INSTRUCTIONS TO CANDIDATES:

1. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC’s regulations. Please note that mobile phones, tablets, and all other electronic devices MUST NOT be used during the examination.

2. This examination paper is the property of the Singapore Accountancy Commission, and MUST NOT be removed from the examination hall.

3. This is a hypothetical case written exclusively for the purpose of 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.
Case study report instructions

These Examination Day Documents (EDD) complete the case study scenario and set out the requirements of the report that you are required to write (Exhibit 24). You must combine your pre-reading and analysis of the Advance Information (AI), your other pre-examination research, and the new information in the EDD to plan the content and structure of your report, and then to write the report.

The IB examination time is **four hours and thirty minutes**. Please note, there is no separate prescribed reading time for this examination.

In planning your report, you should note that not providing a response to one or more of the requirements, such as omitting the executive summary, would significantly impair your chances of success. Please ensure that you also clearly state any assumptions that you make and include any supporting data in the separate folder in the Examplify software titled ‘**Appendices**’ (Folder 5).

Within the Examplify software, you will see six folders, one for each requirement and one for your appendices, plus one spare (just in case you run out of room). You should type all of your appendices into the folder marked ‘appendices’ (Folder 5). Please **do not** add your appendices to the bottom of each requirement folder.

Report format

Your report should follow the following format:

1. Requirement 1 – An Executive Summary (Folder 1); (15 marks)
2. Requirement 2 – Financial Performance (Folder 2); (40 marks)
3. Requirement 3 – Investment Appraisal (Folder 3); (30 marks)
4. Requirement 4 – Venturing into Malaysia (Folder 4); and (15 marks)
5. Appendices (Folder 5).

**Folder 6** is spare. You are **not required** to type anything within this folder. However, if you need to use Folder 6, please ensure that you clearly reference this folder in the body of your report.
Please note that only your report commentary (including the assumptions made), appendices, and workings entered in the Examplify software on the day of the examination will be marked.

Assessment
As part of assessing your responses to the individual requirements, the markers will take into consideration the focus and development of your report as a whole, including:

1. Synthesis of data;
2. Problem solving;
3. Technical knowledge;
4. Critical thinking;
5. Accuracy;
6. Identification of ethical issues;
7. Decision-making; and
8. Overall organisation, style, and delivery.

It is imperative that you manage your time well, and may we stress again that only your report commentary (including the assumptions made), appendices, and workings entered in the Examplify software on the day of the examination will be marked.
## Hikari-FAB Pte Ltd

