

Singapore CA Qualification

INTEGRATIVE BUSINESS SOLUTIONS

ADVANCE INFORMATION

Friday, 14 December 2018

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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 Under no circumstances should they seek to use unpublished or private information.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 **Friday, 14 December 2018**. 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 Exemplify. Please ensure that you bring your laptop with the Exemplify 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. Please refer to the Candidate Handbook available on the Singapore Accountancy Commission website for more details (www.sac.gov.sg).

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) and workings entered in the Exemplify software programme on the day of the examination will be marked.**

Bean Friends Forever Pte Ltd

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Bean Friends Forever: origins**Background**

When Sundaresh (Sunny) Kumar was at university reading Business Studies, two things happened. The first was getting a job at one of the large traditional bakery chains to fund his studies. He started out as a kitchen hand and worked his way up to Junior Sous-Chef. By the time he graduated, Sunny was supervising one of the chain's retail outlets. He managed sales cashiering, customer service, food handling and packaging, shop display, team scheduling, inventory, and purchasing. He also worked closely with the marketing team to forecast trends and develop sales. While he was there, the company paid for him to become certified in Pastry and Bakery under the Singapore Workforce Skills Qualifications system (WSQ) for Food and Beverage. After closing hours, Sunny would stay behind and create new types of buns, some of which made it onto the bakery chain's menu.

The second thing that happened was that Sunny's father developed Type II diabetes, joining the rising number of diabetics in Singapore. This prompted the whole family to become more aware of the effect sugar was having on their bodies. Concerned that Singapore has one of the highest incidences of diabetes among developed countries, Sunny began looking into the lifestyle habits of the average Singaporean, trying to see ways to cut down their daily consumption of sugar. He found that by making small changes to their lifestyles, such as replacing refined starchy staples with healthier wholegrain varieties like whole wheat bread, Singaporeans could increase their diet quality and reduce the risk of diabetes.

Sunny then began to see a gap in the market for a healthier style of bakery that would serve traditional Singaporean baked goods containing less sugar. After working for the chain for a couple of years post-graduation, Sunny decided to set up his own bakery together with his girlfriend Maureen Leung. Maureen was a classmate of Sunny's at business school and worked as a barista in her spare time. Sunny convinced Maureen that his was a viable business idea, and together they formulated a clear business case to raise the money for their first outlet.

Creating the business

Sunny and Maureen decided to make and sell their own bread and baked goods. From his experience of working in a bakery, Sunny knew the most popular-selling bakery products. He decided to reinvent each of these using low-sugar, low glycaemic-index alternatives. To qualify for Halal certification, he also substituted pork products with healthy beef, chicken, and vegetarian options.

Taste was key to Sunny, as he had tried so many bland, dry, 'healthier' types of bread. He wanted to provide his customers with the tastiest treats in town, without the health risks. He travelled to Europe to research the different types of low-sugar breads, such as sourdough (a fermented dough shown to be beneficial to blood sugar levels), rye (high in fibre and is also a good source of minerals), wholemeal (retains the nutrients naturally found in the wholegrain) and spelt (many people find it easier to digest). These healthier European-style loaves were rising in popularity in Singapore, especially among Singaporeans who had studied or travelled abroad and been exposed to such tastes and textures. To make the concept of European-style breads even more accessible, Sunny created a hybrid loaf, which had a fluffy interior beneath its crusty façade. Sunny believed that selling European-style breads would make their bakery stand out.

However, because they wanted to sell baked goods in addition to bread, Sunny had to do a lot of experimenting, as many of the healthier dough types would not lend themselves well to baked goods. For example, using sourdough made many of the Singaporean favourites too chewy and unpalatable. He compromised by using the wide variety of healthy types of flour in his bread but using only whole wheat flour for the baked goods, so they would be softer and more appealing. He also added high-fibre and high-protein ingredients to further reduce the impact the bread and baked goods would have on blood sugar. These ingredients included seeds and nuts, flaxseed meal, chia seeds, quinoa, buckwheat, brown rice, barley, wheat bran, and oats. In addition to being lower on the glycaemic index than standard flour, many of these whole grains provide other nutrients, such as zinc and vitamin E. However, these quality ingredients cost substantially more to purchase than standard flour and there is little room for negotiating on price given the small quantities purchased.

To stand out further from other bakeries, Sunny and Maureen decided they would serve simple, *kopitiam*-style coffee, but made using a commercial espresso machine. Instead of the traditional coffee bean roast with sugar and margarine, the beans would be roasted with brown sugar and pineapple skin for a healthier result, then ground upon request for optimum freshness. On the menu were the typical Kopi types, but instead of canned condensed milk, Maureen introduced the concept of healthy homemade condensed milk and coconut cream.

Retail location

Sunny and Maureen were lucky enough to find an approved bakery for takeover, complete with all the baking equipment and kitchen appliances they needed. The previous owners were willing to sell them the equipment for a very reasonable price. It was a prime unit at the Raffles Place Mass Rapid Transit (MRT) station in the central business district (CBD), with good frontage and high visibility. It was very small at only 314 square feet, but as the couple only needed a kitchen and a counter, there was enough space. Sunny and Maureen decided to keep decorating costs to a minimum with simple display cases and upgrading the counter where the cashier's till was located. There was also a small high bench for customers to stand at, but no tables and chairs. All they had to add was a commercial espresso machine and a coffee bean grinder, which they planned to place on the counter at the front of the outlet.

