



Cheng & Co®

Chartered Accountants

The Firm of the future

M&A as a Growth Strategy: A Case Study of Cheng & Co

MIA Sabah Regional Office

11th June 2015

Presented by:

Prof. Dato' Dr. Chua H.H

Managing Partner

ONE STOP PROFESSIONAL CENTRE

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Our Speaker:



拿督蔡復和博士
Prof. Dato' Dr. Chua Hock Hoo
Managing Partner
Cheng & Co Group

PhD, MBA, CA(M), FCPA,
FCMA, FTII, CFP

- Professional accountant from the Chartered Institute of Management Accountant in 1993,
- MBA from Oklahoma City University (USA) in 1995
- Doctorate in Philosophy (PhD) from University of Malaya in 2012 (*Knowledge Management Process Capability And Organizational Effectiveness In Auditing Firms In Malaysia: Role of Trust As Moderating Factor*)
- A member of the Malaysian Institute of Accountants, Malaysian Institute of Taxation, Financial Planning Association of Malaysia and Malaysian Institute of Directors.
- A fellow member of the Chartered Institute of Management Accountants (UK) and CPA (Australia).
- An associate member of the Institute of Internal Auditors Malaysia.
- Director of several private and listed companies in Malaysia and Australia.
- Co-founder of Cheng & Co
- Founder of Cheng & Co Foundation
- Adjunct Professor , UNITAR International University
- Datukship (D.I.M.P), Darjah Kebesaran Mahkota Pahang Yang Amat Mulia Peringkat Kedua Darjah Indera Mahkota Pahang.

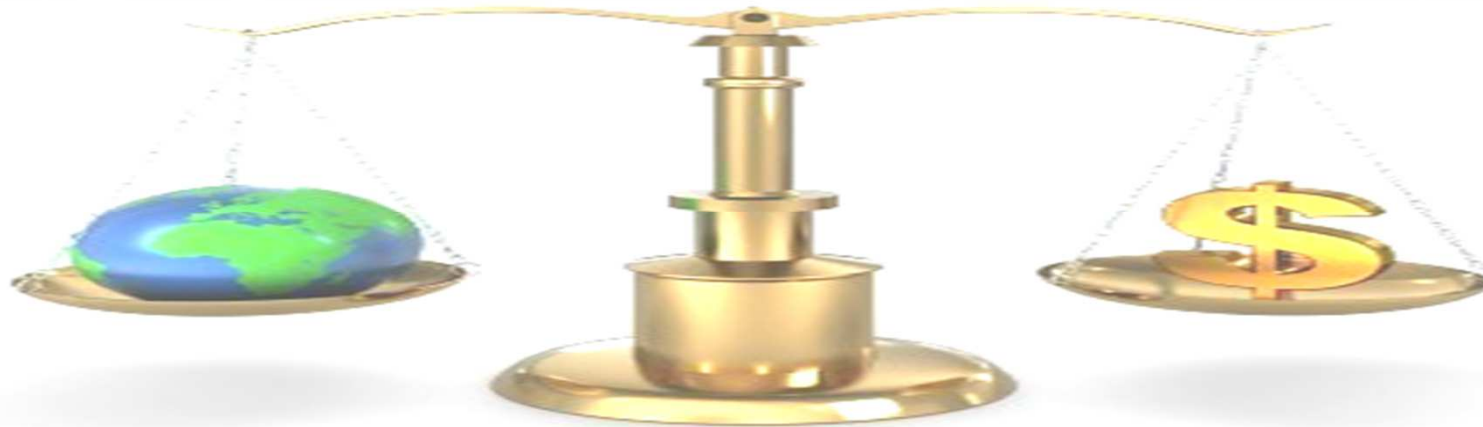
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Professional Accountants



Accounting is defined by the American Institute of Certified Public Accountants (AICPA) as “The **ART** of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof.”

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Cheng & Co

Sharing our experience:

Our journey towards

The Firm of the Future

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Milestone Towards Internationalization

→ By upholding 3 main strategies

Strategy 1: Merger & Acquisition

- Expanding since 1993 by merger & acquisition of more than 10 practitioner firms, to meet the ever increasing demands of the public.
- Globalization thru M&A – Singapore/Australia

Strategy 2: One Stop Professional Centre

- Establish a one-stop professional center and providing more professional services to the public.

Strategy 3: Professional Leadership Centre

- Human Excellence Development through Professional Leadership Centre.
- Talent Staff Gaps
- Professional Leadership Development Program.
- Cheng & Co Foundation

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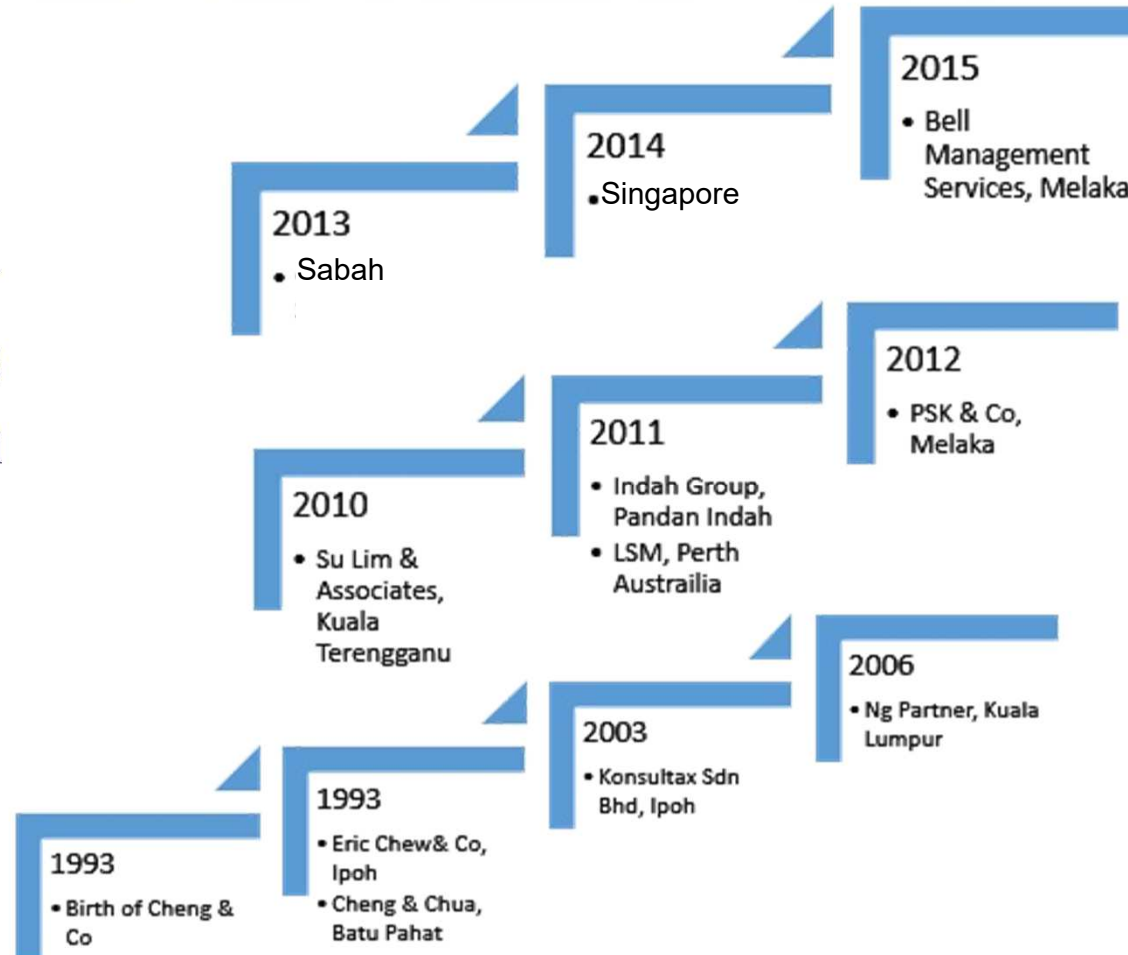
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Journey of M&A

Merger Pathway Driving Towards Business Growth



2010

Su Lim & Associates, Kuala Terengganu



Cheng & Co set to become largest local accounting firm

By Satiman Jamin
news@nst.com.my

CHENG & Co said it is on track to become the country's largest local accounting firm with the completion of its merger with Terengganu-based Su Lim & Associates.