### Advance Information – List of Exhibits

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>Description</th>
<th>Start page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hikari-FAB: the early years</td>
<td>AI-5</td>
</tr>
<tr>
<td>2</td>
<td>An extract from the Agreement with Zootori Pte Ltd</td>
<td>AI-10</td>
</tr>
<tr>
<td>3</td>
<td>Hikari-FAB: e-commerce partners and social media strategy</td>
<td>AI-13</td>
</tr>
<tr>
<td>4</td>
<td>Hikari-FAB: developing the business, 2015 – 2017</td>
<td>AI-16</td>
</tr>
<tr>
<td>5</td>
<td>Summary financial statements 2015 – 2017</td>
<td>AI-22</td>
</tr>
<tr>
<td>6</td>
<td>Building the Hikari-FAB website</td>
<td>AI-25</td>
</tr>
<tr>
<td>7</td>
<td>Email from Ling Ng to Mr Yeung Xiong Xin, Commercial Director of Zootori</td>
<td>AI-26</td>
</tr>
<tr>
<td>8</td>
<td>Email from Mdm Bauble of Bauble’s Belts &amp; Bangles, supplier of Hikari-FAB+ products, to Ling Ng</td>
<td>AI-27</td>
</tr>
<tr>
<td>9</td>
<td>Letter from Lie Leng Dan, supplier of Hikari-FAB+ products, to Ling Ng</td>
<td>AI-29</td>
</tr>
<tr>
<td>10</td>
<td>Letter from Soh Da Wei, Operations Director of YK Garment Manufacturing Ltd, to Ling Ng</td>
<td>AI-30</td>
</tr>
<tr>
<td>11</td>
<td>Memo written and filed by Ling Ng</td>
<td>AI-31</td>
</tr>
<tr>
<td>12</td>
<td>Email from Uncle Eddy of The Neat Ledger Bookkeeping Service, to Ling Ng</td>
<td>AI-32</td>
</tr>
<tr>
<td>13</td>
<td>Letter from SME Bank Singapura, to Ling Ng</td>
<td>AI-33</td>
</tr>
<tr>
<td>14</td>
<td>Hikari-FAB: a new investor and venturing into Malaysia</td>
<td>AI-34</td>
</tr>
<tr>
<td>15</td>
<td>Email from Izzat bin Zlot to Benchmark Chartered Accountants LLP on possible expansion plans for Hikari-FAB</td>
<td>AI-35</td>
</tr>
<tr>
<td>16</td>
<td>Email attachment: excerpts of Malaysia-Singapore tax treaty</td>
<td>AI-36</td>
</tr>
<tr>
<td>17</td>
<td>General information on the fashion industry</td>
<td>AI-40</td>
</tr>
<tr>
<td>18</td>
<td>Suggestions for further research and reference list</td>
<td>AI-47</td>
</tr>
</tbody>
</table>

### Examination Day Documents – List of Exhibits

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>Description</th>
<th>Start Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Hikari-FAB: recent developments</td>
<td>EDD-5</td>
</tr>
<tr>
<td>20</td>
<td>Email from Uncle Eddy of The Neat Ledger Bookkeeping Service showing Hikari-FAB's sales and profitability for the three months 1 July to 30 September 2017, to Ling Ng</td>
<td>EDD-7</td>
</tr>
<tr>
<td>21</td>
<td>Typescript of an interview between Izzat bin Zlot and Aisyah Zain, Sales Manager at Hikari-FAB, recording her opinions</td>
<td>EDD-11</td>
</tr>
<tr>
<td>22</td>
<td>Hikari-FAB: venturing into Malaysia – the options</td>
<td>EDD-13</td>
</tr>
<tr>
<td>23</td>
<td>Email from Izzat bin Zlot to Mdm Melinda Yacob engaging Benchmark Chartered Accountants LLP to write a report on Hikari-FAB Pte Ltd</td>
<td>EDD-17</td>
</tr>
<tr>
<td>24</td>
<td>Hikari-FAB: the requirements</td>
<td>EDD-18</td>
</tr>
</tbody>
</table>
Hikari-FAB: recent developments

Ling and Izzat have been further discussing various ways to expand the current business and how Izzat's investment in the business should be structured. One option that he is now considering is to make an equity investment in Hikari-FAB, as he believes the business has considerable potential for growth. The offer would be to acquire 40% of the equity capital in Hikari-FAB, which would take the form of buying newly issued shares.

Izzat has discussed the idea with Ling, who agreed that the injection of equity capital into her company would help it to develop more quickly. So far, the only action in relation to financing that Ling has taken is to obtain approval for additional financing in the form of an overdraft facility from her bank. The two friends agree that any capital invested in Hikari-FAB by Izzat should be used to finance specific projects. There are two investments that they have in mind:

**Business Development Plan A**

Recruiting a new employee, who specialises in fashion design and with skills in marketing through social media. This person would assist Ling with designing new products and with marketing, and should be expected to increase the number of products Hikari-FAB is able to bring to market, as well as increasing customer interest through a higher level of social media activity. The salary cost of this new employee is likely to be about S$65,000 per year (including Central Provident Fund employer contribution of 17%).