Company registration and business certification

Sunny's long-term plan was to eventually branch out into the café business. With that in mind, the couple decided to call their first bakery Bean Friends Forever (BFF) with their initial offering only including baked goods, coffee, and other hot beverages. They formally registered their business as Bean Friends Forever Pte Ltd with the Accounting and Corporate Regulatory Authority (ACRA) and registered a trade mark for their brand name and logo. Sunny and Maureen decided to go for a private limited company, the most common and flexible business entity, because as shareholders they would not be personally liable for its debts and losses, beyond their initial investment. They were able to set up the business with total capital of S\$120,000 (See Exhibit 2 for details).

Sunny and Maureen applied for a Food Shop Licence under the *Environmental Public Health Act*. This cost S\$195 and was valid for one year. Maureen also took the WSQ Food Hygiene Course and registered with the National Environment Agency (NEA). Although Sunny and Maureen were not Muslims themselves, they knew that a good proportion of the Singapore population is Muslim (14%), and they felt that Halal certification would really boost business. They therefore became certified under the Halal Eating Establishment Scheme.

The BFF brand name and logo



END OF EXHIBIT 1

Bean Friends Forever: start-up funding**MEMO**

From: Sunny
Sent: 1 February 2012
To: Maureen
Subject: **Outline of agreement**

Dear Maureen,

I am setting out in writing the agreement we made yesterday because we should have a documentary record of what we propose to do.

I estimate that we may need about S\$120,000 to set up the business and begin operations. We both have savings from inheritances, and we shall use these to invest in a new private bakery company, which we propose to call Bean Friends Forever Pte Ltd, or BFF for short. We shall each receive 60,000 shares for which we will pay S\$1 per share.

Our reasons for wanting to raise S\$120,000 are set out below.

Initial major expenditure	S\$
One-month deposit for property rental	10,000
Decoration and furnishing of bakery	18,000
Cost of kitchen equipment, to be purchased from previous owners	20,000
Purchase cost of new espresso machine and grinder	5,000
Cost of training and certifications	1,000
Other costs (note)	2,000
Total	56,000

Note: Other costs include: (i) registration of company, brand name, and logo; (ii) various licences; and (iii) company secretarial costs for one year.

Monthly cash expenses (First 4 months of operations)	S\$
Rental of property	10,000
Utilities	1,000
Salaries and wages	0
Supplies and ingredients (25% of revenue)	5,500
Administration, marketing, and sundry costs	500
Total	<u>17,000</u>

We are currently living with our parents so until the business becomes profitable, we have agreed not to take out any money in salaries, fees, or dividends until the business has become established. We estimate that to be sure of having enough cash in the early months, our initial capital should be enough to cover the start-up expenses and four months of operating expenses, which is S\$68,000 (S\$17,000 × 4). In total we will therefore require S\$124,000 (S\$56,000 + S\$68,000), but we agree that we can round this down to S\$120,000. We can think about putting more capital into the business, or perhaps borrowing, if we find we need more money.

The monthly operating costs assume that in the first year of operations, 2012-2013, we shall achieve sales revenue of S\$264,000 and make a profit before taxation of about S\$29,500, as set out below.

	S\$	S\$
Sales		264,000
Supplies and ingredients		66,000
		<u>198,000</u>
Rent	120,000	
Utilities	12,000	
Administration, marketing, depreciation, and sundry costs (Note 1)	36,500	
		<u>168,500</u>
Profit before taxation		<u>29,500</u>

Note 1: Sundry costs include S\$18,000 per year which is the estimated cost of hiring family members and agency staff (in the first year or two) to help run the outlet when either of us are away on holiday or for other business reasons.

If the business is really successful, we can expect even bigger profits in future years. Our intention, if we are successful in achieving this level of profit in the first year, will be to start paying ourselves a small salary in the second year, and using the cash resources of the company to invest in a second retail bakery outlet.

END OF EXHIBIT 2

The first years in business, 2012 - 2014**Pricing**

After much experimentation, trial baking, and food tasting, the final menu for BFF was ready for the start of operations in April 2012. They priced their baked goods at the mid-range mark so they could compete with large bakery chains on pricing, but still added a margin of three times the cost of the raw ingredients. This would hopefully enable them to turn a profit before taxation of over 10% on their annual sales. The couple knew that coffee sales would play a big role in boosting their profits, since the mark-up on coffee is higher than most food items. They priced their cups of coffee higher than traditional *kopitiam* prices, but lower than the expensive artisan cafés in the CBD.

Strategy

Sunny and Maureen decided that initially they would run the bakery by themselves, without any help. Sunny would bake the bread and buns, as he had several years' bakery experience, and Maureen would serve customers and make coffee, as she had barista experience.

The couple decided they would open from Monday to Friday, 7:00 am to 8:00 pm to catch the peak-hour commuter traffic as well as the lunchtime crowd. They would close over the weekends, as the CBD has very little footfall then. The hours were long, but the couple were young, enthusiastic, and confident that they could manage. They also had a large extended family they knew they could count on for ad-hoc help if needed before engaging agency staff.

First-year operations

BFF opened its doors in the heart of the CBD at Raffles Place.

The location meant the store was highly visible and had great footfall. The previous tenant had been relatively popular, so BFF also benefited from a significant number of

those repeat customers, who were pleased with the new offerings and continued frequenting the bakery.