The merger deal marks Cheng & Co's 11th.

Its managing partner H.H. Chua said the merger deal was sealed within three months from initial talks.

He said the short time needed to seal the deal reflected the company's vast experience in the merger and acquisition exercise as it is its main growth strategy.

"Rather than wasting our resources creating a new branch from scratch and penetrating the local market ourselves, we offered a win-win deal to an established local company," he told reporters after the signing ceremony between Cheng & Co and Su Lim & Associates in Kuala Terengganu yesterday.

He said the only way forward for small accounting firms is to merge to become more efficient and competitive.

"Mergers are common practice even in the international scene. Malaysian firms, especially in the service sector, need to become strong to compete in the market, especially with international gi-

ants," Chua said.

With branches in Singapore, Shenzhen, Guangzhou, Hong Kong and Perth, Cheng & Co has tapped into the regional markets by capitalising on its Malaysian roots.

"Besides accounting, we offer halal certification consulting services to foreign companies that want to invest in the food industry here and in Indonesia," he said.

Although detractors may scoff at the idea of an accounting firm offering halal certification consulting, Chua said it gives Cheng & Co an added advantage in providing one-stop consulting services to customers.

"We have roped in halal-certification experts who could liaise with Jakim in Malaysia and MUI in Indonesia on how to make our clients' businesses halal-compliant. This is vital to their operations here and in other Muslim countries," he said.

Chua said the ability to be multilingual has also helped the company to clinch business deals.

Cheng & Co's next move is to merge with accounting firms in other major cities in the country where it has yet to have a branch.

"I cannot say for sure where we will be next, but we will like to have branches in Penang, Sabah and Sarawak," Chua said.

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2011

CS Ong Group, Pandan Indah



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2014

Singapore






CHENG & CO INTERNATIONAL CORPORATE OFFICE

Corporate Communication

Release No : 3/2015
 To : Cheng & Co Staff
 From : Alex Kang (Human Resource & Admin Manger)
 Date : 2 March 2015

Cheng & Co Singapore Office Opening Ceremony


 Chengco International PAC office was officially launched last Thursday (26th February 2015). The ribbon cutting ceremony was attended by the special invited guest from USA Crowe Howard partner - Claire, Dr. Klanpar - Hong Kong associate partner, Mr James Yap - Australia Migration associate partner and CCICO Board of Directors.



Start from Left: Dr. Chua & Mr. K.K. Wong

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2015

Bell Management Services, Melaka



CHENG & CO INTERNATIONAL CORPORATE OFFICE Corporate Communication



M&A Press Release
 Photo from left: Prof. Dato' Dr. Chua Hock Hoo (Managing Partner of Cheng & Co Group), witnessed by lawyer Mr. Chee Kong Chi (Chee Siah Le Kee & Partners), Mr Goh Hock Gin (Founder of Bel Management Group) & Mr. Chong Ying Choy (Managing Partner of Y. C. Chong & Co, Chartered Accountant Firm)

Extracted from pg C-64, Nanyang Siang Pau, Melaka edition on 24th January 2015

There was a Merger & Acquisition (M&A) signing ceremony between Cheng & Co and Bel Management Group from Melaka on 21st January 2015 at Wisma Cheng & Co Melaka office. The signing ceremony has captured the attention of media such as Nan Yang Siang Pau, China Press, Utusan. We are glad that the event was taken place at the right time at our Cheng & Co newly shifted office attended by our business associates, clients and staff.

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What we are going to talk about?

SMP & Economy

Are we ready?

Internationalization Experience

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The Malaysian Scenario

Malaysia;

Compared to other Asian countries, faces a larger risk of slowdown stemming from institutions and macroeconomic factors.

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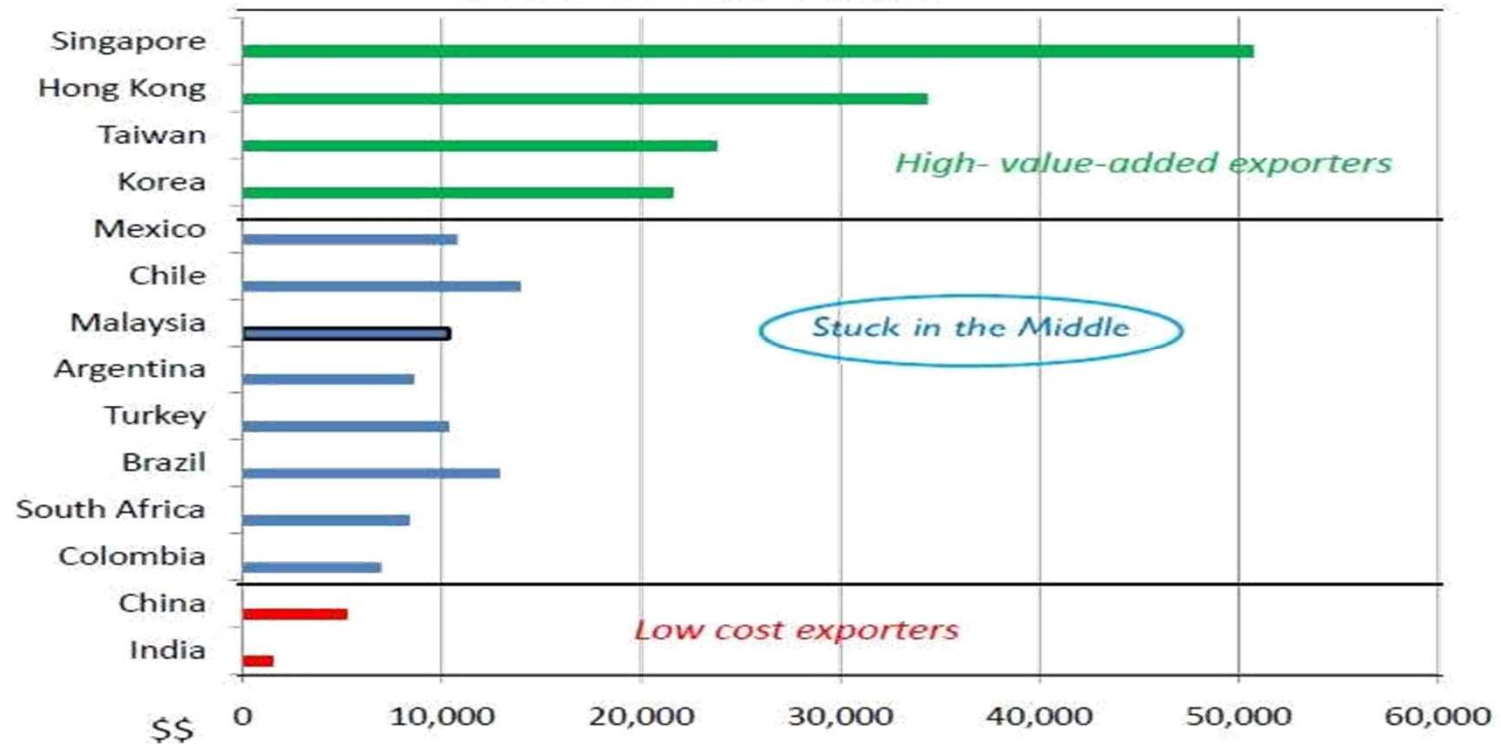
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Challenges: Stuck in MIDDLE

Gross Domestic Product per Capita for Exporting Countries
(in nominal U.S. Dollars)



Source: IMF Database, 2011

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The Malaysian Scenario

Malaysia;

GNI (Gross National Income) per capita: MYR32,568

Ranked in upper-middle income league

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Accounting Today

Companies Act:



