniture of third party brands. It serves architects, contractors, corporate customers, dealers, designers, and original equipment manufacturer customers in approximately 40 countries in Africa, Australasia, Asia, the Middle East, and North America. The company was founded in 1991 and is based in Klang, Malaysia.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=40N)

Q1. In the Chairman's Statement, in the "Corporate and Product developments" section (page 16 of the annual report), the company highlighted the acquisition of a 51% shareholdings in Alca Vstyle Sdn Bhd (Alca Vstyle), which is a trading company involved in the sale of high pressure laminate and related products.

a) Can management elaborate further on the strategic importance of this acquisition to the group's growth? What are the expected synergies?

b) Can management provide better visibility into the revenue and earnings of the newly acquired subsidiary?

The group has also engaged world-renowned and award winning Architect, DriussoAssociati from Italy, to design its new premium product range under its new brand, _Ad Maiora. The launch of the new brand took place in October 2016 at the ORGATEC in Cologne, Germany.

c) How is the group going to introduce its new brand to the marketplace? What is the brand's unique selling point that will differentiate it from the competitors?

d) Given that the company recognises that the current global economic conditions remain weak, how does management intend to market its new premium range?

Q2. The group registered a revenue of RM50.9 million in FY2017 compared to RM59.4 million in the previous financial year, with the export segment experiencing a proportionally larger drop in revenue. The group incurred a loss before tax of RM2.4 million in FY2017. In FY2016, the group reported a profit before tax of RM9.2 million.

a) Can management help shareholders understand if the drop in revenue was caused by a decrease in the volume or a decrease in average selling prices, or both?

The table below shows the group's revenue, gross profit, and the cost of sales for the past three financial years.

	FY2015 RM'000	2016 RM'000	2017 RM'000
Revenue	59,784	59,483	50,974
Gross profit	21,694	20,692	15,827
Gross profit margin (%)	36.3%	34.8%	31.0%
Cost of sales	(38,090)	(38,791)	(35,147)
Amount of inventories included in cost of sales	35,752	34,691	29,099
(as a percentage)	93.9%	89.4%	82.8%

(Source: Company Annual Reports)

b) The gross profit margin has dropped from 36.3% in FY2015 to 31.0% in FY2017. **What are the reasons for the drop in the group's gross profit margins? What are management's plans to maintain and/or improve its gross profit margins?**

c) The percentage of the cost of inventories included in the cost of sales has dropped from 93.9% in FY2015 to 82.8% in FY2017. **Can management elaborate further on the other components in "Cost of sales"?** Costs, other than inventories, has increased from 6.1% to 17.2%.

Q3. Even as the group's revenue has decreased from RM59.4 milion in FY2016 to RM50.9 million in FY2017, the group's trade receivables that are past due for more than 3 months but not impaired have increased.

26. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

26D. Credit risk on financial assets (cont'd)

(a) Ageing analysis of the age of trade receivable amounts that are past due as at the end of the reporting year but not impaired:

	Group	
	2017	**2016**
	RM'000	**RM'000**
Trade receivables:		
Less than 3 months	**738**	2,541
3 to 6 months	**242**	134
Over 6 months	**3,119**	1,990
Total	**4,099**	4,665

(Source: Company Annual Report 2017)

a) The trade receivables past due for over 6 months have increased from RM1.99 million to RM3.12 million. **Can management provide a further breakdown of the trade receivables past due for over 6 months? What is the upper limit of the ageing?**

b) It would appear that the customer with the largest trade receivable of RM2.4 million could be more than 6 months past due. **Can management disclose the profile of the customer? How is management working with the customers to ensure that the receivables are collected?**

In Note 26D(b), it is shown that the group has recognised an impairment of the trade receivable of RM0.78 million in FY2017, and RM0.58 million in FY2016. These trade receivables are not secured. The Net realisable value of trade receivables is also a key audit matter in the Independent Auditor's Report (page 44).

c) **Should shareholders be concerned that the increasing impairment could be a sign of deteriorating credit conditions?**

d) **As the group does a significant amount of export business, has the audit committee reviewed, and is the audit committee satisfied with, the company's credit risk policies?**