Their healthy alternatives to traditional Singaporean baked goods proved extremely popular with the CBD clientele, who were a mix of clean-living Singaporeans and expats. The brand particularly appealed to young health enthusiasts aged 20 to 40, thanks to its unique offerings. Singapore had recently seen an explosion in healthy eating, with lean and clean, paleo, and raw diets all the rage. The *kopitiam*-style coffee also drew crowds both local and expat, who enjoyed the strong, flavourful brew at cheaper prices than the large coffee chains.

To stay relevant, BFF continuously changed and adapted to consumer demand, offering localised and customised products, with something for everyone. Sunny was very inventive and enjoyed spending his out-of-work hours in his parents' kitchen, experimenting with new product ideas. The company launched a new range of products at least once every six months in line with seasonal trends, social events, and festivals. During Chinese New Year when the store was closed, Sunny travelled to South Korea, where the Koreans were producing baked goods to rival those made in Paris, France. South Korean tastes were changing as incomes rose, with wheat consumption rising as rice consumption fell. He returned invigorated and inspired, and BFF launched a whole new range of baked treats inspired by the flavours of South Korea and France.

Branding

The company branding was artisanal but quirky, with a clean, uncluttered look and feel, which further served to appeal to their branding-savvy CBD audience. Sunny and Maureen had ample experience of running a food and beverage (F&B) business, and their energetic, friendly, and efficient demeanour soon became known among regular customers, as did their ability to remember their regulars' preferences.

Marketing

The couple soon attracted a large following of loyal customers who shared their views on healthy living. Thanks to their business degrees, which included a module on digital

marketing, they also maintained strong online marketing strategies to boost BFF's exposure.

The company's website maintained a current list of the products on offer from BFF, and social media was used extensively to encourage current and potential customers to engage in interactive dialogue about food and drink generally, and BFF's products. Focusing on Facebook, Twitter, and Instagram, the couple introduced frequent giveaways to drive foot traffic, using compelling visuals to promote online engagement. However, at this stage of its development, the company did not use its website for online selling of its products (with deliveries direct to customers' premises).

Sunny and Maureen set up a generous customer loyalty programme, offering a free baked product or coffee for every nine purchased. This helped sway customers who might have otherwise been tempted by the CBD's wealth of F&B options.



Financial results

Much to the delight of Sunny and Maureen, BFF did almost as well as they had planned in the first year, with revenues of S\$240,000 and profit after tax of S\$26,000 in the financial year to 31 March 2013, very close to Sunny's original estimates (see Exhibit 2).

The success of the company encouraged them to open a second retail outlet in 2013 and a further two during 2014. Like the first outlet in the CBD, the new properties were obtained on short-term leases, renewable annually, for which a deposit of one month's rent in advance was required.

Sunny remained responsible for product development and bakery operations, travelling between the outlets every one or two days to monitor the business.

For each outlet, the company appointed a full-time senior employee (given the title of 'outlet manager'), who was supported by part-time staff (service crew and bakers). The outlet managers are responsible for opening and closing their outlet each day, but either Sunny or Maureen would do so when the outlet managers were absent from work. An external cleaning services company cleaned each outlet daily. The outlet managers reported to Maureen on matters concerning labour issues, pay, and premises.

The new outlets proved profitable because of the high traffic, and there was strong growth in revenue as BFF continued to attract increasing numbers of customers. In the year to 31 March 2014, revenues were S\$580,000 but profit after tax was just S\$17,000. In the year to 31 March 2015, revenues were S\$1,640,000 and profit after tax was S\$65,000. During 2014, with annual revenues exceeding S\$1,000,000, the company registered for the goods and services tax (GST), but the addition of GST to product prices did not have a noticeable effect on sales. BFF absorbed part of the increase as the input GST now claimable on large items, such as rent, partially offset the GST output tax payable. Sunny and Maureen began to pay themselves a modest salary during 2013, confident that the company could now afford to do this.

However, with operating four outlets and managing the overall business, Sunny and Maureen were no longer able to give customers the personal service that had helped them to succeed and flourish in the early months. Their view was that the continuing growth of the business was now due largely to the favourable locations of the outlets and the continuing popularity of BFF products.

As the business grew, the company continued to employ a mixture of full-time and part-time staff, primarily older people. The task of managing the bakery, the retail operations, and the administration became too much for Sunny and Maureen, who began to feel that they were not giving the retail operations as much detailed oversight as they needed.

During 2013, Sunny's brother, Timeer Kumar (Timmy), graduated from a foreign business school with an Advanced Diploma, and it was decided that BFF should employ him as a senior manager, from the beginning of April 2014. He would receive a salary, but it was agreed that he would not be invited to purchase shares in the company at such an early stage of his career. To gain experience, Timmy would initially act as manager for one of the outlets but would also take on the responsibility for the monitoring and supervision of operations in all the company's outlets.

END OF EXHIBIT 3

Subsequent years: growing the business

In the financial year to 31 March 2016, BFF did not open any new bakery outlets. This was partly because they were unsuccessful in finding suitable premises, and partly because Sunny and Maureen were conservative-minded, and not sure whether the company had sufficient financial resources to expand further. They had a few ideas for growing the business, and the priority, in their view, was to open a fifth, and possibly also a sixth, bakery outlet. However, they wanted to keep a certain amount of cash in the bank, as a precaution against the risk of a sudden and unexpected downturn in their business.

Sunny and Maureen agreed that they could each invest a further S\$7,500 each in the company, but felt they still needed a further S\$105,000 if they were to pursue a rapid growth strategy.