Exempt Private Companies (EPCs) are not required to have their accounts audited

Singapore – \$5mil towards \$10mil revenue

UK / Australia , etc

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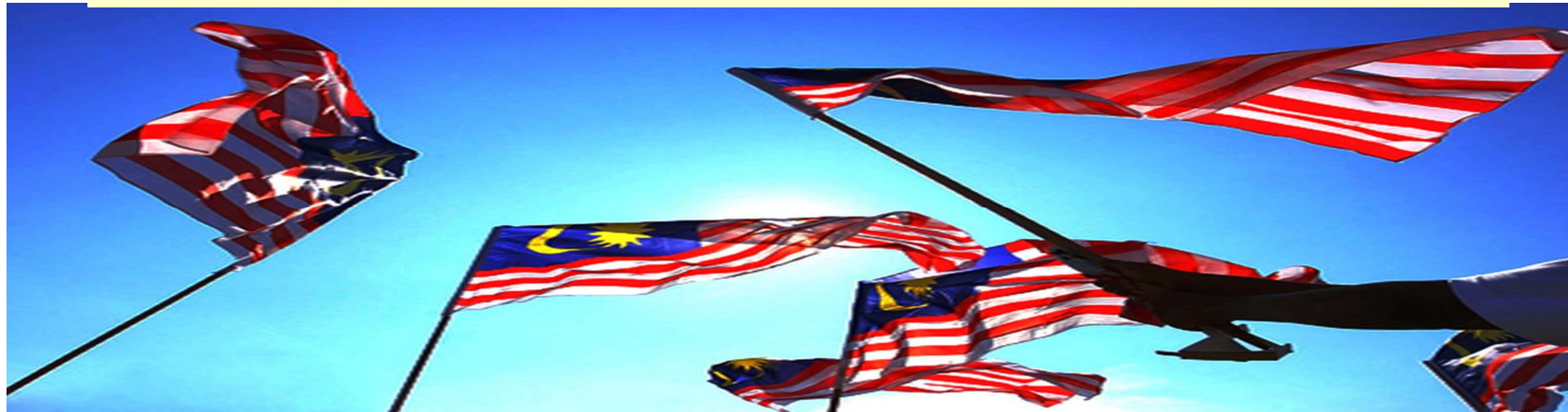
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Accounting Today; Malaysia

- In Malaysia, all companies are required to have their accounts audited.
- When is our turn?



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Accounting Today; Malaysia

- **The issue is whether audit firms could survive if **VOLUNTARY AUDIT** be implemented**



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How to Survive?

Consequences:

In 2012, a study in UPM found that nearly half (**44%**) of the sample companies would not continue to have their accounts audited if not legally required to do so.



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Accounting, The Language of Business

Firm	Revenues	Employees	Fiscal Year	Headquarters
<u>PwC</u>	\$31.5bn	180,000	2012	<u>United Kingdom</u>
<u>Deloitte</u>	\$31.3bn	193,000	2012	<u>United States</u>
<u>Ernst & Young</u>	\$24.4bn	167,000	2012	<u>United Kingdom</u>
<u>KPMG</u>	\$23.0bn	152,000	2012	<u>Netherlands</u>

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ARE WE IN THE RIGHT INDUSTRY?

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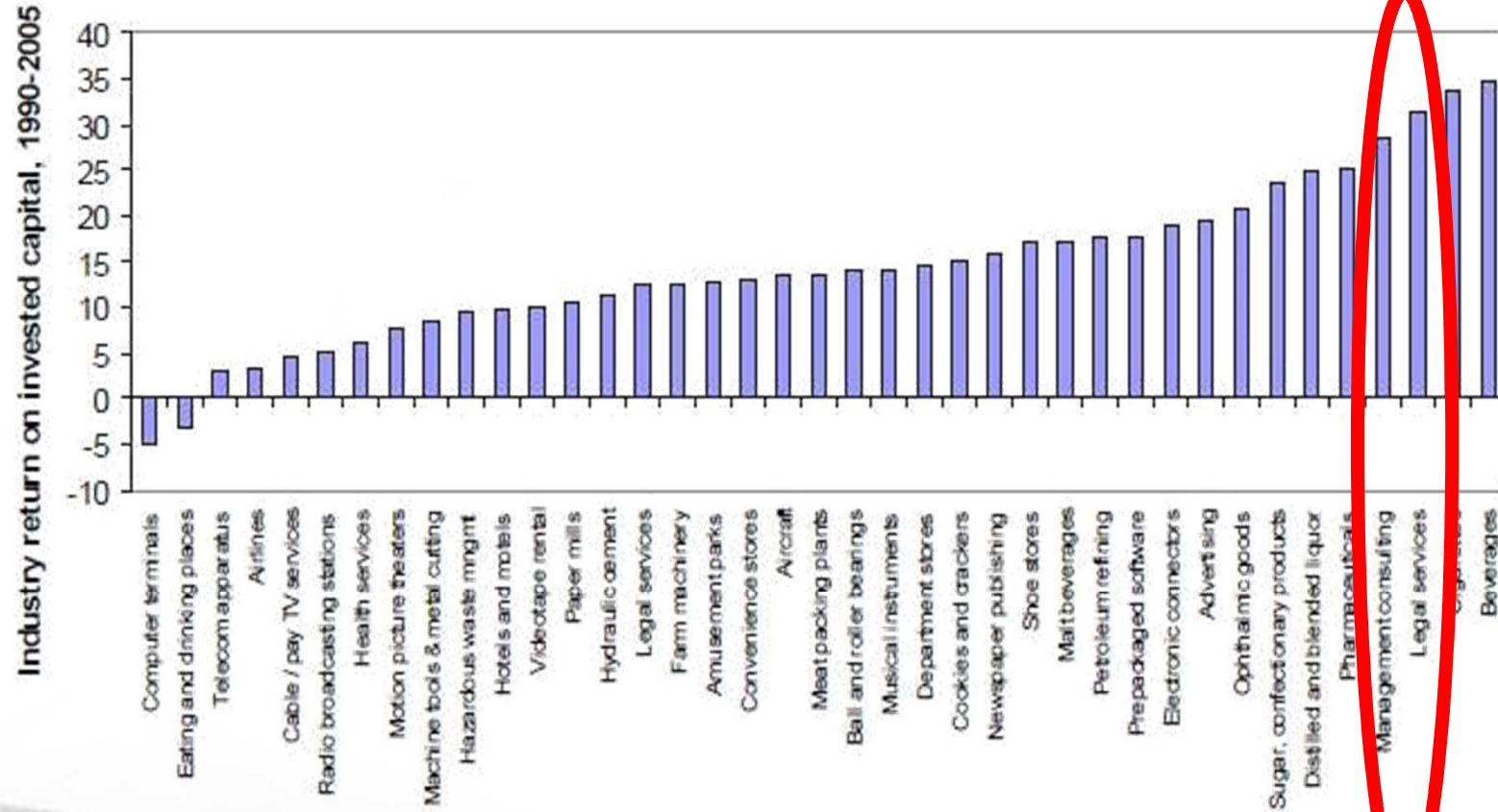
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The Firm of the future



Differences in Profitability Across Selected Industries



The Way Forward

Mike Porter built his framework for business strategy around three generic approaches:

– **Overall Cost Leadership**

- Scale, cost-reduction from experience, overhead control

– **Differentiation**

- Something unique (brand, high-quality, dealer network, durability, design)

– **Focus**

- On a buyer group, segment of product line or geographic market



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Suitable Solutions

There is no right or wrong in business, it's all about
the **Suitable Strategy**;
So

We suggest **Differentiation**



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Differentiation

Differentiation Strategy

- Uniquely satisfy one or more widely valued customer needs
 - additional costs incurred
 - premium price
- BUT***
- Remain cost competitive in providing basic features
 - selectively add cost
 - choose differentiation features that yield a cost advantage

