Singapore CA Qualification

INTEGRATIVE BUSINESS SOLUTIONS

ADVANCE INFORMATION

Monday, 11 December 2017

This is a hypothetical case written exclusively for this examination. Names, characters, places, and incidents used are imaginary or fictional. Any resemblance to actual events or locales or persons, living or dead, is entirely coincidental. This case is not to be cited without permission from the Singapore Accountancy Commission.

WARNING

Candidates must not under any circumstances contact any similar company or its agents to obtain research data, and they must use ONLY PUBLICLY AVAILABLE INFORMATION. Under no circumstances should they seek to use unpublished or private information.
Dear Candidate,

This information package contains the **Advance Information** for the Integrative Business Solutions (IB) module final examination to be held on **Monday, 11 December 2017**. A checklist of the documents (Exhibits) contained in this information package is provided on the following page. It is your responsibility to ensure that you have received every document listed.

Your task now is to familiarise yourself with this information including analysing the data provided. In addition, you are expected to undertake further research and investigation to form a holistic picture of the industry and markets in which the case study company is operating, and the general economic and business environment. Diligent preparation is essential for success in the IB Examination. **Guidance on preparing for the IB Examination is covered in your IB Toolkit.**

**The IB examination will be conducted using Examplify.** Please ensure that you bring your laptop with the Examplify software pre-installed and the examination file downloaded with you to the examination hall. Although you will have full access to the hard drive on your laptop during the examination, you are strongly advised to bring this Advance Information, together with your notes and other preparatory workings in **hard copy format**, as well as a standalone calculator that complies with the SAC’s regulations into the examination hall.

You will also receive additional information (**Examination Day Documents**) on the case study company on the day of the IB Examination **in hard copy format**. The Examination Day Documents complete the case study scenario and set out the requirements for the report that you are required to write. The IB Examination will be open-book of **4 hours 30 minutes** duration. Your formal report will cover four specified areas, one of which will be to write an Executive Summary. Please note that **only your report commentary (including the assumptions made), appendices, and workings entered in the Examplify software programme on the day of the examination will be marked.**
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If a document is missing, please contact ISCA via telephone +65 6597-5610 or email Singaporecaqualification_exam@isca.org.sg as a matter of urgency to have the matter rectified.

**Where can you get help?**

You are encouraged to form study groups and you may seek assistance and/or clarification from your Singapore CA Qualification Approved Mentor or Training Principal, but remember that trying to spot specific questions and only preparing for these is a recipe for failure.

You can also attend classes offered in-house or by third parties. However, under no circumstances are you to contact the IB Workshop facilitators or the SAC or ISCA staff to ask for guidance.

If you experience technical difficulties with the Examplify software programme prior to the examination day, please contact Mr Yap Zi Wei YAP_Zi_Wei@sac.gov.sg for assistance.

Finally, if you think you have found an error or inconsistency in the Advance Information, please advise ISCA, however, please note that the standard reply will be to “take the Advance Information ‘as is’ and make an appropriate assumption or assumptions”.

Best wishes,

*From the Singapore Accountancy Commission Team!*
Hikari-FAB: the early years

Fashion brand Hikari-FAB started out as the brainchild of 27-year-old Ling Ng, who had always dreamed of starting her own fashion label. On completing her General Certificate of Education-Ordinary Level (GCE O-Level) examinations, she surprised her family by not enrolling in a Junior College despite stellar results, choosing instead to work full-time with local fashion start-up, Nox. Starting out as a retail assistant, she quickly worked her way up to operations executive, transitioning from the sales floor to the main office.

After a few years at Nox, Ling applied for, and secured, a place at the Raphles Design Institute (RDI). As her family were not supportive of her decision to study fashion design, her boss and founder of Nox agreed to fund her studies as a company-wide initiative. She continued to work part-time while studying, taking on design work for the office wear arm of Nox alongside her duties of assisting with the management of the day-to-day operations of the stores. In 2011, she successfully graduated with an advanced diploma in fashion design conferred by RDI.

Following her graduation, Ling continued to work at Nox for about six months while she thought about what to do next. That was when her boss introduced her to Fast Forward. Fast Forward is a fashion incubator programme for aspiring designers, whose purpose is to jump-start the local fashion design industry by investing in young talent. Partially funded by the government, the training and mentorship programme creates a nurturing environment for fashion start-ups to grow and thrive.

For the 18 months of the programme, Ling received business mentoring, attended educational seminars and networking events, and was provided a free storefront at a shopping mall near the Central Business District (CBD) in Singapore in which to set up Hikari-FAB. This was where she displayed and sold her self-designed and handmade garments. Ling was aware that she would have to find alternative premises at the end of the 18-month programme.
Ling would source materials locally from Chinatown, or the Sham Shui Po market in Hong Kong. Her trendy, avant-garde apparel and accessories were limited to just a few pieces per design, and were well received by customers. Being social media savvy, Ling managed to create an ‘online buzz’ for the Hikari-FAB brand. Over time, the brand gathered a small but growing pool of returning customers, as well as a modest following on Facebook and Instagram.

With her confidence bolstered by the initial success of her sole-trader business and brand, and with the encouragement from her peers and her boss-turned-mentor, Ling decided to continue with her fashion label venture. This initial success enabled her to convince her family not only of the viability of her business, but also to invest a sizeable sum of money into a private company that she now established, Hikari-FAB Pte Ltd. She formally registered the company with the Accounting and Corporate Regulatory Authority (ACRA), and registered a trademark for her brand name in July 2013. She invested a small amount of money as equity, and her family members provided capital in the form of a long-term fixed interest loan, on which she pays interest regularly. She also signed a lease for a storefront in Serangoon, and as the business grew over the next several months, hired one full-time and two part-time members of staff to work at the store, one of whom (Kiki) has since left and has been replaced.

The profiles of the employees at the Serangoon store, as at 30 June 2015 are shown in Table 1.1 on the following page.
Table 1.1 Profiles of the employees at the Serangoon store as at 30 June 2015

<table>
<thead>
<tr>
<th>Employee record</th>
<th>Background</th>
</tr>
</thead>
</table>
| **Aisyah Zain**  | Joined Hikari-FAB on 1 August 2013 then aged 27 years old.  
Position: Sales manager  
S$3,000 per month  
Aisyah was Ling’s secondary school classmate and came to work at Hikari-FAB at Ling’s request. When she joined Hikari-FAB, Aisyah had a few years of experience in fashion retail, in addition to customer relations experience gained while working part-time at a large theme park in Singapore. |
| **Jenna Tan**    | Joined Hikari-FAB 1 August 2013 then aged 22 years old.  
Position: Part-time retail assistant  
Average S$1,200 per month  
Jenna, graduated from Nanyang Polytechnic with a Diploma in Business Management in early 2013. When she joined Hikari-FAB, Jenna had no prior work experience and was hired through the recommendation of a relative. |
| **Kiki To**      | Joined: 1 December 2014 then aged 17 years old.  
Position: Part-time retail assistant  
Average S$900 per month  
Kiki had completed her A-Level Examinations and wanted to earn some money before going to university overseas in 2015. Kiki had no prior work experience and was hired as a walk-in applicant. |

Ling built up a business model for Hikari-FAB based on two pillars – exclusivity and being uniquely Singapore. Hikari-FAB’s fashion designs were geared towards the avant-garde and daring, which set them apart from much of the market, including run-of-the-mill blog-shops and fast fashion brands.

Ling often took inspiration from independent fashion labels and designers in Hong Kong, occasionally attending design fairs and bazaars. In line with the Hikari-FAB brand image, she priced her merchandise slightly higher than her competitors’ prices, and made sure to project the value of the brand through packaging design and store decor.

To attract new customers and keep them coming back, Ling started a customer loyalty programme. New customers were offered membership of the Hikari-FAB Fashion Club with a single-receipt purchase of S$200 or more, giving them 5% off any subsequent purchases on presentation of their membership card. Members would also get an additional 5% off any merchandise (on top of the membership discount) during their birthday month.