Maureen suggested a solution. She had an uncle in the United States (US), Yap Ka Kui, a wealthy business person who occasionally invested in private companies. She and her uncle, despite living in different countries, had always got on well, and Maureen thought that he might be willing to invest in BFF.

After Maureen called her uncle in the US, it was agreed that Sunny should email a proposal document to him, inviting him to invest in new equity shares in BFF.

Extract from the proposal from Sunny Kumar to Yap Ka Kui, uncle of Maureen Leung, December 2015

Maureen and I have estimated that to finance our growth over the next two to three years, we shall need additional capital of S\$120,000. We want to have the money immediately available, so that we can take advantage of any opportunities that might arise.

Our immediate priority is to open one or two more retail outlets for our bakery in view of the strong demand for our products, but we recognise that the company will need to expand into other areas of activity if it is to continue growing over the longer term.

We propose that the company issues 80,000 new shares at a price of S\$1.50 per share. We invite you to subscribe for 60,000 of these. Maureen and I will each take 5,000 shares, and my brother, Timmy, will take the other 10,000. Timmy has been an employee at BFF since April 2014 and he has indicated that he is keen to obtain a shareholding interest in BFF.

You may wonder why we value the shares at S\$1.50. We are a profitable and growing business. We have not yet paid any dividends on shares, but we intend to do so in due course, as the business grows. We expect profits to grow strongly over time, as we open new bakery outlets and continue to offer innovative products to customers. You may therefore think that putting S\$90,000 into our business would be a very good investment.

If you agree to subscribe for the shares, we will invite you to join our Board of Directors. The fact that you are resident in the United States should not be a problem, as you will be able to join Maureen and myself in Board meetings through Skype or some other similar web-based conference call arrangement.

I look forward to your response, but very much hope that you will agree to join us in BFF.

Reply from Yap Ka Kui to Sunny Kumar

Dear Sunny,

Thank you for your formal proposal asking me to invest in the company that you set up with my niece, Maureen.

I very much like your business and the way it has developed, and I can see that it has great future potential. I am also happy to support my niece financially in her entrepreneurial aspirations: you have made a commendable start and, partly for family reasons, I would like to help in continuing to develop the company. I appreciate that I am investing risk capital in your company, but I can afford it and I would like to support Maureen and give support to my family.

I would be delighted to join your Board of Directors and I do not expect a director's fee initially. However, I do have some questions to ask, about matters such as business model, financial returns, and dividend strategy. BFF needs to boost its returns on equity and, as a shareholder, I shall want to receive dividend payments at some not-too-distant time in the future.

We can discuss these matters in more detail when we meet. I will be in Singapore in two weeks' time to meet up with family members.

I am therefore willing to invest in 60,000 shares, at a cost of S\$90,000. This is on the condition that Maureen, you, and your brother Timmy together take another 20,000 shares at S\$1.50 each with effect from 1 April 2016.

YKK

END OF EXHIBIT 4

Further expansion in bakery outlets**Year to 31 March 2016**

The year to 31 March 2016 was another successful year. Revenues and profits continued to grow and raising S\$120,000 through a new issue of shares gave the company a 'war chest' of cash that could be used to invest in any attractive opportunity that might arise. On the downside, the company's administration became more complex and time-consuming as the business grew. Maureen started to work full-time on administrative work with Sunny continuing to spend his time on product development and business innovation with Timmy in charge of day-to-day retail operations and supervision of the bakery outlets.

Timmy found that acting as supervisor of all the bakery outlets was a difficult task, even though he remained in day-to-day charge of one of them. He felt that he had insufficient time for one-on-one meetings with the other outlet managers, and it was difficult to arrange meetings of all the outlet managers together. He was aware that the other outlet managers met together in their spare time, but they did not invite Timmy to join them and they did not tell him what they spoke about to each other.

BFF did not acquire a fifth bakery outlet until the beginning of April 2016.

Fifth location

For their fifth bakery outlet location, BFF chose Plaza Singapura in Dhoby Ghaut, a mall with a direct link to a busy MRT interchange station. The central location was specially selected to catch commuters on their way to and from work, as well as shoppers looking for refreshments. The mall's broad positioning and diverse retail offerings attracted a wide range of shoppers from among locals and tourists alike. The F&B unit was on the same level as the MRT, making it highly accessible for commuters looking to grab a bite to eat or a coffee. The previous tenants were not renewing their lease: Sunny suspected that this was because their business was loss-making. The unit was already fully fitted, and Sunny agreed to pay S\$70,000 to purchase all the equipment and fittings from the previous tenants.

The asking price for the rental of the premises was S\$16,500 per month, though Sunny managed to negotiate this down to S\$16,000 on the growing strength of the BFF brand and was also able to negotiate a reduction in the deposit payable in advance from two months' rent to one month's rent. The lease was for 12 months, renewable annually.

Sixth location

BFF identified a sixth location for a bakery outlet towards the end of 2016. This was acquired as an empty property and BFF equipped it to the same standard as its other bakery outlets. This sixth outlet became operational in April 2017. As the business grew, several operational problems emerged. Exhibit 6 contains further details of the sixth outlet and the operational issues.