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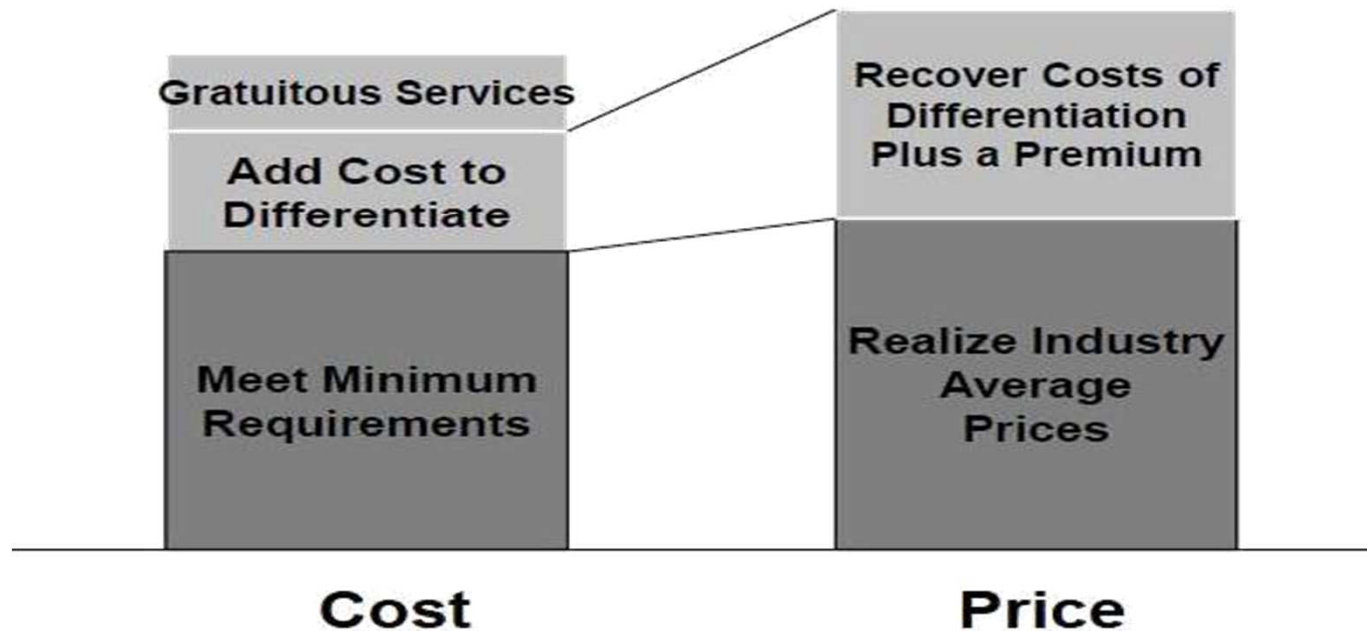
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Differentiation

What Differentiation Means



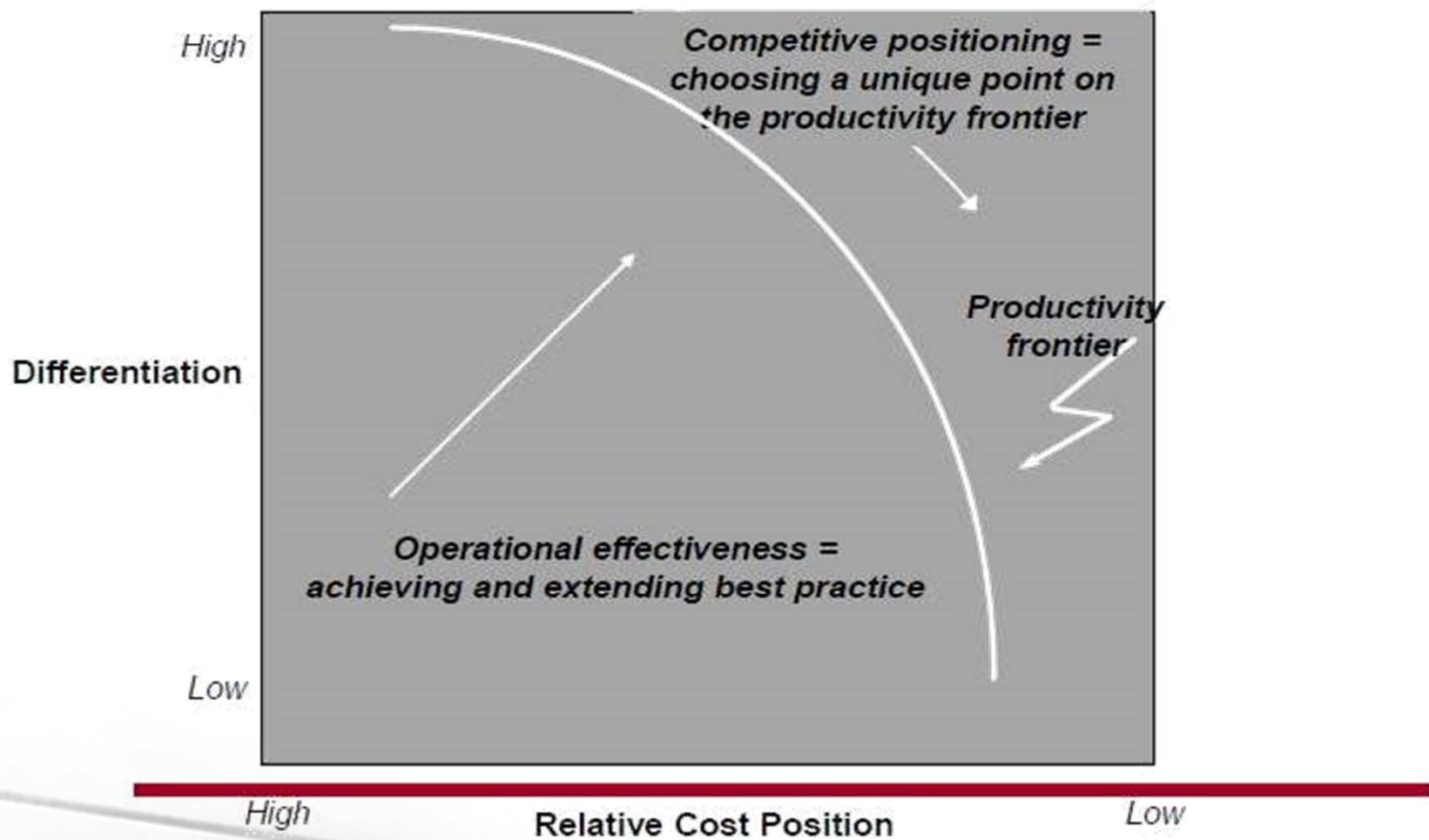
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Operational Effectiveness vs. Competitive Positioning

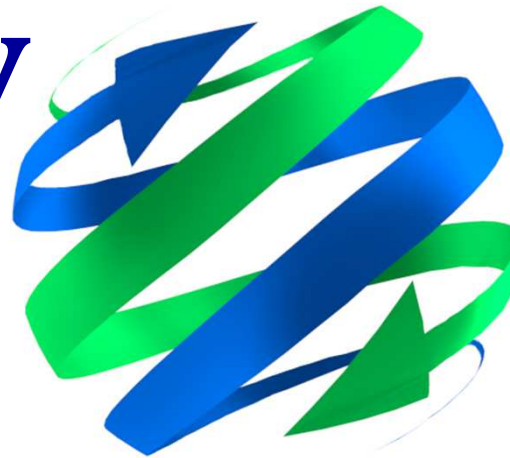


Strategy



Which one comes first?