The business progressed steadily thanks to a loyal and growing base of returning customers. Ling paid herself only a small salary, but despite this, there was a small loss for the year to 30 June 2015. Because of the enormous demands on her time, Ling began to outsource the manufacturing of her products to a local apparel manufacturer, YK Garment Manufacturing (YK), to keep up with demand. She retained personal responsibility for the design of Hikari-FAB products.

The team at YK that oversaw the Hikari-FAB account was hands-on and would often make suggestions regarding design or fabric that were intended to streamline the production process and make it more efficient. As these suggestions were meant to help reduce Ling’s running costs, she would usually accept them without much critique or questioning.
As the business continued to grow, Ling began to reach out to local artisans for collaborations to design and source fashion accessories, belts, and garment embellishments, such as buttons, appliques, and fabric trimmings. The standalone accessories were marketed as ‘locally hand-crafted’ products under the brand name of Hikari-FAB+. The range of Hikari-FAB+ products was priced to provide a margin on the sales price that was, on average, about 20 percentage points higher than the regular Hikari-FAB items.

With an expanded inventory of both Hikari-FAB and Hikari-FAB+ products, Ling decided to offer her products for sale online. After much consideration, she chose to collaborate with existing e-commerce platforms, instead of starting her own website, as she did not have the budget to design, produce, and maintain a website. Following in-depth research, she decided to sign contracts with Zootori and Qoo!9. These contracts were effective from the beginning of August 2014.

Under the terms of their separate contracts with Hikari-FAB, Zootori and Qoo!9 agreed to sell Hikari-FAB and Hikari-FAB+ products through their online retail websites, taking a commission for successful sales. The other conditions of the contacts were standard, generally favouring the online retail platform provider rather than the merchant (seller). Ling understood that she had minimal bargaining power to alter the terms of the contracts and was happy to sign up just to get started, but she made sure she retained responsibility for promoting Hikari-FAB through social media sites.

An extract from the Agreement with Zootori is shown in Exhibit 2.

END OF EXHIBIT 1
An extract from the Agreement with Zootori Pte Ltd

**Parties:**

**Online selling platform owner:** Zootori Pte Ltd (Zootori)

**Merchant:** Hikari-FAB Pte Ltd (Hikari-FAB)

1. **The Zootori online selling platform**
   
   (i) Zootori owns and operates the Zootori online selling platform in Singapore and permits Hikari-FAB to list and sell its products to the public via this internet-based service.

2. **Zootori’s rights and obligations**
   
   (i) Zootori is authorised to accept binding orders and payments on behalf of Hikari-FAB and will forward order data electronically to Hikari-FAB in a timely manner.

   (ii) Zootori acknowledges that the relationships between customers and Zootori and Hikari-FAB and Zootori are governed by the laws and regulations of Singapore.

   (iii) Zootori has the right to recoup from Hikari-FAB all commissions, fees, and charges levied by Zootori or third parties (e.g. banks and credit card companies) in relation to payments received on behalf of Hikari-FAB (see point 4).

   (iv) Zootori reserves the right to modify the terms and conditions of this agreement without giving any justification and Hikari-FAB has two weeks to lodge a written objection. Any changed terms and conditions are considered agreed to by Hikari-FAB if no objection is received within the stated period.

   (v) To ensure its reputation for quality and high standard of service, Zootori reserves the right to terminate the relationship with Hikari-FAB immediately if Hikari-FAB repeatedly receives bad reviews or complaints, or fails to comply with the terms of this agreement.

3. **Hikari-FAB’s rights and obligations**
   
   (i) Hikari-FAB guarantees that all information listed and all products offered for sale on the Zootori online selling platform comply with the laws and regulations of Singapore.
(ii) Hikari-FAB is responsible for keeping an up-to-date inventory of all its products offered for sale through the Zootori online selling platform. Repeated stock-outs will result in the termination of this agreement and the removal of all Hikari-FAB products from the Zootori online selling platform.

(iii) Hikari-FAB will not send any form of advertising via any medium directly to customers who purchase Hikari-FAB products via the Zootori online selling platform.

(iv) Hikari-FAB will process orders and arrange delivery within one day of receiving confirmation of a valid sale. The delivery options and time indicated on the Hikari-FAB listing are binding. Where delivery is to be made by courier, Hikari-FAB agrees to use the Zootori in-house courier service. Hikari-FAB further agrees to retain delivery receipts for at least 13 months and make those receipts available to Zootori on request.

(v) When an order cannot be fulfilled, Hikari-FAB will advise Zootori’s customer service supervisor within one working day of receipt of the confirmation of a valid order.

(vi) Hikari-FAB will pay all commissions, fees, and charges levied by Zootori or third parties (e.g. banks and credit card companies) in relation to payments received by Zootori on behalf of Hikari-FAB (see point 4).

(vii) Hikari-FAB acknowledges that the relationships between customers and Hikari-FAB and Zootori and Hikari-FAB are governed by the laws and regulations of Singapore.

(viii) Hikari-FAB indemnifies Zootori from all claims, including but not limited to the quality of goods and services provided by Hikari-FAB. Hikari-FAB further indemnifies Zootori against all claims, including those made by third parties, resulting from any violation of laws and regulations by Hikari-FAB.

(ix) Hikari-FAB grants to Zootori a royalty-free, perpetual, unrestricted licence to use and distribute any materials provided by Hikari-FAB for the purpose of advertising Zootori’s service.

(x) Any terms and conditions of Hikari-FAB not expressly part of this agreement, are non-binding on Zootori.

(xi) Hikari-FAB may terminate this agreement at any time, giving three months’ notice in writing.
4. Payment of commissions, fees, and charges by Hikari-FAB
   (i) Hikari-FAB agrees to pay Zootori a fixed percentage commission on the gross revenue from the sales made through the Zootori online selling platform. Depending on the category and volume sold, Zootori may agree to different commission percentages for certain items or product categories listed.

5. Receipt of payment from customers
   (i) Zootori is authorised to accept payments on behalf Hikari-FAB.
   (ii) Where payment is made electronically (e.g. credit card, debit card, or mobile contactless payment), payment for the relevant sale is collected in Zootori’s name on behalf of Hikari-FAB and Zootori will pay the funds to Hikari-FAB net of any commissions, fees, and charges, according to the invoicing agreement (see point 6).
   (iii) Hikari-FAB bears the risk of abuse of the payment medium (e.g. fraud). If a fraudulent payment has been credited to Hikari-FAB, Zootori reserves the right to recoup the amount paid and refund the rightful owner of the credit/debit card in full.

6. Invoicing agreement
   (i) Zootori guarantees to issue Hikari-FAB a full tax invoice within five working days of the end of the month, detailing gross sales made and commission payable to Zootori, together with all other fees and charges levied by Zootori or third parties, as well as adjustments for valid customer returns during the period.
   (ii) Zootori will remit to Hikari-FAB the net proceeds as shown on the invoice within 55 days of the invoice date.
   (iii) Where the invoice shows an amount owing by Hikari-FAB to Zootori, Hikari-FAB will remit the full amount to Zootori within 20 days from the date of invoice.

7. Additional services
   (i) In addition to the hosting and selling services provided by Zootori outlined in Point 1 above, Zootori, at its discretion, may provide Hikari-FAB with analytics about the performance of its products via its merchant dashboard. The amount of data analytics provided is reflective of the agreed level of commission.

END OF EXHIBIT 2
Hikari-FAB: e-commerce partners and social media strategy

Social media strategy
Ling was convinced that the only way to develop her business successfully would be to sell Hikari-FAB and Hikari-FAB+ products online. As she did not have the information technology (IT) resources to set up her own website for online sales, she considered signing up with an aggregator. Ling felt that this would be the most practical way to establish an online presence until she was established. After researching the options, she entered into agreements with Zootori and Qoo!9, two locally based online shopping portals.

However, she also recognised that a key to successful selling of fashion goods is to keep customers and potential customers fully engaged, bringing products continually to the attention of her target audience, mainly 16 to 30-year olds. From her days at Fast Forward, Ling had learned the value of social media, and she used it actively and extensively right from the start to promote her products and engage customers. She did this by keeping Hikari-FAB’s social media sites refreshed, and providing customers with a stimulating experience to attract a high level of interest.