END OF EXHIBIT 5

Extract from the minutes of a meeting of the directors of Bean Friends Forever Pte Ltd, held on 6 September 2016

Present

Sundaresh (Sunny) Kumar (Chair) [SK] Timeer (Timmy) Kumar [TK]
Maureen Leung [ML] Yap Ka Kui [YKK, via web-cam]

Future expansion

It was unanimously agreed that the company should seek to expand further over the next few years, opening one more bakery, ideally in a well-chosen location near a busy MRT interchange, to catch commuters on their way to and from work. The company has enough cash to finance this expansion, but it was agreed that in view of the continuing plans for expansion all profits would be retained for reinvestment, and if there should be any funding shortfall, this would be made up with medium-term bank borrowings. There would be no dividend payments out of profits for the foreseeable future.

SK has identified one new location for a sixth bakery. It is situated in a predominantly Muslim neighbourhood between Bugis MRT station and the Sultan Mosque, which sees heavy traffic from locals and tourists alike. Halal certification has been obtained, and SK has already developed a new range of products for selling in this outlet. The property is a dual-level shophouse, which in time could be converted into a café. In the meantime, the company will use the upper floor as storage for inventory and an office for ML (instead of continuing to attend to all the administration work from her parents' home).

The company will continue its policy of using its existing bakery outlets to train new members of staff before sending them to a new location.

YKK asked whether it would be appropriate, as the network of bakery outlets increased, to bake all products at a single location and distribute products from the central location each day, or possibly several times each day, to the various outlets. ML replied that although using a central bakery for production would mean better control could be retained over the quality of products, customers appear to enjoy buying fresh items that are made on the premises. The smell of freshly baked goods also appears to be a draw for customers into the outlets. In addition, establishing a central bakery would involve additional operating costs, which might not be justified until the company had expanded its network further.

Staff

TK reported that he was hiring a senior qualified baker and a head barista (on a full-time basis) to run the Plaza Singapura branch and would be investing a considerable sum of money into their training to ensure they could maintain the high standards established by BFF at its flagship location in Raffles Place.

He thought that the qualified baker would be able to take on some of SK's role in product development and quality management, so that SK would have more time to spend on the company's growth strategy.

ML reported that due to staff turnover, new members of staff were being continually hired. These new recruits receive extensive training at considerable cost. The long-term goal should be to have longstanding experienced employees with the ability to fulfil the role of outlet manager efficiently and effectively. This would free up TK to assist SK in focusing on business development and longer-term business plans.

However, TK expressed the view that the best outlet managers did not stay long in their job before they moved on, and that BFF has never dealt effectively with its staffing problems. The quality of staff overall was adequate without being exceptional: TK believed that revenue growth at each outlet could be stronger if staff could improve the quality of their service to customers.

YKK advised the rest of the Board that based on his experience of business in Singapore, the company was likely to have difficulty recruiting and retaining trustworthy staff for an expanding network of bakeries. ML, SK, and TK thanked YKK for his guidance (particularly on operational matters) and continued support.

END OF EXHIBIT 6

Human resource challenges**Maureen Leung**

From: Maureen Leung<ML@beanff.sg>
Sent: 28 June 2017 6:01 pm
To: Sunny Kumar<SK@beanff.sg>; Timmy Kumar<TK@beanff.sg>
Subject: Human resource challenges: Staff costs and availability

It is time that we reviewed our organisation structure. I am getting very worried about staffing problems at our bakeries. When Sunny and I began the business, we did all the work ourselves. That became impossible as soon as we opened more bakeries, but the demands of staff management are becoming almost unsustainable, in my view. I think that Timmy strongly shares my view. He is having problems at times in getting outlet managers to do what he wants. They are often reluctant to try anything new or look for ways of improving the business, and the baker at the Dhoby Ghaut outlet seems to think he should be reporting to Sunny, not Timmy.

We have a problem in controlling outlet managers and relying on them to use their initiative. For example, in a recent incident when one of the outlets lost its electricity supply for the best part of a day, the manager closed the outlet until the supply was restored, instead of finding a way during the breakdown to keep the outlet open and earning revenue. The manager didn't even tell Timmy until a few days later.

With the tight controls over quotas of foreign employees and low demand among Singapore locals for jobs in F&B, we are already forced to offer above industry rates of pay to attract good talent. Salaries – tracking hours worked, time off, and overtime, for example – and Human Resources administration is taking up an increasing amount of my time.

As you know, we have already turned to Singapore's part-time talent pool for help, hiring students, back-to-work mothers, and mature workers. While many businesses employ foreign workers, it is not financially viable for BFF because of the additional compliance costs involved. In addition to the monthly levy, other costs include holding an insurance bond for each non-Malaysian foreign worker, medical insurance, and the cost of repatriation at the end of their contract. All staff members must pass the WSQ Basic Food Hygiene Course, and front-of-house staff take a basic barista training course, at BFF's expense.

We offer all staff members great perks – a generous vacation allowance, training, and staff nights out, as well as free food and coffee during shifts. In spite of all this, we struggle to attract and retain staff. In some cases, we lose good people soon after we have paid to train them.

One potential source of staff that we have yet to explore is via the Earn and Learn (SkillsFuture) and the Place-and-Train (e2i) programmes, which I believe have attractive funding options for employers.

One possible source of job-ready staff is through the Singapore Corporation of Rehabilitative Enterprises (SCORE), a statutory board providing employment assistance for ex-offenders. SCORE operates a commercial Halal-certified bakery specialising in white and wholemeal loaves and artisanal products such as European bread, croissants, and cookies (a good fit with our product range). As an Approved Training Centre, SCORE provides training leading to a WSQ Certificate in either Culinary Arts or F&B Operations. There seems to be many plus points for hiring employees through SCORE.

