Issuer: Axcelasia Inc.

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Meeting details:
Date: 9 April 2018
Time: 11.00 a.m.
Venue: Conference Room 2, TKP Conference Centre Raffles Place, 55 Market Street #03-01, Singapore 048941

Company Description

Axcelasia Inc., an investment holding company, provides integrated professional services to government-linked entities, private and public listed companies, and multinational corporations primarily in Malaysia. It operates through Tax Advisory, Business Consultancy, EMS Application, and Business Support segments. The company offers tax advisory services, including corporate tax, individual tax, international tax, transfer pricing, GST and indirect tax, tax compliance, and knowledge management; and business consultancy services comprising governance, risk and compliance, internal audit and forensic accounting, IT consulting, business continuity management, and HR consulting services. It also provides enterprise management system applications, which include ERM, compliance, internal audit, incident and insurance, and whistle–blowing management modules, as well as information security management systems. In addition, the company offers business support services, such as outsourcing/shared, corporate secretarial, corporate advisory, administrative and office support, and corporate finance services. Axcelasia Inc. was incorporated in 2015 and is headquartered in Kuala Lumpur, Malaysia.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=42U)

1. In the Chairman's Message (pages 2 & 3 of the annual report), it was noted that the group has and continues to "execute [its] three growth strategies to enhance value for shareholders". The growth strategies are an (i) asset-light geographical expansion in Malaysia and the ASEAN region, (ii) expansion of portfolio of services to develop new revenue streams, and (iii) harnessing economies of scale arising from the business growth.

The acquisition of Malaysia-based business and corporate governance consultancy firm, Audex Governance Sdn. Bhd. ("Audex"), was highlighted as a key achievement by the group to "tap on Audex's base of customers including many multinational corporations and public-listed entities to facilitate the cross-selling of Axcelasia's services".

(i) **Can management further quantify the synergies expected from the acquisition of Audex? For instance, how many new key accounts were acquired and what is the potential for cross-selling of the group's other services?**

(ii) **Has the integration of Audex been completed?**

(iii) **What is the size of the team of risk consultants and internal auditors acquired? How does the company ensure that the new team is integrated with the rest of the group?**

(iv) **How does the group ensure that its best talents, including those being acquired like in the Audex acquisition, are retained in the group and further groomed to contribute to the group's long term success? How does management encourage cooperation and increase cross-selling across the organisation structure?**

2. Of the net IPO proceeds of $7.58 million, $4 million has been allocated to expand the group's business in Malaysia and in the ASEAN region of which $2.16 million remains unutilised. Even with the group's presence in Singapore, Laos and Vietnam, revenue from outside of Malaysia amounted to just RM448,865 or 2% of total revenue (page 96).

The group's 75%-owned Singapore subsidiary and 70%-owned Vietnamese subsidiary reported comprehensive losses of RM(482,027) and RM(1,274,195) in FY2017 respectively.

(i) **Can management explain in greater detail its market entry strategy? How does the group intend to compete in the new markets given that the newly established subsidiaries have no track record and may lack the local network? Can management elaborate further on the group's competitive advantage? In more mature markets like Singapore, how does the group compete against the more established incumbents?**

(ii) **For some of these non-English markets, how does the group overcome the language barrier?**

(iii) The losses in Singapore and in Vietnam since their respective incorporation have exceeded RM(1.1) million and RM(1.3) million respectively. **In the group's business plans, how soon are the subsidiaries in a new market expected to reach breakeven? What are the other non-financial targets set by the board for these overseas subsidiaries?**

3. The impairment of trade receivables is a key audit matter highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements of the company and its subsidiary corporations. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current year.

From Note 10 (page 75 – Trade and other receivables), it can be seen that trade receivables from non-related parties have increased from RM4.3 million as at 31 December 2016 to RM6.3 million as at 31 December 2017. This 47% increase in trade receivables is disproportionally large considering that revenue increased by 36%.

The carrying amount of trade receivables represents 18% of the group's total assets. Out of this RM6.3 million, trade receivables past due but not impaired amount to RM4.3 million. The breakdown is shown in Note 24 (page 92 – Financial risk management: Financial risk factors: Credit risk) and reproduced below.

Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2017	**2016**
	RM	**RM**
Past due < 30 days	**1,635,523**	703,283
Past due 31 to 90 days	**1,456,782**	408,289
Past due over 90 days	**1,231,456**	1,359,211
	4,323,761	2,470,783

The Group believes that the unimpaired amounts that are past due are still collectible, based on historical payment patterns.

(Source: Company annual report)

(i) **Can management provide better clarity on the age analysis of the trade receivables past due over 90 days? Please provide the upper bound and a detailed breakdown.**

(ii) Trade receivables past due but not impaired have increased by 75% when revenue increased by 36% in the year. **Can management elaborate further on why debt collection has been slower? Please explain in detail how it assesses the creditworthiness of its customers. Would this be an early sign of deteriorating credit condition?**

(iii) **How does management ensure that the group does not take on excessive credit risks as it scales up its operations, especially if it ventures to new markets like Vietnam and Laos?**