She updated the Hikari-FAB Instagram account regularly with mood shots of products and inspirational quotes that communicated the Hikari-FAB brand. She used the Hikari-FAB Facebook page for more detailed descriptions of the products, going into the inspiration behind the design and even the materials used. Occasionally, Ling also ran promotions on Facebook, Instagram, and Twitter, which successfully encouraged customers to visit the store in Serangoon. Ling was sure the increased footfall had contributed to the business making a small profit in 2016, despite, or perhaps because of, the discounted prices of the merchandise during promotional periods.
E-commerce partners

Zootori
Branded as Asia’s online fashion destination, Zootori was an obvious choice for Ling. Not only was she able to create her own personalised digital shopfront and set her own prices for her products, Hikari-FAB was also exposed to Zootori’s extensive user base, although there have been no online sales made to customers outside of Singapore to date. In addition, Zootori also marketed and advertised her brand, increasing Hikari-FAB’s exposure.

Zootori’s in-built secure payment system and shipping services also simplified online selling for Hikari-FAB. However, Zootori’s in-house courier service has often been late picking up merchandise from Hikari-FAB, resulting in delayed parcels to her customers.

Hikari-FAB pays commission ranging from 20% to 35% to Zootori on sales made, which eats into profits. Customers can return goods within 30 days of sale, free of charge, if they do not wish to keep them for whatever reason so long as they are returned unworn. The cost of collecting returned goods from customers is charged to Hikari-FAB.

Another downside to using Zootori is that its Commercial Director (who is based in Singapore) is well known in the industry for his pushy (but not unethical) tactics, particularly with smaller merchants, to drive sales.

Qoo!9
Qoo!9 was recommended by a fellow RDI classmate, who had been selling handmade accessories through the e-commerce platform for a few years. Qoo!9 boasts an easy to use backend system, as well as a regular promotion service and free e-newsletter blasts. Qoo!9’s growing user base provides increased exposure for Hikari-FAB, in both Singapore and regionally. Commission for Qoo!9 is also lower than for Zootori, ranging from 9% to 20%. However, relatively few customers in Singapore (and only one overseas customer) purchase Hikari-FAB products through Qoo!9, since they are required to pay the cost of returning unwanted items, regardless of the reason.
Cross-border sales

At the moment, nearly all online sales through Zootori and Qoo!9 are to buyers in Singapore. Zootori has indicated to Ling that there is potential for substantial cross-border sales, although there may be a problem for Hikari-FAB with the higher costs of sales returns from cross-border locations.

END OF EXHIBIT 3
Expansion

Although cash flow for the business had been tight in the initial years and was still negative in the financial year 2015-16, the continued increase in both volume of sales and brand awareness among young Singaporean adults, meant that Hikari-FAB began to turn a small profit during the first six months of 2016, after a small loss in the preceding financial year. Net cash flows also began to turn positive in 2016-17.

Encouraged by the start of the increase in sales, in the early months of 2015 Ling began to look for a shop front in a more central location, as she did not see Serangoon as the ideal place for the expansion of her brand. She eventually signed the lease on a store in Far East Plaza, and opened for business there in July 2015. Located close to public transport and at the top end of the shopping belt, Ling thought its good location would guarantee a healthy footfall. She retained the retail outlet in Serangoon, although more of her time and attention was now directed towards the outlet in Far East Plaza. For a short time from July 2015, due to limited staff numbers, Ling reduced the opening times at the Serangoon store: the store opened only on Fridays, Saturdays, and Sundays (the peak sales days). However, Ling was able to increase the opening times for the Serangoon store to five days a week when she took on additional staff (see below). Customers could also make a personal appointment for other times, if the current opening hours did not suit them. Even so, sales at the Serangoon store in 2015-16 were 33% lower than in 2014-15, with many customers preferring to visit the store in Far East Plaza.

The combination of a second retail outlet and online selling through Zootori and Qoo19 meant that revenues increased somewhat in late 2015 and then substantially in 2016, and Ling was delighted with the progress of the business. Ling took on additional staff. She also made an arrangement with a local warehousing firm to hold items of inventory prior to dispatch to online customers or transfer into Hikari-FAB’s retail outlets. The warehousing firm charges a fixed monthly fee for this service.
All members of staff are required to deal with both shop sales and online sales. The shops must be staffed throughout opening hours, and online orders through Zootori and Qoo!9 must be dealt with promptly.

Financial performance and position
As a small business, Hikari-FAB is not required to have audited financial statements. Hikari-FAB’s annual financial statements are produced by The Neat Ledger Bookkeeping Service that Ling has used since her business was first established.

Summary income statements and statements of financial position for the financial years to 30 June 2015, 2016, and 2017 are shown in Exhibit 5.

Operating problems
Ling has become increasingly aware that as the business grows, operating problems are emerging that create risks to further successful growth.

Rising costs
As time passed, high rental fees started to take a toll on the business. From July 2015, rent at the Serangoon store increased by 5% a year, and the rent for the Far East Plaza store was higher than Ling had wanted.

Labour costs were also creeping up. Ling had been unable to afford to pay Aisyah and Jenna a bonus in addition to their 13th month payment, but did raise their monthly salary by 10% and 5% respectively in July 2015, as both women were loyal employees and had worked for Hikari-FAB for nearly two years.

Aisyah was now asking for a further 15% pay increase, as she had been working at Hikari-FAB for four years and had taken on more responsibility. Ling managed to negotiate the increase down to only 10%, effective from 1 July 2017. Kiki left at the end of October 2015 to pursue overseas university studies, so Ling hired a new part-time member of staff to replace her, as well as another two part-time members of staff to keep both stores staffed. As the company was still understaffed, Ling would often be stationed on the sales floor at Far East Plaza, working long hours to cover the opening times stipulated by mall management.
## Table 4.1 Profiles of the employees as at 30 June 2017

<table>
<thead>
<tr>
<th>Employee record</th>
<th>Background</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aisyah Zain</strong></td>
<td>Joined Hikari-FAB 1 August 2013 then aged 27 years old.</td>
</tr>
<tr>
<td>Position: Sales manager</td>
<td></td>
</tr>
<tr>
<td>S$3,000 per month (1 August, 2013)</td>
<td></td>
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<tr>
<td>S$3,300 per month (1 July 2015)</td>
<td></td>
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<tr>
<td>S$3,630 per month (1 July 2017)</td>
<td></td>
</tr>
<tr>
<td><strong>Jenna Tan</strong></td>
<td>Joined Hikari-FAB 1 August 2013 then aged 22 years old.</td>
</tr>
<tr>
<td>Position: Retail assistant</td>
<td></td>
</tr>
<tr>
<td>Average S$1,200 per month (1 August 2013)</td>
<td></td>
</tr>
<tr>
<td>Average S$1,260 per month (1 July 2015)</td>
<td></td>
</tr>
<tr>
<td><strong>Kenneth Ong</strong></td>
<td>Joined Hikari-FAB 1 November 2015 then aged 23 years old.</td>
</tr>
<tr>
<td>Position: Part-time retail assistant/in-store stylist</td>
<td></td>
</tr>
<tr>
<td>Average S$1,500 per month</td>
<td>Kenneth is a fashion design school graduate who wanted retail experience. He applied via a job posting on Hikari-FAB’s Facebook page. He is an aspiring accessories maker and has a flare for edgy in-store displays and eye-catching window dressing.</td>
</tr>
<tr>
<td><strong>Ngoh Ting Ting</strong></td>
<td>Joined Hikari-FAB 1 February 2016 then aged 21 years old.</td>
</tr>
<tr>
<td>Position: Part-time retail assistant</td>
<td></td>
</tr>
<tr>
<td>S$8.00 per hour</td>
<td>Ting Ting is a barista by trade, but has an interest in fashion, and is a fan of Hikari-FAB+. She works four four-hour shifts a week.</td>
</tr>
<tr>
<td><strong>Sabrina Kaur</strong></td>
<td>Joined Hikari-FAB 1 February 2016 then aged 19 years old.</td>
</tr>
<tr>
<td>Position: Part-time retail assistant</td>
<td></td>
</tr>
<tr>
<td>S$8.00 per hour</td>
<td>Sabrina is a full-time student at Temasek Polytechnic studying product and industrial design. She works four four-hour shifts a week.</td>
</tr>
</tbody>
</table>
Dissatisfied customers

As a stopgap solution to the rising operating costs, Ling decided to raise the prices of her merchandise, especially Hikari-FAB+. Prices were increased by 10-20% across the Hikari-FAB and Hikari-FAB+ lines, from September 2016. Although the price rise was announced in advance with a post on social media, it angered regular customers.