**Business Development Plan B**

Although Hikari-FAB will continue to rely (for the immediate future) on support from Zootori and Qoo!9 for online sales, Hikari-FAB should develop its own app that customers can download on to their mobile phones and other devices. The app, which would take six months to develop, would provide information about new products and, more importantly, enable them to buy and pay for goods directly through Hikari-FAB.
In addition, the app would enable customers to arrange to buy products by means of click-and-collect: buying goods online and collecting them from one of the Hikari-FAB retail outlets. A click-and-collect service would have the added benefit of avoiding the need for the cost of delivering goods to customers’ premises. The cost of developing an app during the financial year to 30 June 2018 is estimated to be about S$200,000.

A new employee (Plan A) to assist with product design and social media work might increase annual sales by as much as S$250,000. Additional sales through an app (Plan B) could be S$150,000 starting in the year to 30 June 2019, increasing by up to 10 per cent per year (compound) for the next four years at least. Of these sales, about one-half might be through click-and-collect.

Other issues
Izzat told Ling that he would not want to invest in a company whose reputation might be seriously damaged by unfair treatment of suppliers. Ling had previously shared that she had received one termination letter and one ‘let’s discuss further’ letter from two of her suppliers of Hikari-FAB+ products, but she denied there was any unfair treatment of these suppliers (refer to Exhibits 8 and 9).

As with any investment, there are various risks to consider. Izzat suggested that there may be a combination of risks that could be managed through improved internal routines and risks arising from external factors and influences. Ling and Izzat discussed these risks at length and agreed that a solution may be to establish a Board of Directors. However, they did not want to incur excessive costs by appointing several independent non-executive directors and would like to consider an alternative arrangement.

END OF EXHIBIT 19
EXHIBIT 20

Email from Uncle Eddy of The Neat Ledger Bookkeeping Service showing Hikari-FAB’s sales and profitability for the three months 1 July to 30 September 2017, to Ling Ng

Ling Ng

From: Uncle Eddy<NeatLedger@sgmail.com>
Sent: 1 November 2017 02:41 am
To: Ling Ng<Ling@Hikari-FAB.sg>
Subject: Hikari-FAB’s sales and profitability for the three months 1 July to 30 September 2017

Hi Ling,

I’ve been burning the midnight oil yet again. You will be pleased to know that Hikari-FAB’s results for the first three months of the new financial year would seem to be encouraging, but I thought you should be made aware of the following additional information about Hikari-FAB’s reported profits and financial situation.

I have prepared a draft income statement for the first three months of the current financial year, from 1 July to 30 September 2017. Comparable revenue figures for the same three months of 2016 have been provided but I haven’t had time to complete the analysis of costs for the same period of 2016, hence I have indicated “???” in the draft income statement below. Cost figures have been provided for the first three months of 2017-18. About 20% of total annual turnover occurs in the first three months of the financial year. There have been no significant increases in product prices and in product costs since June 2016.
Hikari-FAB Pte Ltd

Income statement for the three months 1 July – 30 September

<table>
<thead>
<tr>
<th>Financial year</th>
<th>2016-17 S$</th>
<th>2017-18 S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hikari-FAB product sales: retail outlets</td>
<td>85,200</td>
<td>100,400</td>
</tr>
<tr>
<td>Hikari-FAB product sales: online</td>
<td>57,300</td>
<td>65,700</td>
</tr>
<tr>
<td>Hikari-FAB+ product sales: retail outlets</td>
<td>33,600</td>
<td>35,400</td>
</tr>
<tr>
<td>Hikari-FAB+ product sales: online</td>
<td>30,500</td>
<td>34,100</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>206,600</td>
<td>235,600</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>???</td>
<td>119,700</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td>115,900</td>
</tr>
<tr>
<td>Sales and distribution costs</td>
<td>15,100</td>
<td></td>
</tr>
<tr>
<td>Commission costs</td>
<td>28,100</td>
<td></td>
</tr>
<tr>
<td>Administration costs</td>
<td>73,800</td>
<td></td>
</tr>
<tr>
<td><strong>Profit/(loss) before interest and taxation</strong></td>
<td></td>
<td>(1,100)</td>
</tr>
</tbody>
</table>

Although the company made a loss in the first three months, its cash position improved by S$9,600 due to a reduction in working capital, and you have not drawn down the overdraft facility. You also did not draw any salary during these three months, but you should do so as business performance improves through the year.