Strategy



Client

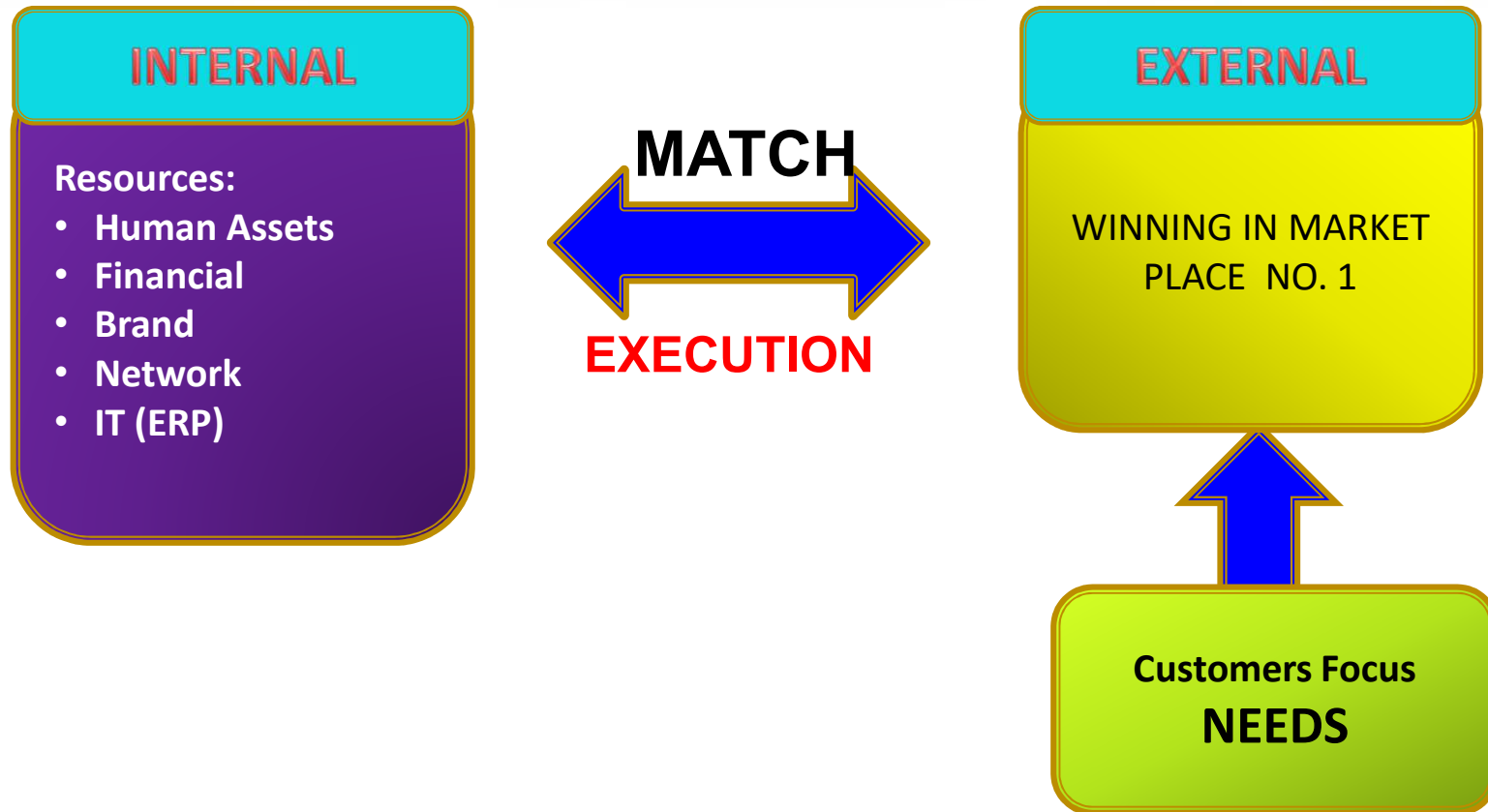
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What is Strategy



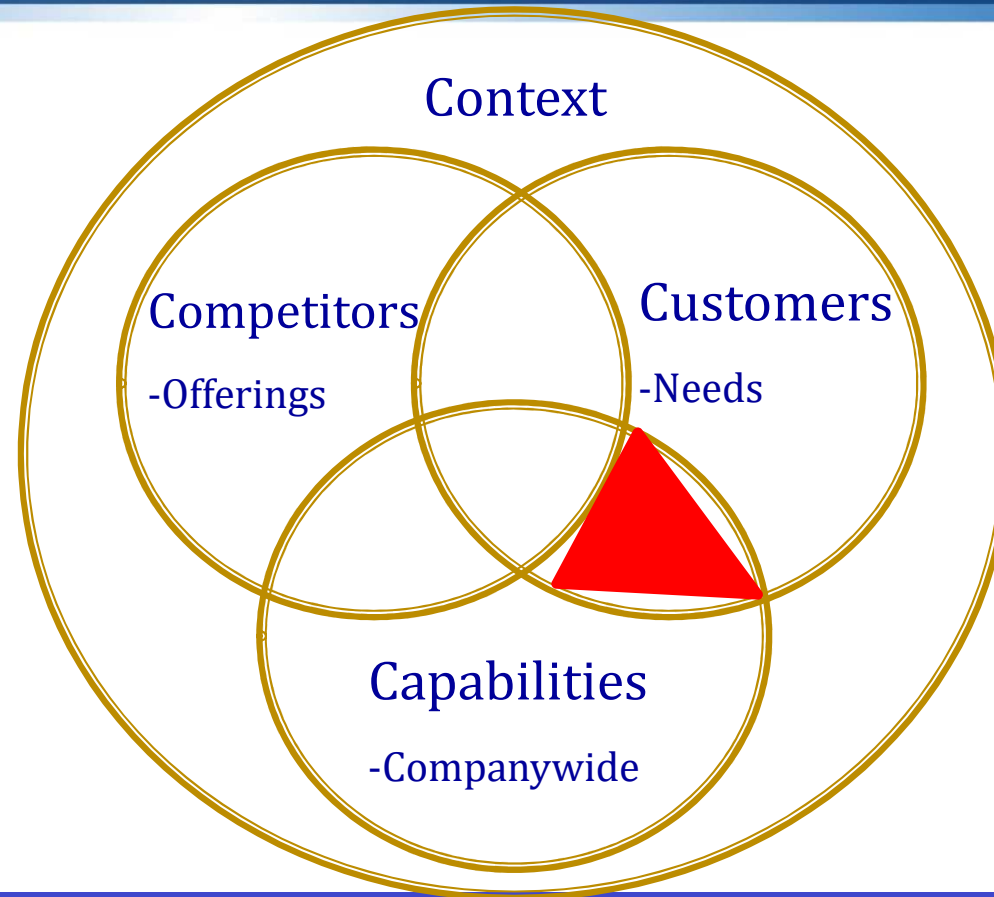
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How to Set the Strategy

Strategic Sweet Point



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Suggested solutions to be DIFFERENT

- 1) One-Stop Professional Centre
- 2) Performance-based Evaluation
- 3) Client's Satisfaction
- 4) Internal Process
- 5) Learning & Growth
- 6) Employee Satisfaction
- 7) Corporate Social Responsibility



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1) One-Stop Professional Centre



Increase No of your **High-Income** Professional Services

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How many “ONE” is One-Stop? Real Case from Walt-Disney

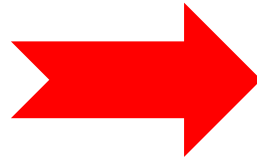
Theme Parks

Studio
Entertainment

Resorts

Media Networks

Consumer
Products



In July 1995:

M&A; Disney & CapCities/ABC

ABC included the ABC Television Network and 10 television stations, the ABC Radio Networks and 21 radio stations, cable networks such as sport channels ESPN and ESPN2, several newspapers, and over 100 periodicals.

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How many "ONE" is One-Stop? Real Case from Walt-Disney

Media Networks



A year after the merger, there was a cultural clash between executives at ABC and Disney.

After acquiring ABC, Disney's performance began to deteriorate.

In 1999 Disney began to diversify. It opened a chain of shopping mall play centers, closed all ESPN Stores. Disney also began selling "non-strategic" assets such as Fairchild Publication, a magazine subsidiary acquired in the ABC deal.