I think we need a meeting soon to discuss whether there are any ways that we can improve the staffing situation in our outlets. If we don't, it is going to be difficult for the company to continue the expansion of its network of bakery outlets.

Yours in beans,
Maureen

END OF EXHIBIT 7

Control risks**Timmy Kumar**

From: Timmy Kumar<TK@beanff.sg>
Sent: 4 July 2017 4:25 pm
To: Maureen Leung<ML@beanff.sg>; Sunny Kumar<SK@beanff.sg>
Subject: Control risks

As you know, our bread and other products are baked fresh every day, and any unsold items at the end of the day are given to a local charity specialising in perishable goods. The charity picks up the produce from each outlet just as the outlet is closing for the day. Although we try to minimise the amount we give away, we are also happy to do our part in helping members of our community in need. Since we want to sell fresh products to our customers to maximise customer satisfaction, we don't see any value in holding on to unsold items overnight and trying to sell them the next morning.

I met with a business contact yesterday, who has experience with managing retail food outlets. She suggested that there may be some problems with our waste food policy.

First, she suggested that if we are putting pressure on outlet managers to reduce the amount of waste (unsold food products), they may be tempted to retain some unsold products at the end of each day and try to sell them to early customers the next morning. If this happens, our reputation for fresh products and quality could be damaged.

Second, she can see opportunities for fraud by the outlet managers. What is to stop them from taking items that their bakery has produced and selling them to customers, possibly wholesale, and pocketing all the revenue for themselves? Anything they take and sell in this way can be recorded as unsold produce at the end of each day.

I am not suggesting that her comments are valid, or that the problems she mentioned are happening in BFF, but she has made me think about internal controls within the company. I make spot checks on the outlets but I don't have as much time as I would like to look around. I spend most of the time during visits in a meeting with the outlet manager, interrupted by the need to serve customers when they come in.

It would cost a bit of money, but we could engage a firm of accountants to audit our internal controls. However, I am not sure that this would be a worthwhile exercise.

Do you have any thoughts about internal control and any problems that we may be overlooking?

Cheers

Timmy

END OF EXHIBIT 8

E-commerce venture**Sunny Kumar**

From: Sunny Kumar<SK@beanff.sg>
Sent: 15 July 2017 6:25 am
To: Timmy Kumar<TK@beanff.sg>; Maureen Leung<ML@beanff.sg>
Subject: E-commerce venture

I know you both have doubts about online selling of bakery products, but I am convinced that retail businesses cannot survive without getting involved in e-commerce.

Thanks for your agreement to at least try to see whether BFF can make a success of it. I intend to hire a software company to add e-commerce pages to our website, for selling our most popular products online. This should not cost much. I shall also hire a delivery company to deliver items purchased online from our Raffles Place bakery.

We shall find out fairly quickly whether e-commerce will be profitable for us. I am very confident.

Regards,
Sunny



Sunny Kumar

From: Sunny Kumar<SK@beanff.sg>
Sent: 22 December 2017 3:25 am
To: Timmy Kumar<TK@beanff.sg>; Maureen Leung<ML@beanff.sg>
Subject: E-commerce venture

Hi Both,

I was wrong. The e-commerce experiment has been a nightmare. I hardly know where to begin explaining what went wrong. We have been selling products online at a lower price than in our retail outlets, sometimes by as much as 10%. I don't know whether this was a good or bad idea, but it has certainly reduced our profit margin on sales.

The prices on the baked goods we sell online are too low to pay for the delivery costs. The take-up in demand from customers has been too slow, despite our best marketing efforts. What's more, the delivery company is often late picking up orders from the Raffles Place bakery, resulting in delayed deliveries and this is damaging our brand's reputation. A couple of months ago, I started using independent delivery bike riders for deliveries in the financial district but this did not improve the delivery service and was much harder to co-ordinate. Even though sales volume has been disappointing, the Raffles Place members of staff have struggled at times to fulfil the online orders on top of running the outlet.

Since we began online selling, we appear to have just achieved breakeven on online sales and home/office deliveries, on revenue of S\$140,000. The average sales value per online order has been S\$15, not nearly enough to make the operation profitable. Materials have cost about S\$41,000, we have paid someone S\$35,000 to manage the website and payment portal and delivery costs have been S\$40,000. When we add in S\$24,000 for sundry costs and administrative overheads, and an amount for writing off the software development costs, total costs were as much as our revenues and we made no profit.

Buried in the delivery cost of S\$40,000 is an amount to settle a confrontation with the delivery riders. I'm sorry I didn't tell you sooner, but I was so frustrated with the whole online venture and this was kind of the final straw. I can't believe the scolding I received. They were angry about losing their deposits when one of the share-bike companies went under. I know we didn't have to reimburse them, but it was me who had pushed them to sign up with the bike company in the first place, so I felt we owed them a refund. Besides, the last thing we want is angry young people rubbishing our good reputation. We only had 3 regular riders, but 10 had signed up with us, so there went S\$500.

Then there was that crazy late-night knock at the door from Singapore Police wanting to know about our online payment procedures and what we were doing to protect our customers from fraud and to safeguard their privacy under the *Personal Data Protection Act*. I think one of our customers must have had their credit card scammed and the Police were just making routine enquiries with all the local businesses where they had used their card. I have not heard anything more, but scary stuff nonetheless!