**Analysis of sales revenue**

Of the total volume of sales, excluding a one-off transaction with the Sunway Fashion Company (described below), S$135,800 were through Hikari-FAB’s two retail outlets, S$95,800 were online sales through Zootori and S$4,000 were online sales through Qoo!9. The sales through Hikari-FAB’s retail outlets include a one-off bulk sales transaction to the Sunway Fashion Company in Australia. This order was for S$10,000 and appears to have been priced to earn a gross profit margin of 60% of sales value, after delivery costs.
Sales in the first three months of the financial year indicate that the company will soon have to register for Goods and Services Tax (GST). I know you are confident, however, that any increase in prices resulting from the addition of GST will not have any effect on growth in sales volumes.

**Financial reporting issues**

As you know, Hikari-FAB is currently an exempt private company and does not require a statutory audit of its annual financial statements. However, after a brief review I believe there are several areas that would possibly be of some concern to an independent auditor, particularly with the introduction of new Singapore Financial Reporting Standards in the next 12-18 months.

(1) **Revenue recognition**
Revenue consists of sales through retail outlets and online sales together with small amounts of delivery receipts (postage and packaging charges for small orders). Sales are reduced by an appropriate deduction for actual and expected returns, as estimated by you. No provision has been made for discounts or other incentives that are yet to be redeemed. Retail sales are recognised at the time of purchase, and online sales are recognised at the time they are notified to Hikari-FAB by Zootori and Qoo19.

(2) **Inventory**
Inventory is valued at the lower of cost and net realisable value. Cost is the price paid to manufacturers for Hikari-FAB goods and prices paid to suppliers for Hikari-FAB+ products. Items not sold are offered for sale at a much-reduced price for a limited time, after which:

- Hikari-FAB goods are disposed of by giving them free of charge to a local charity organisation; and

- Hikari-FAB+ goods are returned to their suppliers and the value deducted from the next payment if the goods had already been paid for.

No provision is made in the financial statements for future write-downs of inventory.
(3) Leasehold properties

Singapore Financial Reporting Standard (SFRS) 116 Leases does not yet apply, but you should be aware that new requirements will apply to the reporting of leases for accounting periods from January 2019. This will affect the presentation of Hikari-FAB’s financial statements.

Please let me know if you need further clarification.

Cheers

Uncle Eddy

END OF EXHIBIT 20
Typescript of an interview between Izzat bin Zlot and Aisyah Zain, Sales Manager at Hikari-FAB, recording her opinions

Dated: Sunday, 26 November 2017

“I enjoy working for Hikari-FAB. I wouldn’t still be here after all this time if I didn’t. I enjoy looking at the new clothes and accessories that come into the shops, and working out ways to display them and attract customers’ attention. I can sometimes put stuff on to social media sites as well, but not without Ling’s approval. It’s fun, but I think that Ling could trust me a bit more, without having to supervise everything I do.

There are times when the work can be frustrating. The biggest problem is probably Ling herself, great though she is as a person. She is a strong leader, which the company needs, but she takes too many decisions herself, often without telling anyone else, or explaining the reasons for what she does.

For example, she keeps us in the dark about her dealings with Hikari-FAB+ suppliers and YK Garment Manufacturing. If there are any problems with late deliveries or with the quality of items, she speaks to the suppliers and often doesn’t tell us about it. She listens to YK more than she does to me about ideas for new materials and other product features.