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2) Reaching Performance Target

- Result-oriented
- KPI



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3) Client's Satisfaction

Level of Customer

- Fees
- Collection
- Co-operation
- Readiness of Client's account

Create Value; Be Different

A
B
C

Customer Classification:

Define Value for each level of customer

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Good News; Client's Satisfaction

Academic findings:



- No significant difference of client satisfaction with the overall performance between big 4 and non-big 4 audit team members
- Clients do not differentiate audit performance of the big 4 and non-big 4 at both the firm and audit team level

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Why we are not there yet



Academic findings:

➤ Client satisfaction over audit firm performance criteria:

- ✓ Prior experience with the client
- ✓ Responsiveness
- ✓ Demonstration of higher level of independency
- ✓ Commitment to quality



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The Relationship Between Audit Client Satisfaction and Audit Quality Attributes

Table 4 Ranking of Audit Quality Attributes by Big 4 and non-Big 4

Rank	Audit Quality Attributes	Mean (Big 4)	Mean (Non-Big 4)	<i>t-test</i> <i>p</i>
Audit Firm				
1	Q1 – Audit firm experience with client	4.36	4.08	.316
2	Q3 – Audit firm industry expertise	4.14	3.97	.185
3	Q7 – Audit firm independence	4.06	3.94	.380
4	Q10 – Audit firm commitment to quality	4.00	3.77	.112
5	Q5 – Audit firm responsiveness to client needs*	3.76	3.86	.040
Audit Team				
1	Q6 – Audit team competence with Approved Accounting Std and Approved Auditing Std	4.16	4.08	.405
2	Q12 – Audit team member conduct to audit field work	3.96	3.86	.894
3	Q9 – Audit team exercises due care	3.97	3.79	.181
4	Q8 – Audit team independence*	3.98	3.73	.023
5	Q11 – Audit firm executive involvement in the engagement	3.88	3.78	.839
6	Q2 – Audit team experience	3.69	3.67	.390
7	Q4 – Audit team industry expertise	3.65	3.73	.265
8	Q13 – Audit team interaction with audit committee	3.73	3.43	.288
9	Q15 – Audit team maintain personnel sceptical attitude	3.49	3.18	.117
10	Q14 – Audit team ethical and knowledgeable in accounting and auditing	3.41	3.27	.102

Note: *Significant difference between Big 5 and non-Big 5 at $p < .05$.

Client's Satisfaction

Failure points:

❖ Experience with the client

❖ Industry expertise

❖ Independency

**Relationship
Trust**

Professionalism

❖ Commitment to QUALITY

Quality

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Client's Satisfaction

**Adjust level of your services with
the level of your CLIENTs...**

**Define the strategy based on
your client's needs**

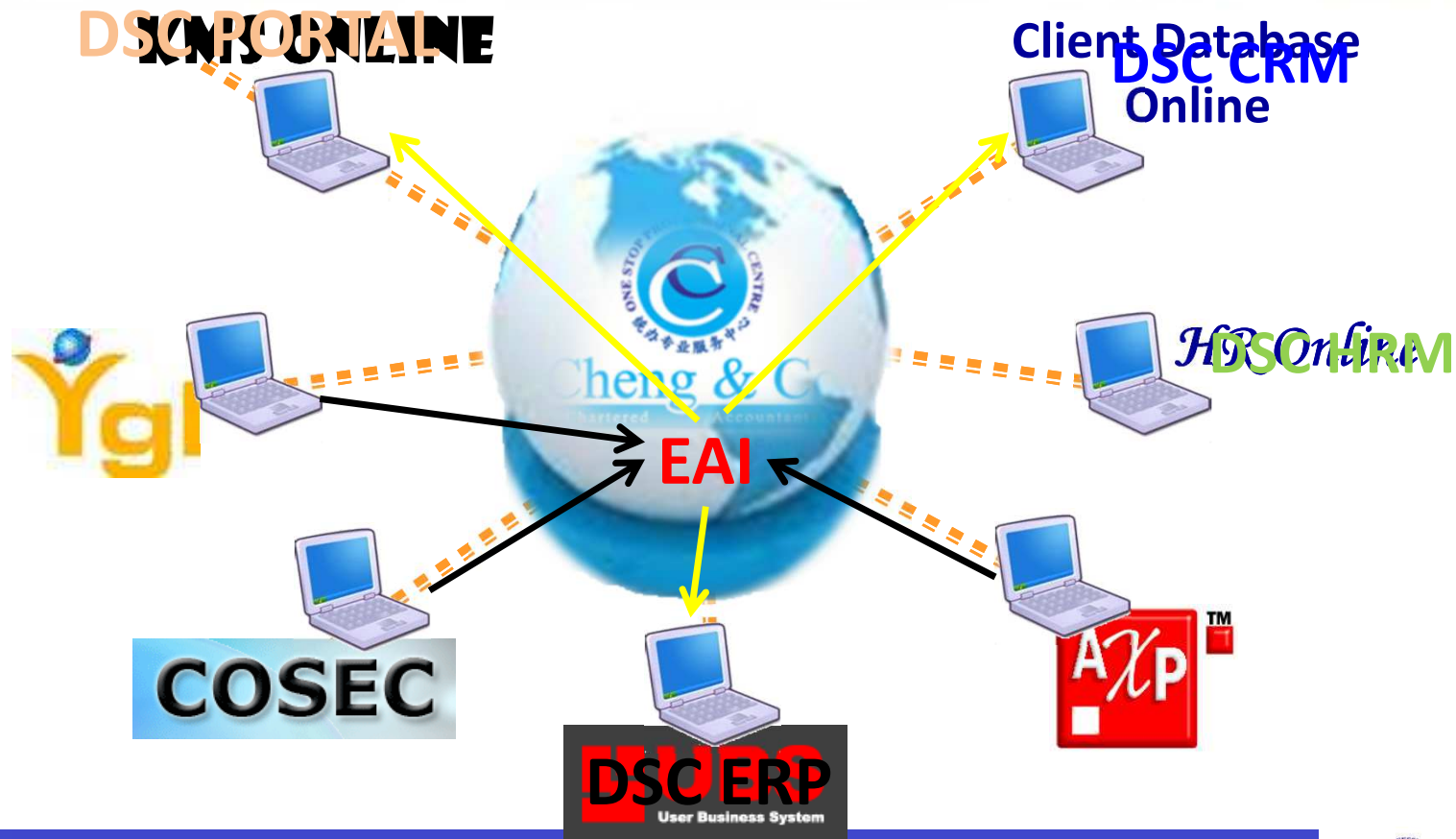
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4) Internal Process



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5) Learning & Growth

Training

- **Technical**
Knowledge of Audit, Tax, ...
- **Soft Skills**
Problem Solving, Communication,....



71%

**Staff believes they need to improve their
Communication Skills**

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Learning & Growth

Sources allocated to Training:

- Financial
- HR (Trainee, Trainer)
- No of Hrs



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Cheng & Co International Corporate Office

Learning & Growth, Case Study

Edward Jones; Brokerage Firm

- Founded in 1922
- The best place to work in America by Fortune Magazine, 2000 & 2001
- Forth-largest broker in U.S. by 2006
- No. 1 in JD Power's Client Satisfaction Scores
- 17000 Financial Advisors by 2012