She started to get negative feedback on social media about the increased prices, the quality of merchandise, and even quality of service. Ling would respond to feedback with standard apologies or replies, which were seen by many of the customers affected as insincere and unhelpful.

Unhappy partners

Her artisan suppliers of Hikari-FAB+ products, seeing the increase in prices charged to customers for their products, demanded an increase in their own prices from Hikari-FAB. As higher prices would eat into her company’s profits, Ling agreed to only half of the increase that her Hikari-FAB+ suppliers were asking for. As a result, one of them has decided not to continue their arrangement with Hikari-FAB and another has made it known to Ling that he is not happy (see Exhibits 8 and 9).

E-commerce struggles

The high commission fees charged by Zootori and Qoo!9 continue to be a burden on the business. Moreover, since Hikari-FAB+ products are not mass-manufactured, Ling has trouble keeping inventories high and fulfilling orders, leading to increasing complaints about merchandise being out of stock.

Shipments to customers are also often delayed as the in-house courier companies for Zootori and Qoo!9 repeatedly show up late to collect parcels for delivery. Benefits to Hikari-FAB’s customers, such as cash on delivery, mobile contactless payment, and free returns when using the Zootori platform, must be borne by Hikari-FAB. Regular price promotions implemented by the platforms also mean that Ling has lost control over the actual selling prices of Hikari-FAB merchandise.
Pricing and discount policies

Ling's initial aim for her business had been to price all products to earn a gross profit margin of 70% on sales. This is high for the fashion industry, but (in her opinion) not excessively so. Unfortunately, the business has never achieved this profit margin, for two main reasons.

1. The company has always offered some discounts to customers, and has a customer loyalty programme. New customers are offered membership of the Hikari-FAB Fashion Club with a single-receipt purchase of S$200 or more, and receive 5% off any subsequent purchases on presentation of their membership card. Members also get an additional 5% off any merchandise (on top of the membership discount) during their birthday month. Over time, due to further price discounting for online sales through Zootori and Qoo!9, the average discount from full sales price increased. Average price discounts in each financial year were 5% of full sales prices in 2014-15, 10% in 2015-16, and 12.5% in 2016-17.

2. It is the nature of the fashion business that large amounts of inventory are likely to remain unsold. The life cycle of fashion products is short. Many items are not sold, and others sold but then returned as unwanted. Ling takes the view that holding on to unwanted inventory has a negative impact on the marketing image of a fashion company. Hikari-FAB’s policy is therefore to discard items that are unsold after a specific time by donating the items to a charity for less fortunate young adults. The cost of discarded items, which is quite high, is included in the cost of sales.

Although there is no consignment agreement between Hikari-FAB and suppliers of Hikari-FAB+ products, Ling has always just returned any unsold Hikari-FAB+ products to the respective suppliers, and Hikari-FAB reclams the money paid for them as a credit note (if the invoice has already been settled). Suppliers of Hikari-FAB+ products therefore have no (net) revenue from goods supplied to Hikari-FAB that Hikari-FAB is unable to sell.
Until recently (see Exhibits 8 and 9) suppliers have not felt ‘strong enough’ to challenge this arrangement, and it has not been a source of dispute between Hikari-FAB and suppliers of Hikari-FAB+ products.

**Concerns about future expansion (beyond 2017)**

Ling is aware that as the business grows, it will need additional long-term capital to finance new investment. Neither she nor her family has the money to invest, and she realises that she will need to find an investor or borrow from her bank.

Ling has ambitious plans. She can see ways of growing the business, but in about three or four years, she expects Hikari-FAB to reach its maximum market potential in Singapore. Any further expansion will then have to be into one or more markets in another country.

**END OF EXHIBIT 4**
### Summary financial statements 2015 – 2017

**Hikari-FAB Pte Ltd**

**Income statement for the year ended 30 June**

<table>
<thead>
<tr>
<th></th>
<th>2014-15 S$</th>
<th>2015-16 S$</th>
<th>2016-17 S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hikari-FAB product sales: retail outlets</td>
<td>215,000</td>
<td>397,000</td>
<td>406,000</td>
</tr>
<tr>
<td>Hikari-FAB product sales: online</td>
<td>109,000</td>
<td>181,000</td>
<td>268,000</td>
</tr>
<tr>
<td>Hikari-FAB+ product sales: retail outlets</td>
<td>97,000</td>
<td>143,000</td>
<td>170,000</td>
</tr>
<tr>
<td>Hikari-FAB+ product sales: online</td>
<td>14,000</td>
<td>104,000</td>
<td>152,000</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>435,000</td>
<td>825,000</td>
<td>996,000</td>
</tr>
<tr>
<td>Cost of sales <em>(Note 1)</em></td>
<td>221,000</td>
<td>415,000</td>
<td>504,000</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>214,000</td>
<td>410,000</td>
<td>492,000</td>
</tr>
<tr>
<td>Sales and distribution costs <em>(Note 2)</em></td>
<td>26,100</td>
<td>51,000</td>
<td>72,000</td>
</tr>
<tr>
<td>Commission costs <em>(Note 3)</em></td>
<td>37,400</td>
<td>81,800</td>
<td>118,000</td>
</tr>
<tr>
<td>Administration costs <em>(Note 4)</em></td>
<td>147,800</td>
<td>272,700</td>
<td>276,700</td>
</tr>
<tr>
<td>Interest</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>214,300</td>
<td>408,500</td>
<td>469,700</td>
</tr>
<tr>
<td>Profit/(loss) before taxation</td>
<td>(300)</td>
<td>1,500</td>
<td>22,300</td>
</tr>
<tr>
<td>Taxation charge</td>
<td>-</td>
<td>-</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Profit/(loss) after taxation</strong></td>
<td>(300)</td>
<td>1,500</td>
<td>21,100</td>
</tr>
</tbody>
</table>

**Notes**

1. The cost of sales includes the cost to produce/procure the items sold, as well as the cost of Hikari-FAB items not sold at the end of the fashion season. These unsold (discarded) Hikari-FAB items were donated to a charity for less fortunate young adults. Unsold Hikari-FAB+ items are returned to the respective suppliers and a credit is claimed by Hikari-FAB, despite there being no formal agreement with the suppliers to do so.

2. Sales and distribution costs include some costs for online marketing/advertising, but consist mainly of the delivery costs of returns by online customers. For 2016-17, sales and distribution costs also include the cost of hiring a software expert to design the Hikari-FAB website (See Exhibit 6).
3 Commission costs are charges by Zootori and Qoo!9 for sales through their online sites.