I understand that Ling is thinking of hiring an experienced designer to help produce more Hikari-FAB products. That seems a good idea, but I can’t help thinking that anyone joining this company to do design work will find that Ling will want to have the final say about everything. I wouldn’t want to be a designer of clothes if my boss keeps watching over me and telling me to make changes to the things I design.
We don’t have staff meetings. When Ling goes to a fashion exhibition, she may be away for two or three days. She is in contact by phone and text message, but I don’t have any authority or responsibility in case an emergency or other problem crops up that needs an on-the-spot decision. For example, if we have problems with a late delivery or if there is a theft at one of our stores, we must contact Ling to be told what to do, even though I know what Ling will say. That can be frustrating. I think I am competent enough to deal with day-to-day problems and to make a police report.

I also think that I am not paid enough for what I do. I have had two small pay rises from Ling, but it’s not really enough for the work that I do, the hours that I physically work, and the time that I put into making Hikari-FAB a success.

My own feeling is that as the business gets bigger, Ling is finding it more and more difficult to keep on top of everything. She needs to delegate, but I’m not sure that she will.

END OF EXHIBIT 21
Hikari-FAB: venturing into Malaysia - the options

Several options are under consideration for Hikari-FAB’s proposed expansion into Malaysia. Option 1 is the medium- to longer-term plan and is only likely to be implemented in five to seven years’ time at the earliest. Options 2 and 3 may be undertaken immediately and will serve as interim arrangements to operate in Malaysia while awaiting the implementation of Option 1.

Option 1: Incorporate Hikari-FAB Sdn Bhd (HSB), a subsidiary company, in Malaysia

Under this option, Hikari-FAB will incorporate a wholly owned subsidiary company, HSB, in Malaysia. HSB will operate a sales outlet from rented shop space in one of the shopping malls in Kuala Lumpur (KL), with a view to expanding its business in Malaysia by opening new outlets in other parts of the city and elsewhere in the country. The Malaysian outlet/s will carry Hikari-FAB’s fashion labels for retail sale to customers in Malaysia. Once its business in Malaysia is sufficiently developed, it is anticipated that HSB will be profitable and, in steady state, will be able to declare and pay a dividend to Hikari-FAB, its Singapore resident holding company, every year.

HSB’s directors will be Ling and Muscat bin Oman, a Malaysian national and resident who is a long-time business associate of Izzat. The directors will meet every six months in KL to control and manage the company’s business. HSB will therefore be resident in Malaysia for the purposes of Malaysian income tax. Both directors will be remunerated for their contributions via annual payments of director’s fees, which will be credited into their respective bank accounts in Malaysia. In the case of Ling, her annual director’s fee is expected to be about S$8,640 (net of 28% Malaysian income tax) and she plans to spend half of it on various personal indulgences in Malaysia and the other half on designer clothing and accessories for herself, to be imported into Singapore.
To meet expansion plans in Malaysia over the longer term, it is planned for Hikari-FAB to extend an intercompany loan to HSB out of surplus funds from Hikari-FAB’s Singapore business operations. The loan will bear annual interest at a rate quantified on an arm’s length basis.

The following data is projected for Hikari-FAB for a typical year when the respective businesses of Hikari-FAB and HSB are fully developed:

<table>
<thead>
<tr>
<th>Note</th>
<th>S$ ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hikari-FAB’s Singapore business income (i.e. adjusted profit net of related capital allowances)</td>
<td>2,500</td>
</tr>
<tr>
<td>Dividend income from HSB</td>
<td>1</td>
</tr>
<tr>
<td>Interest income from intercompany loan to HSB</td>
<td>2</td>
</tr>
</tbody>
</table>

**Note 1**: Malaysia operates a one-tier corporate tax system, similar to Singapore. However, its corporate tax rate is 24%.

**Note 2**: The interest income of S$100,000 is before applicable Malaysian income tax. Domestic tax laws in Malaysia provide for a 15% withholding tax on interest payments made to non-residents.