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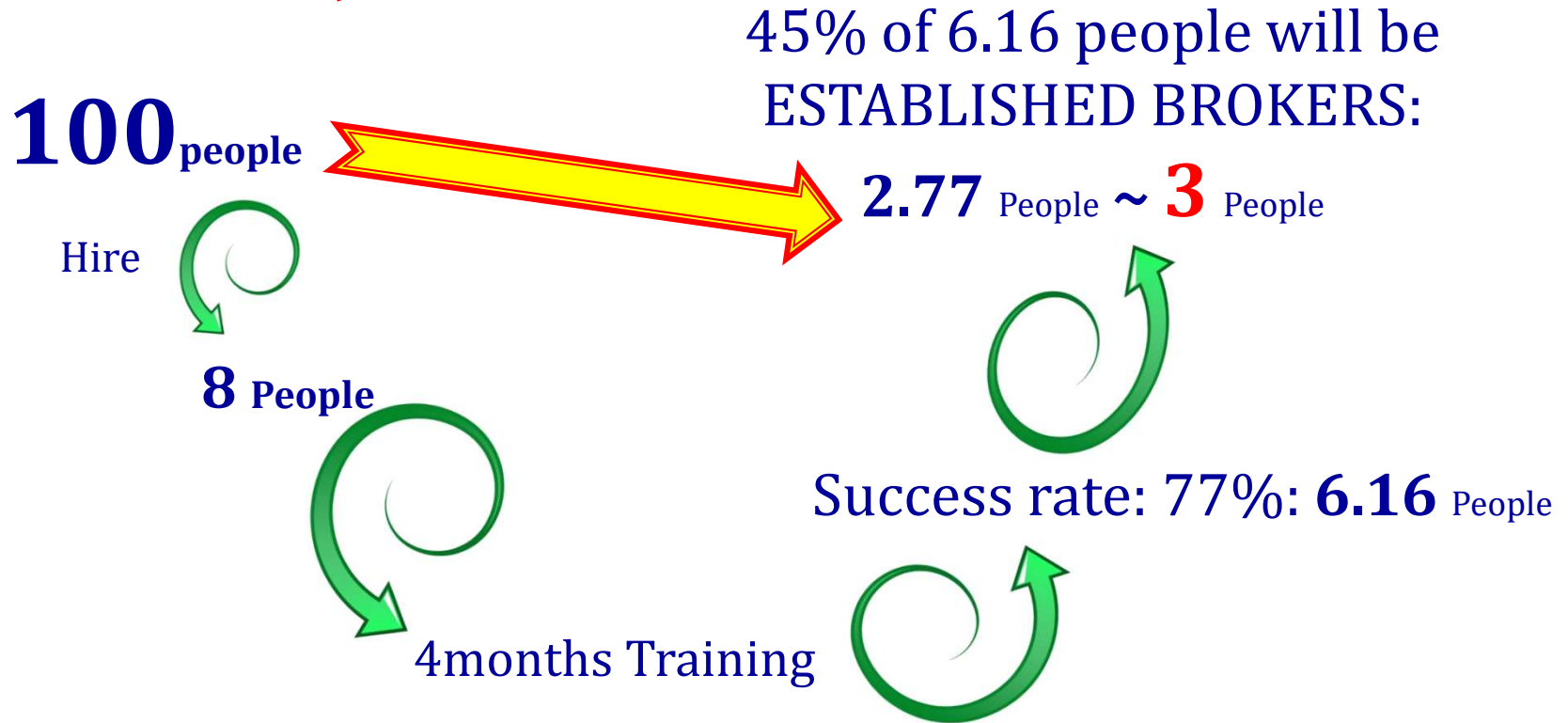
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Learning & Growth, Case Study

Edward Jones;



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6) Employee Satisfaction

Recruitment

Define the criteria to know whom you should recruit



For employers looking to recruit Generation Y:

New entrants have a different set of values to previous generations.

Companies need to **'SELL'** their company to new recruits

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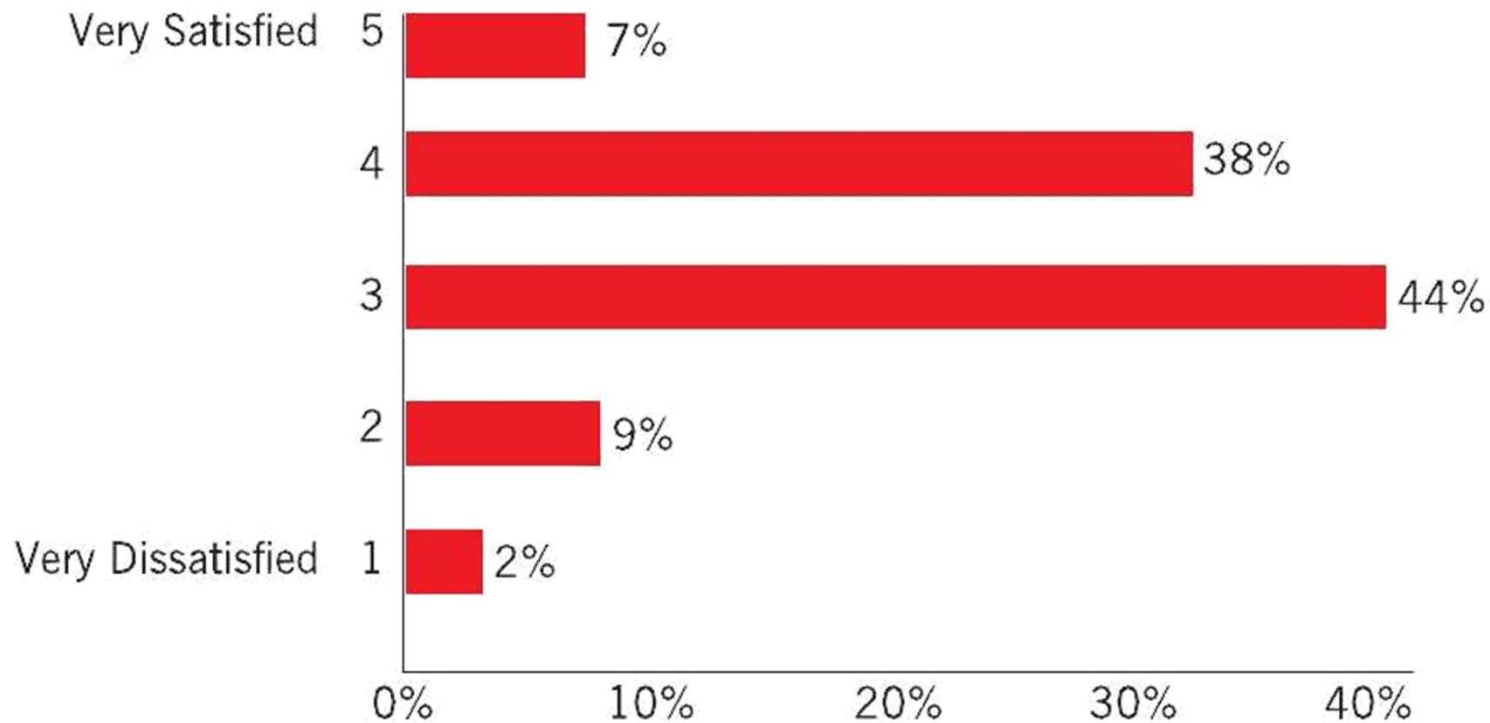
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Employee Satisfaction

Overall, how satisfied are you with your career choice in external audit?



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HR Matters!

Satisfaction **45%**

Intend to **LEAVE** their role within 3
years **49%**

Wanted: More Communication

71% and Recognition

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HR Really Matters!