<table>
<thead>
<tr>
<th>Year to 30 June</th>
<th>2014-15 S$</th>
<th>2015-16 S$</th>
<th>2016-17 S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zootori</td>
<td>35,400</td>
<td>77,000</td>
<td>111,000</td>
</tr>
<tr>
<td>Qoo!9</td>
<td>2,000</td>
<td>4,800</td>
<td>7,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014-15 S$</th>
<th>2015-16 S$</th>
<th>2016-17 S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>48,000</td>
<td>135,000</td>
<td>135,000</td>
</tr>
<tr>
<td>Staff</td>
<td>67,000</td>
<td>95,000</td>
<td>105,500</td>
</tr>
<tr>
<td>Ling salary ^</td>
<td>20,000</td>
<td>21,000</td>
<td>10,500</td>
</tr>
<tr>
<td>Warehousing</td>
<td>2,000</td>
<td>6,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Depreciation ^^</td>
<td>1,800</td>
<td>2,500</td>
<td>3,700</td>
</tr>
<tr>
<td>Other expenses^^^</td>
<td>9,000</td>
<td>13,200</td>
<td>15,000</td>
</tr>
</tbody>
</table>

4 Administration costs

<table>
<thead>
<tr>
<th>Year to 30 June</th>
<th>2014-15 S$</th>
<th>2015-16 S$</th>
<th>2016-17 S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>48,000</td>
<td>135,000</td>
<td>135,000</td>
</tr>
<tr>
<td>Staff</td>
<td>67,000</td>
<td>95,000</td>
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<td>Ling salary ^</td>
<td>20,000</td>
<td>21,000</td>
<td>10,500</td>
</tr>
<tr>
<td>Warehousing</td>
<td>2,000</td>
<td>6,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Depreciation ^^</td>
<td>1,800</td>
<td>2,500</td>
<td>3,700</td>
</tr>
<tr>
<td>Other expenses^^</td>
<td>9,000</td>
<td>13,200</td>
<td>15,000</td>
</tr>
</tbody>
</table>

^ Ling only drew six months' salary for the year to 30 June 2017 to help with cash flow. She has also not paid herself any dividends since the company was established. She considered awarding herself a small dividend for 2017, in view of the improvement in profits, but decided against doing so, because the company's cash flows still did not seem sufficient. She is currently the only shareholder in the company.

^^ All items of property, plant, and equipment are held at historical costs. Depreciation on items of property, plant, and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives.

^^^ Other expenses includes utilities, web hosting and ISP, telephone, stationery, window cleaning, and other general day-to-day deductible business expenses.
Hikari-FAB Pte Ltd
Statement of financial position as at 30 June

<table>
<thead>
<tr>
<th></th>
<th>2015 S$</th>
<th>2016 S$</th>
<th>2017 S$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>18,000</td>
<td>22,000</td>
<td>30,600</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>20,000</td>
<td>45,000</td>
<td>62,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>11,000</td>
<td>23,300</td>
<td>32,500</td>
</tr>
<tr>
<td>Cash</td>
<td>11,000</td>
<td>3,200</td>
<td>10,700</td>
</tr>
<tr>
<td></td>
<td>42,000</td>
<td>71,500</td>
<td>105,200</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>60,000</td>
<td>93,500</td>
<td>135,800</td>
</tr>
<tr>
<td><strong>Equity and liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,000</td>
<td>4,500</td>
<td>25,600</td>
</tr>
<tr>
<td></td>
<td>8,000</td>
<td>9,500</td>
<td>30,600</td>
</tr>
<tr>
<td><strong>Long-term liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>12,000</td>
<td>44,000</td>
<td>64,000</td>
</tr>
<tr>
<td>Taxation payable</td>
<td>-</td>
<td>-</td>
<td>1,200</td>
</tr>
<tr>
<td></td>
<td>60,000</td>
<td>93,500</td>
<td>135,800</td>
</tr>
</tbody>
</table>

END OF EXHIBIT 5
Building the Hikari-FAB website

With the increasing problems in Hikari-FAB’s relationship with the two e-commerce platform providers, Ling decided that it was time for Hikari-FAB to launch its own website, with further thoughts of a mobile app in the future. She hired a freelancer to build a website based on her proposed design. This work, started in late 2016, was completed by 30 June 2017. The website went live on 1 July 2017.

So far, the website has been used mainly to update customers with details of the latest fashion merchandise, and to pre-order merchandise that has not yet been displayed in-store or offered through Zootori and Qoo!9. Customers who pre-order merchandise are given a 10% discount on their purchases. New users to the website, or subscribers to the Hikari-FAB newsletter, are also emailed one-time discount codes with an expiry date. The discount codes can only be used in-store, and not for online purchases, to drive traffic to the stores.

Within two months of the website going live, Ling realised that some customers had obtained additional discount codes by signing up with different email addresses. To stop this, Ling began to record the customers’ details at the point of purchase. This helped to reduce the volume of duplicated sign-ups, but also resulted in lower footfall in-store and some customer dissatisfaction.

Ling has not developed an app for selling direct to customers via mobile phones. She is not yet convinced that Hikari-FAB can continue to grow its online presence sufficiently over the next few years without selling through Zootori and Qoo!9.

END OF EXHIBIT 6
Email from Ling Ng to Mr Yeung Xiong Xin, Commercial Director of Zootori

Ling Ng

From: Ling Ng<Ling@Hikari-FAB.sg>
Sent: 2 March 2017 6:01 pm
To: Mr Yeung<YEUNG_XiongXin@Zootori.sg>
Subject: Hikari-FAB and Hikari-FAB+ products

Dear Mr Yeung,

I understand your concerns about the number of new Hikari-FAB and Hikari-FAB+ products that we are bringing to market. I agree that new products are needed to keep customers for fashion goods engaged and interested in spending their money.

I shall make every effort to increase the number of new products each month, but your suggestion that we should provide 10 – 20 seems excessive, in view of our limited resources and the Hikari-FAB brand positioning of exclusivity and being ‘uniquely Singapore’. I am not sure that the local market in Singapore would be interested in so many new items each month.

Please let me know a suitable time, so I can call you to discuss this matter further.

Ling Ng
Chief Executive, Hikari-FAB Pte Ltd

END OF EXHIBIT 7
Email from Mdm Bauble of Bauble's Belts & Bangles, supplier of Hikari-FAB+ products, to Ling Ng

Ling Ng

From: Mdm Bauble<Mdm_Bauble@BaublesBB.com>
Sent: 27 March 2017 4:01 pm
To: Ling Ng<Ling@Hikari-FAB.sg>
Subject: Hikari-FAB+ products

Dear Ling,

This email is to inform you that I shall no longer be supplying belts and bangles as Hikari-FAB+ accessories as of 1 July 2017. There are several reasons for this decision:

1. I understand that you have raised your prices by over 10%, but have allowed me to raise my prices to you by just 5%. I consider this unjust and unethical.

2. Our normal terms of trade are that Hikari-FAB should pay me within one month of my invoice date. You do not pay me within this agreed time, and this has an adverse effect on the cash flows of my business.

3. Furthermore, it seems unreasonable not to pay me at all for items that I have supplied to you, if you fail to sell them. When I sell my goods, the purchaser, in this instance Hikari-FAB, assumes the risks and rewards of ownership and you have the ability to direct the use of, and obtain substantially all of the benefits from, these goods, but this does not give you the right to return the goods to me if you cannot sell them.
More generally, I consider that you do not give enough time to our business relationship. We should be collaborating on product design, but this is something that we do not give sufficient time to. As a result, I feel that I do not always supply goods to Hikari-FAB that will be popular with your customers.

I regret the ending of our business relationship, but feel that I have no alternative.

Signing off with tons of glitter,

Baub

END OF EXHIBIT 8
EXHIBIT 9

Letter from Lie Leng Dan, supplier of Hikari-FAB+ products, to Ling Ng

16 June 2017

Dear Ling,

I am writing to you formally to complain about the treatment that I receive from Hikari-FAB Pte Ltd. As you are no doubt aware, I now rely on Hikari-FAB for the bulk of my annual sales revenue.

Although I have no desire to find alternative outlets for the products that I design and produce, my complaint is that our terms of trade with each other are heavily weighted in favour of Hikari-FAB Pte Ltd. In particular, I am expected to bear the full cost of goods supplied to you that you are unable to sell. It seems to me only fair and ethical business practice that Hikari-FAB Pte Ltd should accept this risk fully. In accepting my goods for sale under the Hikari-FAB+ brand name, you are taking a decision that you will be able to re-sell them at a considerable profit margin. Surely, the cost of failing to sell them should come out of the profits from your successful sales.