The amounts of the dividend and interest from HSB will be credited by HSB into Hikari-FAB’s bank account in Singapore. In respect of the dividend income, this will be immediately used by Hikari-FAB to finance the payment of dividends of its own to its shareholders, Ling and Izzat.
Option 2: Appoint Muscat bin Oman as Hikari-FAB’s sales representative in Malaysia

Under this option, Hikari-FAB will appoint Muscat on a contract of service (i.e. employment contract) to serve as Hikari-FAB’s sales representative in Malaysia. Muscat’s responsibilities will be to undertake advertising and marketing projects in Malaysia to publicise the range of Hikari-FAB’s fashion labels, solicit and receive sales orders from potential customers in Malaysia, negotiate and agree terms of sale with these customers, and coordinate the local handling of Hikari-FAB’s products. Muscat will not be based in any business premises but will simply work from his private residence in KL.

An inventory of Hikari-FAB’s fashion labels will be maintained with an independent warehouse operator who will arrange for delivery to customers in Malaysia upon receiving instructions to do so from Muscat.

Muscat will be remunerated with a monthly salary and employer’s contributions to his account with Malaysia’s national pension fund, the Employees Provident Fund (EPF). He can expect annual bonuses of up to two months’ salary and EPF contributions if he meets certain sales targets set by Hikari-FAB. All selling and administrative costs incurred by Muscat in performing his employment will be fully reimbursed by Hikari-FAB. As an employee, Muscat will be required to adhere to Hikari-FAB’s human resource, sales, and other policies and practices in the course of discharging the duties of his employment.

Option 3: Appoint Niaga Besar Sdn Bhd (NB) as Hikari-FAB’s distributor in Malaysia

This option entails Hikari-FAB entering into a distributorship agreement with NB, an existing company incorporated and tax-resident in Malaysia. NB is a company established by another of Izzat’s business associates in Malaysia. NB carries on business as an importer and local distributor of a range of different products belonging to many different overseas companies for whom it acts as sales agent.
Under the distributorship agreement with Hikari-FAB, NB will negotiate terms of sale with potential customers in Malaysia based on certain guidelines stipulated by Hikari-FAB covering matters such as the price range the fashion labels can be sold for and the product warranty commitments that can be provided.

The sales contracts negotiated and concluded by NB will be binding on Hikari-FAB. NB will also actively market Hikari-FAB’s fashion labels and arrange the logistics for the storage and delivery of the clothing. Generally, NB will have the discretion to make whatever operating decisions and employ whatever strategies it deems appropriate to handle, market, and sell Hikari-FAB’s fashion labels in Malaysia. In return for its services, NB will receive a commission from Hikari-FAB based on 20% of the sale price of each item sold.

However, all local expenses relating to the marketing, storage, insurance, and delivery of Hikari-FAB’s fashion labels will have to be borne by NB. NB’s gross commissions from the Hikari-FAB distributorship are not expected to exceed 10% of its total commission revenue annually.

END OF EXHIBIT 22
EXHIBIT 23

Email from Izzat bin Zlot to Mdm Melinda Yacob engaging Benchmark Chartered Accountants LLP to write a report on Hikari-FAB Pte Ltd

Izzat bin Zlot

From: Izzat bin Zlot<IzzatXOXO@sgmail.com>
Sent: Monday, 4 December 2017 02:41 pm
To: Mdm Melinda Yacob<YACOB_Melinda@BenchmarkCA.sg>
Subject: Engaging Benchmark Chartered Accountants LLP to write a report on Hikari-FAB Pte Ltd

Dear Mdm Melinda,

As discussed by telephone this morning, I am considering whether to make an equity investment in Hikari-FAB Pte Ltd, essentially a retailer of trendy avant-garde apparel and accessories, with in-house design capabilities for its own brand of apparel items.

If I do invest, I shall want to be personally involved in the strategic development of the business. Ling Ng, the current business owner, has ambitions to expand into one or more neighbouring countries in about three or four years’ time. My preference would be to expand into Malaysia first, and I am particularly interested in the potential tax implications of such a development.

There are several issues that I would now like you to investigate, and I would like you to present your views and recommendations in a formal report to me.