Keeping Mum  **65%**

 **Partnership**

18%



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7) CSR; Corporate Social Responsibility

EVENTS

19 Jan, 2014. GST and Financial Planning Talk in Triang, Pahang

19/1/2014 (星期日)
黃智勇：消費稅執行百貨上漲
民眾須重視財務規劃

【本報訊】星洲各界人士日前在峇株巴轄三寶壟區，參加由星洲中華總商會主辦的「2014年消費稅與財務規劃」講座。講座吸引了眾多人士參加，現場氣氛熱烈。

星洲中華總商會會長黃智勇在致詞時表示，消費稅的實施對各行各業都帶來了影響，特別是百貨業。他呼籲企業界人士要加強財務規劃，以應對未來的挑戰。

此外，新聞還報導了全球經濟的現狀，指出全球經濟在2013年表現疲軟，預計2014年也不會好轉。這也導致了加工價的上升，進而推動了物價的漲跌。

16 Feb, 2014. Prof Dato Dr Chua personality interview in China Press

16/2/2014
蔡復和堅毅守業

【本報訊】星洲著名企業家蔡復和日前在接受星洲晨報專訪時表示，他經營企業多年，最大的動力來自家人的理解和支持。他強調，在創業過程中，堅毅不拔的精神至關重要。

蔡復和表示，他經營的企業在面對激烈的市場競爭時，始終堅持品質第一，不斷研發新產品，以滿足消費者的需求。他認為，只有不斷學習和創新，才能在市場中立於不敗之地。

此外，新聞還報導了其他企業家的創業故事，以及政府對創業者的支持政策。政府表示，將通過提供貸款擔保、稅收優惠等方式，減輕創業者的負擔，鼓勵更多人投身創業。

19 Mar, 2014. Kuala Terengganu GST Training



傅良亞：實施消費稅 政府應傾聽業者心聲

【本報訊】星洲中華總商會會長傅良亞日前在接受星洲晨報專訪時表示，政府實施消費稅時，應傾聽業者的心聲。他指出，消費稅的實施對各行各業都帶來了影響，特別是百貨業。他呼籲政府要加強與業界的溝通，了解業界的實際情況，以制定更合理的政策。

傅良亞表示，消費稅的實施不僅增加了消費者的負擔，也增加了企業的經營成本。他認為，政府應該考慮到業界的利益，通過調整稅率等方式，減輕業界的負擔。同時，政府也應該加強對消費稅的監管，確保稅收的公平和透明。

▲逾250人出席 講座，了解消費稅執行細節。

16/5/2014
消費稅冲击家具業營運

【本報訊】星洲家具業協會日前在接受星洲晨報專訪時表示，消費稅的實施對家具業的營運帶來了巨大的冲击。他指出，消費稅的實施增加了家具業的經營成本，導致家具價格上漲，消費者的購買力下降。他呼籲政府要重新考慮消費稅的實施方案，減輕家具業的負擔。

家具業協會表示，消費稅的實施不僅增加了家具業的經營成本，也增加了消費者的負擔。他認為，政府應該考慮到家具業的實際情況，通過調整稅率等方式，減輕家具業的負擔。同時，政府也應該加強對消費稅的監管，確保稅收的公平和透明。

16 May, 2014. GST & ERP talk with Muar Furniture Association in Muar - Nanyang Press



▲傅良亞（右起）代表星洲中華總商會與家具業協會代表合影。

15 May, 2014. GST & ERP talk with Muar Furniture Association in Muar - Sin Chew Daily

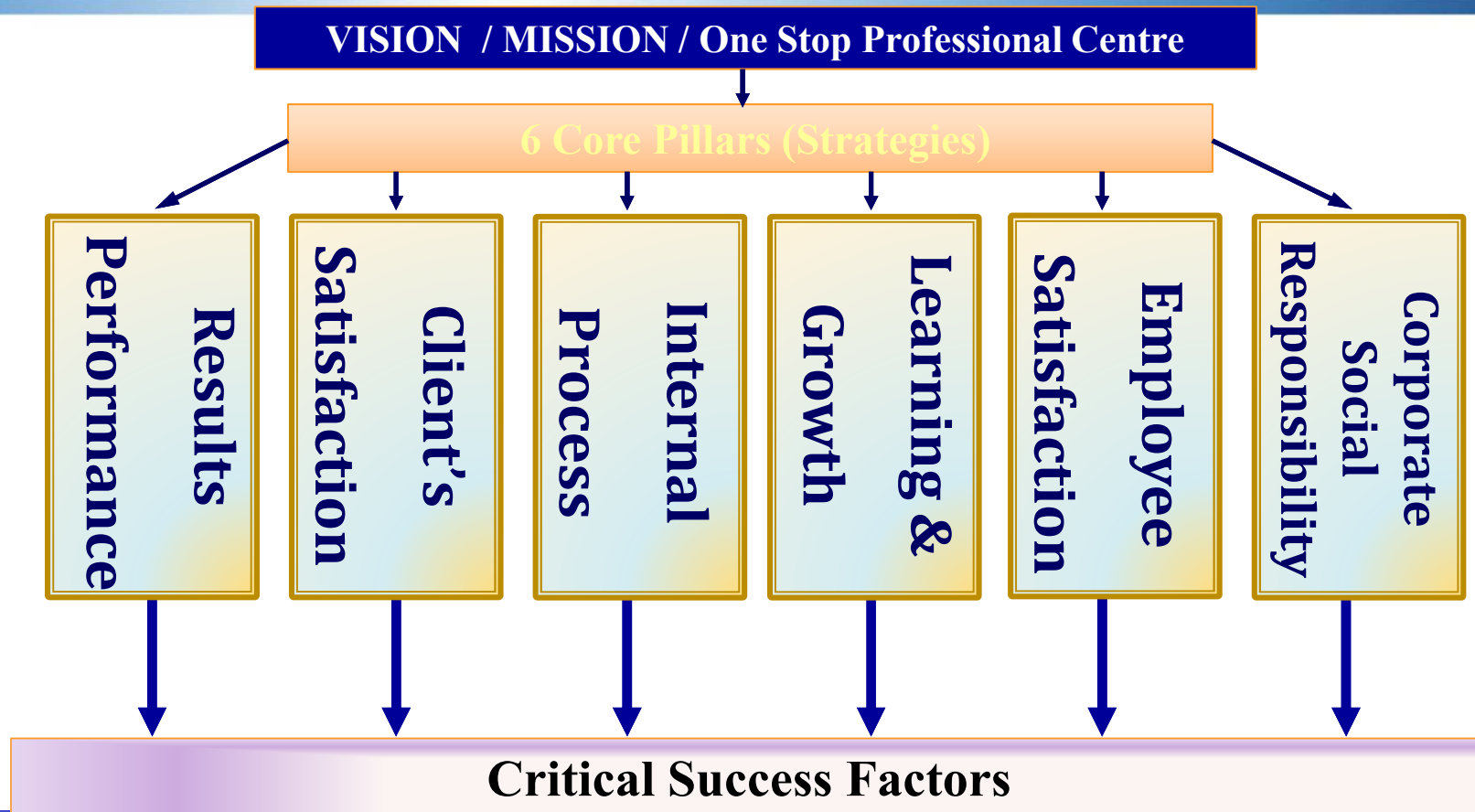
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Journey from a Vision & Mission through Performance Measurements



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AUSTRALIA PARTNER COLLABORATION



- MOU Signing Ceremony with Lachlan Partners, Melbourne.
- Cheng & Co's Perth office opening ceremony

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Signing Ceremony with Techcential S/B, Sinopac Securities, Moores Rowland CPAs, A Garanzia LLP and Alpha Corporate Services Pte Ltd in The Gardens Hotel, KL on 8th Aug 2012

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Taiwan capital market presents opportunities for Malaysian SMEs

By **Chua Kai Shen**
KUALA LUMPUR: Small and medium enterprises (SMEs) in Malaysia have good listing opportunities in the Taiwan capital market, according to Cheng & Co Chartered Accountants.

Its deputy managing partner Tan Wue Long believes the Taiwan capital market offers alternative listing options for Malaysian SMEs, pointing out that there exists a "complementary" effect between Malaysia's and the Taiwan capital market.

"Most Malaysia SMEs have great potential and they just need capital to accelerate their growth and business plans to become market leaders. Unfortunately, the Malaysian capital market offers lower price earnings ratios (PER) for IPOs which may not reflect the value of the business prospects of SMEs," said Tan in an interview with *The Edge Financial Daily*.

"For SMEs with market capitalisation of RM100 million and below, PER ranges from 14 to 30



Chua (left) stressing a point as Tan looks on.

approximately US 20.4 billion, whereas in Taiwan, market capitalisation is approximately US 68.6 billion

lished at least 12 months before the submission of any IPO applications. This internal audit time-

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DIGIWIN TAIWAN ERP



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BSC IMPLEMENTATION IN MYANMAR

Strategic Management & BSC Implementation



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THANK YOU!

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