The cost to me from returns of unsold goods has a severe effect on my cash flow. If you insist on refusing to pay for Hikari-FAB+ goods that you cannot sell, surely it would be appropriate to pay a higher price for goods that I supply, to provide some protection against the cost of returns. I sell my goods to you in good faith.

I feel that I have now reached a point where I can no longer accept the current arrangements; however, I do not want to end my business relationship with Hikari-FAB. I look forward to hearing your response to the views expressed in this letter.

Yours sincerely,

Leng Dan
Artisan Designer

END OF EXHIBIT 9
**EXHIBIT 10**

Letter from Soh Da Wei, Operations Director of YK Garment Manufacturing Ltd, to Ling Ng

Date: 12 June 2017

Dear Ling,

I would like to congratulate you on the impressive growth in your business and in the sales of Hikari-FAB products during the time we have had our working relationship. As you know, we at YK have always done our best to support you and to manufacture goods for you that are of the highest quality.

I must write to inform you, however, that the increase in the quantities of products that we make for you, together with demands from our other customers, is putting a great strain on our existing production resources. To increase our output capacity, we shall have to make some new investment in our operations and this will add considerably to our costs.

Consequently, YK will need to increase its prices, probably by about 5%. We can, if you wish, meet to discuss this matter.

Yours sincerely,

_Soh Da Wei_

_Director of Operations_

_YK Garment Manufacturing Ltd_

END OF EXHIBIT 10
Memo written and filed by Ling Ng

12 August 2017

Had a conversation today with Uncle Eddy (The Neat Ledger Bookkeeping Service). I shared that I was somewhat disappointed by the financial performance in the year just ended. Although the company recorded a small profit, I had expected it to be greater.

Uncle Eddy agreed that Hikari-FAB would benefit from a thorough review of its revenues and costs, and that there should be a greater amount of forward financial planning for the business.

He also mentioned that the current operating practices might be unduly increasing the risks to the business, which could be minimised with better internal controls and more focused management. I cannot remember exactly, but I think I recall him saying that business risks can be strategic, compliance, financial, reputational, or operational in nature (note to self – do some research).

I have arranged to meet him to discuss these matters over supper. In the meantime, I have asked him to prepare a brief analysis of Hikari-FAB’s online sales.

END OF EXHIBIT 11
Email from Uncle Eddy of The Neat Ledger Bookkeeping Service, to Ling Ng

Ling Ng

From: Uncle Eddy<NeatLedger@sgmail.com>
Sent: 28 August 2017 02:01 am
To: Ling Ng<Ling@Hikari-FAB.sg>
Subject: Hikari-FAB estimates as requested

Dear Ling,

As requested, I have made some brief calculations for online sales through Zootori, based on data I was able to download from the merchant dashboard. The average basket value (order size) in the year to 30 June 2017 was S$121, with an average of 2.4 items per basket.

I am trying to obtain accurate data about the cost of returns for both online and retail outlet sales, and the cost of products that were written off as unsold at the end of the fashion season. However, I am having some difficulty in obtaining data on these issues. This information is not available from the Zootori or Qoo9! platforms, and the recording of returns at the retail outlets is a little haphazard (the amount refunded is recorded correctly, but often the original invoice number is missing and with only a scant description of the goods returned). I can confirm, however, that the average size of commission on Zootori sales has been about 30% of sales value, in each of the years 2014-15 to 2016-17, and the average commission charged by Qoo!9 has been about 15% in each year.

Ling, I am happy to continue as your bookkeeper, but I feel that you need more professional financial and management accounting advice as well as taxation advice to take your business to the next level.

Hope this helps …

Uncle Eddy

END OF EXHIBIT 12
1 October 2017

Dear Ms Ng,

Following your recent meeting with our representative to discuss the possibility of a bank overdraft, we are pleased to inform you that we would be willing to provide Hikari-FAB Pte Ltd with an overdraft facility of S$30,000.

This facility should be used to finance your business operations as they expand. Borrowing on overdraft would be charged at the bank’s base rate (currently 4% per annum) plus 4% per annum.

This is a special fixed rate offered to Hikari-FAB as part of SME Bank Singapura’s ‘Young Entrepreneur’ e-Business account package, and is applicable for a period of 36 months from the date of this letter.

Mrs Param
Senior Credit Manager
SME Bank Singapura
Hikari-FAB: a new investor and venturing into Malaysia

Mr Izzat bin Zlot is a very good friend of Ling Ng. He is an experienced and successful Singapore businessperson, with an entrepreneurial outlook and has money to invest. Ling has discussed many times with him the problems and challenges of her business, and Izzat thinks that he understands Ling’s vision for Hikari-FAB reasonably well. One option that he is now strongly considering is whether to make an investment in Hikari-FAB, as he believes the business has considerable potential for growth.

Subsequent to Izzat’s latest discussion with Ling about the possibility of investing in Hikari-FAB, Izzat has further suggested that Ling explores the possibility of expanding the business into Malaysia. Izzat feels that there is significant market potential for Hikari-FAB’s fashion labels and this could be tapped with the assistance of Izzat’s network of friends and business associates in Malaysia. Ling is, in principle, agreeable to the suggestion but is unsure about how the expansion would be carried out and the associated tax implications.

Next steps
Before Izzat makes an offer to Ling, he needs to gain a greater understanding of the business risks and have a clearer idea of the tax implications. He has requested further financial information from Ling. Ling has agreed to ask her bookkeeper to prepare a draft income statement for the first three months of the current financial year, from 1 July to 30 September 2017.

Izzat also asked Ling if he could speak with Aisyah Zain, Hikari-FAB’s Sales Manager, informally to get her views on the current operations. Ling agreed to Izzat’s request.

Ling is aware that Izzat will seek independent professional advice and Ling has given her consent for Izzat to pass onto them any information and data that she gives him.

END EXHIBIT 14
Email from Izzat bin Zlot to Benchmark Chartered Accountants LLP on possible expansion plans for Hikari-FAB

IZZAT bin Zlot

From: Izzat bin Zlot<IzzatXOXO@sgmail.com>
Sent: Wednesday, 1 November 2017 6:01pm
To: Mdm Melinda Yacob<YACOB_Melinda@BenchmarkCA.sg>
Subject: Hikari-FAB Pte Ltd – possible expansion plans

Dear Mdm Melinda,

Further to our telephone conversation earlier today concerning Hikari-FAB’s possible expansion and the various options that this may take, I am pleased to say that Ling is, in principle, agreeable to the idea of Hikari-FAB growing locally and venturing into Malaysia. Before I invest in Hikari-FAB Pte Ltd, I would like to understand the opportunities and risks, as well as the tax implications associated with the various options and would appreciate your professional advice.

While discussing the possibilities with my business associate in Malaysia, he mentioned something about a tax treaty between Malaysia and Singapore and sent me certain excerpts from the tax treaty. I am not sure how these are relevant, but I am forwarding them to you in case this is something I should know more about.

I realise that Hikari-FAB is a young business with potential, but there are numerous downsides too. I think it is only reasonable that I should expect a return on my investment of at least 15% if I were to buy into Hikari-FAB.

With kind regards

Izzat

END OF EXHIBIT 15
Email attachment: excerpts of Malaysia-Singapore tax treaty

Article 5 - PERMANENT ESTABLISHMENT

1. For the purposes of this Agreement, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" shall include especially:

   (a) a place of management;
   (b) a branch;
   (c) an office;
   (d) a factory;
   (e) a workshop;
   (f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources; and
   (g) a building site or construction, installation, or assembly project, which exists for more than six months.

3. The term "permanent establishment" shall be deemed not to include:

   (a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
   (b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
   (c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
   (d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;
(e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character.

4. An enterprise of a Contracting State shall be deemed to have a permanent establishment in the other Contracting State if it carries on supervisory activities in that other State for more than 6 months in connection with a building site or a construction, installation or assembly project which is being undertaken in that other State.