The elements that I wish to see in the report are set out in the attachment to this email (Exhibit 24).

END OF EXHIBIT 23
Hikari-FAB: the requirements

You are a Manager with Benchmark Chartered Accountants LLP (Benchmark). You have been tasked by Madam Melinda Yacob, the Vice President of Integrative Business Solutions at Benchmark, to write a report for her review prior to submission to Mr Izzat bin Zlot, a potential equity investor in Hikari-FAB Pte Ltd.

Your formal report should comprise the following four elements:

Requirement 1: An Executive Summary

(a) Write an executive summary to accompany your report. Your Executive Summary should allow Mr Izzat bin Zlot to obtain a general understanding of what your report contains including the key numbers. You should also include clearly stated assumptions, conclusions, and recommendations.

While your Executive Summary should not contain any material or points that you have not discussed in the main body of the report, you are required to highlight any potential interactions between the individual standalone requirements below. That is, how might the decisions taken by the client be impacted by the other requirements should your recommendations be implemented.

(15 marks)

(Total: 15 marks)
Requirement 2: Financial Performance

(a) Explain the key financial issues that Mr Izzat bin Zlot should take into consideration before deciding whether to invest in Hikari-FAB Pte Ltd. In writing your report, you should include:

(i) An overview of the prospects of the fashion industry in Singapore.  
   (3 marks)

   (26 marks)

(iii) An assessment of the potential impact of Business Development Plans A and B (Exhibit 19) on the company going forward. Any assumptions that you make in relation to the implementation of Business Development Plans A and B must be stated clearly.  
   (7 marks)

(iv) Specific advice in relation to TWO financial reporting issues that you feel will have significant implications for Hikari-FAB Pte Ltd as the business grows.  
   (4 marks)

(Total: 40 marks)
Requirement 3: Investment Appraisal

(a) Recommend a maximum realistic valuation (offer price) for acquiring 40% of the equity capital in Hikari-FAB Pte Ltd, through the purchase of newly issued shares in the company. Your pricing calculations should factor in the proposed Business Development Plans in Exhibit 19, but ignore the possible expansion of the business into Malaysia (Exhibit 22).  

(b) Your advice in (a) above should be supported by a detailed written explanation justifying your recommendation. In making your recommendation, please give specific regard to the following issues:

(i) The governance arrangements that should apply in Hikari-FAB Pte Ltd, and the problems that may arise in management, after Mr Izzat bin Zlot has made his initial investment;  

(ii) TWO key operational risks facing Hikari-FAB Pte Ltd and its strategy for future growth; and  

(iii) The ethical issues regarding suppliers of Hikari-FAB and Hikari-FAB+ products, and the potential implications for the company’s reputation and valuation.  

(Total: 30 marks)
Requirement 4: Venturing into Malaysia

For Requirement 4, you are to assume that the applicable Singapore income tax laws are those prevailing in the Year of Assessment 2017, except that you may ignore the corporate tax rebate. You are also to assume that Malaysia continues to operate the one-tier corporate tax system, that the tax rates given in Exhibit 22 remain the same, and that the tax treaty provisions set out in Exhibit 16 remain operative.

Exhibit 22 outlines three possible options for expanding the Hikari-FAB business into Malaysia. In your report, you are to analyse the tax implications of these three options as follows:

(a) In respect of Option 1, the Singapore income tax implications to Hikari-FAB Pte Ltd and to Ling Ng of the proposed arrangements. For Hikari-FAB Pte Ltd, include a computation of its minimum annual Singapore income tax payable; and

(9 marks)

(b) In respect of Options 2 and 3, whether Hikari-FAB Pte Ltd will be regarded as having a taxable business presence in Malaysia, and the Singapore income tax implications to Hikari-FAB Pte Ltd of the profits that it expects to derive from the proposed activities.

(6 marks)

(Total: 15 marks)

END OF EXHIBIT 24

END OF THE EXAMINATION DAY DOCUMENTS