Online selling of bakery goods is not going to be sufficiently profitable for the foreseeable future. I am closing this side of the business as soon as we can take the e-commerce pages off our website.

Sunny

END OF EXHIBIT 9

Summary financial statements, three years to 31 March 2018

Despite the staffing problems and occasional setbacks, BFF continued to expand successfully and, by the end of March 2018, had a network of six bakeries. Revenues continued to rise, both for the company overall and at each of its bakeries. Summary financial statements for the three years to 31 March 2018 are shown below. Figures have been rounded to the nearest S\$000. For purposes of comparison, the revenue and costs of the online selling operations in 2017 are excluded from the figures for the year to 31 March 2018.

Bean Friends Forever Pte Ltd Income statement for the year ended 31 March

	2016 S\$000	2017 S\$000	2018 S\$000
Revenue	2,051	2,690	3,352
Supplies and ingredients	480	731	967
Rental costs	525	658	793
Labour costs *	724	939	1,126
Utilities	45	60	72
Other costs ^	172	192	295
Total expenses	1,946	2,580	3,253
Profit before taxation	105	110	99
Taxation	4	5	6
Profit after taxation	101	105	93

* Labour costs comprise wages and salaries, BFF's contribution to Central Provident Fund (CPF), and all other remuneration benefits. Labour costs also include executive directors' salaries. For the past three years, the executive directors agreed to keep increases in their salaries in line with increases in total turnover from the outlets. These salaries amounted to approximately 9% of total turnover in each of the three years.

^ Other costs include: administration, marketing, depreciation, and sundry expenses.

Bean Friends Forever Pte Ltd
Statement of financial position as at 31 March

	2016 S\$000	2017 S\$000	2018 S\$000
Non-current assets (Note 1)	209	262	319
Current assets			
Inventory	29	38	46
Receivables and prepayments (Note 2)	73	95	113
Cash	176	207	224
Total assets	487	602	702
Equity and liabilities			
Share capital	240	240	240
Retained profit	201	306	399
	441	546	639
Current liabilities	46	56	63
	487	602	702

Note 1: Non-current assets

The company purchases all its equipment and does not acquire any equipment under leasing arrangements. A summary of the fixed assets register is on the following page.

Note 2: Pre-payments includes the rental deposits.

Note 1 cont.

**Bean Friends Forever Pte Ltd
Summary – Fixed Assets Register as at 31 March**

Fixtures and equipment	To 31 March		
	2016 S\$000	2017 S\$000	2018 S\$000
Cost			
At 1 April (2015/2016/2017)	309	319	385
Additions	71	132	144
Disposals	(61)	(66)	(79)
At 31 March (2016/2017/2018)	<u>319</u>	<u>385</u>	<u>450</u>
Accumulated depreciation			
At 1 April (2015/2016/2017)	104	110	123
Charge for the year	64	77	84
Disposals	(58)	(64)	(76)
At 31 March (2016/2017/2018)	<u>110</u>	<u>123</u>	<u>131</u>
Net book value			
At 31 March (2016/2017/2018)	209	262	319
At 1 April (2015/2016/2017)	205	209	262

END OF EXHIBIT 10

Return on investment: dividends

Yap Ka Kui

From: Yap Ka Kui<YKK@beanff.sg>
Sent: 15 May 2018 6:01 pm
To: BFF Board Members
Subject: Dividends

I have been very impressed by your effort over the past six years in growing BFF, and I am delighted with the success that my niece Maureen has achieved in business. I think the time has now come, however, to give some thought to my own interests as an investor and shareholder in the company.

BFF has not paid any dividends at all since it started. As executive directors of the company, you must now think that you are remunerated adequately with your salaries. Although I have been happy not to receive any director's fee to date, I am now looking for a return on my investment in the company. I therefore suggest that the time has been reached when the company, if it continues to operate profitably, should start to pay dividends. We can discuss this matter further at our next Board meeting, but I am giving you advance notice now that, in my view, the company should include a policy for paying dividends into its plans for this financial year and beyond.

As an alternative, you might prefer to buy out my interest in the company. The company has a lot of cash, and could buy back my shares then cancel them. I know that the company is not yet fully established and is growing at a rate that we may find hard to predict, so the use of conventional valuation models is probably of limited value. Even so, a company valuation could be something that is worth looking into.

Regards,
YKK

END OF EXHIBIT 11

New strategy: Bean Friends Forever concept cafés

Having established a robust brand with six thriving bakery outlets in six years, it is now time for a new stage in the company's expansion plans. The Board wants to open a concept café during the year to 31 March 2020 to push the company's *kopitiam*-style artisan coffee fusion idea further, and start experimenting with meals, not just baked goods. The saturated café market made it essential for the company to develop its own distinct value proposition of healthy *kopitiam*-style food and coffee. The BFF café would use Sunny's healthy bread recipes for sandwiches and wraps, as well as low-sugar cakes and pastries. The café would also sell blended iced coffee and fruit teas to cater to younger customers.

The Board is hoping that if this first café is successful, the company would open more of them, in the same way that the first bakery led on to a small chain of six outlets.

Timmy told his colleagues that he is really very excited about the idea of a concept café and, in his opinion, if the company continued expanding, it would be operating from many properties, and property management would become an increasingly important aspect of the business. He was keen to take on this responsibility himself.

Sunny reminded Timmy not to get too excited, as it is just a concept at present, one of several expansion possibilities.