5. Where a person (other than a broker, general commission agent or any other agent of an independent status to whom paragraph 6 applies) is acting in a Contracting State on behalf of an enterprise of the other Contracting State that enterprise shall be deemed to have a permanent establishment in the first-mentioned State if that person:

   (a) has, and habitually exercises in the first-mentioned State, an authority to conclude contracts in the name of the enterprise, unless his/her activities are limited to the purchase of goods or merchandise for the enterprise; or
   
   (b) maintains in the first-mentioned State a stock of goods or merchandise belonging to the enterprise from which he regularly fills orders on behalf of the enterprise.

6. An enterprise of a Contracting State shall not be deemed to have a permanent establishment in the other Contracting State merely because it carries on business in that other State through a broker, general commission agent or any other agent of an independent status, where such persons are acting in the ordinary course of their business. However, when the activities of such an agent are devoted wholly or almost wholly on behalf of that enterprise, he shall not be considered an agent of an independent status if the transactions between the agent and the enterprise were not made under arm’s length conditions.
7. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

**Article 7 - BUSINESS PROFITS**

1. The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only on so much thereof as is attributable to that permanent establishment.

**Article 11 - INTEREST**

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the interest is a resident of the other Contracting State, the tax so charged shall not exceed 10 per cent of the gross amount of the interest.

…

6. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage, and whether or not carrying a right to participate in the debtors’ profits, and in particular, income from government securities and income from bonds or debentures.
8. Interest shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.

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Article 16 - DIRECTORS’ FEES

Directors’ fees and similar payments derived by a resident of a Contracting State in his/her capacity as a member of the board of directors of a company which is a resident of the other Contracting State, may be taxed in that other State.

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Article 23 - ELIMINATION OF DOUBLE TAXATION

3. Subject to the provisions of the laws of Singapore regarding the allowance as a credit against Singapore tax of tax payable in any country other than Singapore, tax payable, whether directly or by deduction, in respect of income from sources in Malaysia shall be allowed as a credit against Singapore tax payable in respect of that income. Where such income is a dividend paid by a company which is a resident of Malaysia to a resident of Singapore which is the beneficial owner of the dividend, the credit shall take into account (in addition to any Malaysian tax on the dividend) the Malaysian tax payable by that company in respect of its income out of which the dividend is paid. The credit shall not, however, exceed that part of the Singapore tax, as computed before the credit is given, which is appropriate to such item of income.

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END OF EXHIBIT 16
General information on the fashion industry

The current state of Singapore’s fashion retail industry

Singapore’s fashion retail industry is a relatively mature market, with women’s and girls’ apparel being the largest segment (an estimated market volume of US$929m in 2017) [1]. The fashion retail mix in Singapore is largely made up of international fashion brands, and the country acts as a regional hub for luxury fashion retail. For example, Ermenegildo Zegna opened its first flagship boutique in Southeast Asia in Paragon mall in December 2014. Brand recognition for local designers, however, remains muted. In response to this, industry players across the spectrum together with government agencies, such as IE Singapore, are making concentrated efforts to strengthen brand awareness locally and regionally.

The largest annual fashion event in the country, the Singapore Fashion Week, boasts support from SPRING Singapore, the government initiative that was set up to help local start-ups flourish. As a result, fashion retail has seen a boost in sales volume as Singapore is increasingly seen as a world fashion capital.

Issues facing the fashion retail industry in Singapore

Walk into newly renovated shopping complexes and you will probably see hoardings and empty shop fronts looming desolately. For the past few years, Singapore’s retail sector has been much less buoyant than before, experiencing slow growth, if any. During the last quarter of 2015 and continuing into 2016, many retailers reported losses, with small and medium-sized retail businesses closing their doors. Most notably, home-grown apparel labels such as M)phosis and 77th Street have since exited the local retail industry, despite being well-known players in the industry for two decades. Operating losses and store closures continue to be reported in the press.

It is not only the small local businesses that are suffering. British brand New Look, French menswear franchise Celio, and Al-Futtaim Group from the United Arab Emirates (UAE), have all chosen to selectively withdraw from the Singapore market to cut their losses.
In addition, Isetan Singapore reported a third straight quarter of losses in 2015, its S$6.15m loss in the third quarter of 2015 doubling that of the same period the year before, which was S$2.93m [2]. Despite the continued challenging conditions in the retail segment, Isetan Singapore reported a small net profit of S$2.6 million for the year ended 31 December 2016 [3].

However, the slow growth in fashion retail has not seemed to deter foreign investments from pouring in. Brands like Taiwanese fashion label iROO have plans to continue expanding here, viewing it as a good opportunity to grow. Popular US label American Eagle Outfitters made its debut in Singapore in 2015, and Victoria’s Secret opened its first flagship store in Southeast Asia in November 2016.

Streetwear brand Hotwind and fashion label Urban Revivo (both from China) set up stores within the last 12 months and retail analysts expect more Chinese retailers to join the fray this year [4].

Retailers have pointed to the increased competition as one of the factors for lacklustre sales and profit margins. Established foreign labels carry with them a high level of brand recognition and awareness that local boutique labels cannot compete with, such that even if they are located along Orchard Road, the busiest shopping district in the city-state, they experience significantly lower footfall.

Other factors contributing to the tough retail climate include cautious consumer sentiments in the face of a slower economy, muted tourist spending, high operating expenses, particularly rent and labour costs, as well as the growing popularity of e-commerce. Faced with such challenges, which show no signs of abating, it is up to retailers to go back to the drawing board to find the best way to optimise their businesses, so as not to adversely affect the bottom-line further.
Rise of online shopping and its impact

The internet has disrupted physical retail globally, and is hitting traditional retailers in Singapore especially hard. While the year-on-year rates of growth of in store and internet retailing were neck-and-neck at the beginning of the decade, the growth of in-store retailing dwindled in the years that followed, whereas internet retailing has grown steadily and is predicted to continue growing at a similar rate for the next few years.

This development can be attributed to two main factors. First is the emergence of blog-shops around a decade ago, many of which were set up by imaginative young entrepreneurs. Second, massive e-commerce platforms entered the market around the same time. Regional e-commerce giants are a favourite among Singaporean millennials due to their cheap prices and quick shipping timeframes.

These e-commerce platforms specifically target the shopping habits of Singaporeans, which have shifted from using physical stores to online shopping. In fact, Singaporeans are among the most active online shoppers globally. Recent estimates reported by Go-Globe.com [5], indicate that 26% of Singaporeans shop online at least once a week and this figure increases to 58% on a monthly basis. Internet penetration in Singapore is estimated to be as high as 82% [6], and with Singaporeans’ digital savviness and constant connection to the internet, it is no surprise that many choose to shop online, at their own convenience, instead of making their way to the physical retail stores during operating hours. Going forward, e-commerce penetration rates are expected to continue to rise from just above 60% in 2016 to nearly 75% in 2020 [5].

Another interesting statistic reported by Go-Globe.com [5] is that currently 60% of Singapore's e-commerce sales came from cross-border orders. This volume is 50% higher than Malaysia’s and more than three times that of Japan. The most popular online purchases made by Singaporeans being flight tickets (89%) and hotel accommodation (83%), with clothes coming in a distant third (43%).
Although Singaporeans are increasingly heading online for electronics and fashion goods, it does not mean that physical retail stores are on their way to being phased out from the retailing industry. Surveys have found that most shoppers still value the experience of shopping for products in bricks-and-mortar stores, as being able to touch and feel the products before making a purchase adds to the shopping experience.

A 2015 report[^6], describes the ‘showroom effect’. For retail fashion, many Singaporeans will visit a store to try on a garment before buying it online at a cheaper price, and many potential customers will consider leaving the store without purchasing if they can find the same item online for as little as 5% less. This finding suggests that price remains an important driver of purchase decisions, but physical touch and feel are also important factors and results in ‘channel-hopping’ (accessing multiple retail channels before deciding on a purchase).

Surviving in the increasingly competitive retail industry depends on whether retailers leverage e-commerce platforms to reach customers wherever they are, and then seamlessly connect their online retailing with their offline brand experience to engage and retain shoppers.

**Retail trends, Singapore**

The rapid pace at which technology is developing and being adopted in Singapore has led to increasing challenges in the retail environment. To stay ahead of the game, retailers have begun adjusting their strategies based on retail trends that have emerged in Singapore and around the world.

*Increase in contactless payments*

Singaporeans have integrated cashless payments into their daily lives for many years, with the use of ez-link to pay for their public transport fares. Today, contactless payments are rapidly gaining ground, with more than one in three Singaporeans using Visa payWave for face-to-face transactions[^7].
With the roll out of mobile payment systems in Singapore, including WeChat Pay and Alipay, contactless payment is set to rise even more, especially as 58% of Singaporean consumers indicated in a 2015 survey a preference for making in-store purchases with their mobile wallets [7].

**Smaller store sizes and selections**

Contrary to what industry players have long believed, not all consumers enjoy large-format stores. Large retailers with thousands of product choices, while seemingly convenient, do not appeal to many consumers, who prefer to make frequent, short shopping trips despite or perhaps because of their busy lifestyles. As a result, retailers have started to refine product selection at their stores to speak to their target audience better [8].

**Rise of omni-channel retailing**

As both rents, especially for prime retail space, and wages in Singapore increase, retailers have had to redefine their business models. Many retailers are starting to adopt ‘omni-channel retailing’, integrating bricks-and-mortar stores with online and mobile retailing. Some examples in Singapore include Challenger, which has a click-and-collect system allowing customers to purchase products online before collecting them at the store. Retailers such as UNIQLO and Sephora differentiate their online and physical product offerings to attract a larger consumer base. On the other hand, online stores have also begun setting up short-term pop-up stores in malls to enhance consumer top-of-mind awareness and to encourage instant purchase decisions by customers.

**Retail trends, global**

Global retail trends follow a similar pattern, but with more focus on consumer convenience. Customers are increasingly expecting retailers to anticipate their needs, or at least fulfil them immediately. As a result, retailers have been gravitating towards new business models to fit customer needs [9].
Rise of the subscription economy

Traditional businesses are moving from a pay-per-product business to subscription-based models, as the younger generation redefines what ownership means to them. Young shoppers, in particular, are more interested in renting big-ticket items such as ball gowns and internationally famous branded goods for a smaller fee, rather than purchasing them at a high price outright. In a subscription economy, retailers turn to selling services rather than products.

Personalising retail

Customers are expecting more personalised content and tailored experiences, especially when shopping online. In response to this, retailers have been combining and leveraging data obtained in-store, online, and through social media, to provide customers with relevant content and recommendations based on their needs, locations, and interests.

Aside from keeping customers engaged and satisfied, it also helps to increase conversion rates, strengthening the bottom-line. In the near future, it is expected that such personalisation strategies will be brought into bricks-and-mortar stores.

Sustainability and corporate social responsibility in the retail industry

There is no doubt that the textile and fashion industry is a major polluter. While large businesses can influence and demand 'sustainable practices' throughout the supply chain, smaller businesses struggle to fund/access such choices, even though sustainability can be a strong driver of differentiation, value creation, and success in the longer-term. Sustainability is not just about minimising the negative impact, but also about maximising the positive outcomes across the entire supply chain. Diagram 17.1 illustrates some of the common sustainability issues within the fashion retail industry supply chain.
Diagram 17.1:
Sustainability in the fashion retail industry supply chain \[^{[11]}\]

<table>
<thead>
<tr>
<th>Raw Materials</th>
<th>Fabric and Garment Production</th>
<th>Distribution and Retail</th>
<th>End User</th>
<th>End User Disposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural versus man-made</td>
<td>Industrial processing and chemicals</td>
<td>Treatment of suppliers</td>
<td>Washing / cleaning chemicals</td>
<td>Landfill / early disposal</td>
</tr>
<tr>
<td>Direct materials wastage</td>
<td>Treatment of employees</td>
<td>Excess packaging / disposal</td>
<td>Purchase decisions</td>
<td>Repurposed / donated</td>
</tr>
</tbody>
</table>

Fair trade, energy consumption, water usage, CO\text{2} emissions, …


END OF EXHIBIT 17
Suggestions for further research and reference list

**Further research**

The following resources may be useful when beginning your research into the case study company. As always, the caveat is to read everything with a healthy dose of scepticism and apply professional judgment. Just because an article is on this list, does not give it legitimacy or relevance. All links were active as at 10 November 2017.

**ABC News**  
*Myanmar's textile workers pay the price for Australia's fast fashion addiction*  

**Bazaar Voice**  
http://resources.bazaarvoice.com/rs/bazaarvoice/images/Bazaarvoice_WP_Top5_Consumer-Driven_Trends_Retail.pdf

**Colliers**  

**Channel News Asia**  
*Brands’ fix for retail woes in Singapore: Flagship stores?*  

*Cashless and cardless transactions: How is Singapore getting there?*  

*Bursting at the seams: Singapore’s cast-off clothing*  

*10 years on, empty shopfronts at The Cathay highlight retail challenges*  

**Commerce Hub**  
https://www.commercehub.com/top-6-multichannel-retail-trends-for-2016/

**EUT Marketing (S) Pte Ltd**  
GT Nexus
http://www.gtnexus.com/resources/blog-posts/top-5-challenges-fashion-apparel-supply-chains

Infocomm Media Development Authority

Inside Retail Singapore

Lighthouse independent Media Pte Ltd
http://www.marketing-interactive.com/fashion-brands-forget-setting-retail-fronts-altogether/

McKinsey & Co
The State of Fashion

Monetary Authority of Singapore – Macroeconomic Review (April 2017)
http://www.mas.gov.sg/~media/Macroeconomic%20review%202017/MRapr17.pdf

National University of Singapore
https://courses.nus.edu.sg/course/geoykyg/internet/Papers/Internet%20Retailing.pdf

PriceWaterhouse Coopers
Total Retail Survey 2017
https://www.pwc.com/gx/en/industries/retail-consumer/total-retail.html

Key findings
https://www.pwc.com/gx/en/industries/retail-consumer/total-retail-key-findings.html#key1

Products by category
http://www.pwc.com/gx/en/industries/retail-consumer/total-retail-categories.html#key2

Total retail 2017 – Singapore Highlights

Raked – Here’s how much it actually cost to make your shirt

Singapore Business Review
4 in 5 Singapore consumers ditch unresponsive brands
Singapore's Local fashion brands on the rise in 3q

Meet the entrepreneur helping small fashion sellers in Southeast Asia

Online shopping is killing department stores in Singapore

Singapore Retailers Association
http://www.retail.org.sg/

Singpost fact sheet

Spring Singapore
Retail

Speech by Mr S Iswaran Minister for Trade and Industry

Starhub

Tech in Asia
https://www.techinasia.com/5-retail-trends-expect-singapore

Textile and Fashion Federation, Singapore
http://www.taff.org.sg/

The Best Singapore

The Ethics Centre – Mending each link in the supply chain is the path to a better world

The Motley Fool
https://www.fool.sg/2017/01/03/2-retail-companies-vividly-describe-how-singapores-retail-scene-may-never-be-the-same-again/
The Nielsen Company

The Peak Magazine (an SPH entity)

The Straits Times
Local designers take centre stage at Singapore Fashion Week 2016

Cautious consumers, falling retail sales, high cost and strong dollar leading to empty malls

App gives GSS a timely reboot
http://www.straitstimes.com/singapore/app-gives-gss-a-timely-reboot

Great Singapore Sale not so great any more

She started her fashion label with less than $2,000

Joshua Leong: Possibly the youngest bespoke shoemaker in Singapore

New made-to-measure fashion retailers offering a better fit
http://www.straitstimes.com/lifestyle/fashion/fashion-cut-to-fit

The Sydney Morning Herald
Sustainable style: How much should a T-shirt cost?

Today online
The Big Read: At some suburban malls, retailers confront the sound of silence

Travelshopa
http://www.travelshopa.com/about-us
Visit Singapore


YouGov PLC

Case study reference list


END OF EXHIBIT 18

END OF THE ADVANCE INFORMATION