END OF EXHIBIT 12

Extract from the minutes of a meeting of the directors of Bean Friends Forever Pte Ltd, held on 4 August 2018

Present

Sundaresh (Sunny) Kumar (Chair) [(SK) Timeer (Timmy) Kumar [TK]
Maureen Leung [ML] Yap Ka Kui [YKK, via web-cam]

Central kitchen

It was unanimously agreed that as the company's operations continued to grow, BFF should look at setting up a central kitchen and corporate headquarters in the heartlands. To expand production capacity, the company will need to acquire more space, machinery, and equipment, and introduce new varieties of breads, buns, cakes, and pastries.

The main advantage of centralising the baking of products is that quality standards should be higher. The company is already suffering from occasional complaints about product quality at some bakery outlets, and it is difficult to control quality when staff turnover rates are so high.

The expected cost of acquiring and fitting out a central kitchen might be about S\$400,000. While the company would not be able to finance this entirely from its own financial resources, BFF could apply for an SME Equipment and Factory Loan, which allows SMEs to obtain equipment and factory loans for business equipment for up to eight years. The interest rate on this loan could be around 9% per annum.

Wholesale distribution

It was agreed that opening a central kitchen would add to overheads without necessarily increasing revenues, and it would therefore be necessary to look for alternative sources of income.

ML reported that she had been investigating opportunities for wholesale selling of the company's popular healthy baked goods to pre-schools and hotels.

A chain of pre-schools, whose core values included healthy living and a balanced diet, had already expressed a strong interest in buying daily deliveries of BFF products. This private company is well-known for its progressive approach towards teaching and for embracing new technologies, and is the first pre-school chain in Singapore to accept payment in cryptocurrencies.

BFF would start by supplying each pre-school in the chain with daily deliveries of 36-piece cartons of full-sized baked goods, and 150-piece cartons of mini baked goods. If the arrangement is successful, ML estimated that annual revenue from this single customer would be about S\$600,000, enough to cover most of the overhead costs of the central kitchen. ML also reported that the Principal had asked her whether BFF would be willing to accept payments in cryptocurrencies. As she was unsure how to respond and not wanting to sound hesitant, ML had asked for time to discuss the proposal with the Board.

Larger hotels however would be much harder to sell to than a chain of pre-schools because their budgets are too low to make the cost of administration and deliveries worthwhile for BFF, but boutique hotels might be interested.

ML added that as the eventual goal of the directors and shareholders might be to sell the business to an international F&B group, adding a wholesale arm to the business would make the company's value proposition even stronger.

END OF EXHIBIT 13

General information**The F&B Services industry in Singapore**

F&B establishments are regulated as either Licensed Hawkers or Licensed Food Establishments, with the latter being further subdivided into Food Shops (such as coffee shops, cake shops, cafés, and restaurants), Food Stalls (a smaller outlet within a larger establishment like in a food court or a canteen), Food Factories, Supermarkets, and Private Markets. The Department of Statistics in Singapore (Singstat) also reports information on a more granular level.

Recent data from Singstat suggests that sales of F&B services are climbing, with sales in May 2018 rising 1.2 per cent year-on-year, with fast food outlets registering the best result with 10.8 per cent year-on-year growth but sales for other eating outlets, like cafés, declined by 1.9% over the same period. The total sales value of F&B services for the month of May 2018 was estimated at S\$689 million, 8 million dollars higher than the S\$681 million reported in May 2017 and the total sales value of F&B services July 2018 was estimated at S\$703 million, slightly lower than the S\$705 million in July 2017^[1].

The F&B services industry plays a vital role in the local economy, supporting Singapore's reputation as one of Asia Pacific's eating capitals. With its diversity and cosmopolitan flavour, the industry offers tremendous entrepreneurship opportunities because of its relatively low entry barriers. Today, many home-grown F&B entrepreneurs have expanded overseas by setting up joint ventures, franchises, or corporate-owned outlets.

Thanks to the limited barriers to setting up a business in Singapore (e.g. the low start-up costs that allow new competitors to easily enter the industry), the number of F&B establishments in Singapore is also steadily rising (Table 14.1).

Table 14.1

Snapshot of F&B entities

		2010	2011	2012	2013	2014	2015	2016
Food & Beverage companies (all F&B forms)	Start	1,299	1,362	1,491	1,523	1,660	1,605	1,760
	Cease	662	936	909	893	942	1,017	1,019
	Net Δ	637	426	582	630	718	588	741
Food & Beverage entities (all F&B forms)	Start	2,952	2,878	2,909	2,879	3,367	3,034	2,968
	Cease	2,235	2,638	2,473	2,359	2,296	2,515	2,792
	Net Δ	717	240	436	520	1,071	519	176
Food shops (coffee shops, cake shops, cafes, and restaurants)	Total	13,828	14,377	14,642	15,307	15,875	16,490	17,196

Source: Monthly Retail Sales and F&B Service Indices (May 2018) ^[1]

Challenges facing the F&B industry

Although opening an F&B company in Singapore is relatively straightforward, running one successfully is a different story. While for 2016 ACRA showed 2,968 new F&B Service entities were formed, 2,792 ceased to exist ^[1,2] and the likelihood of a new F&B business surviving beyond the five-year mark is less than 50 per cent ^[3].

Labour

One of the biggest challenges facing the F&B services industry is labour ^[3]. Despite a 3.93% growth in remuneration expenditure for F&B Services, statistics show that Singaporeans are still shunning jobs in the sector.

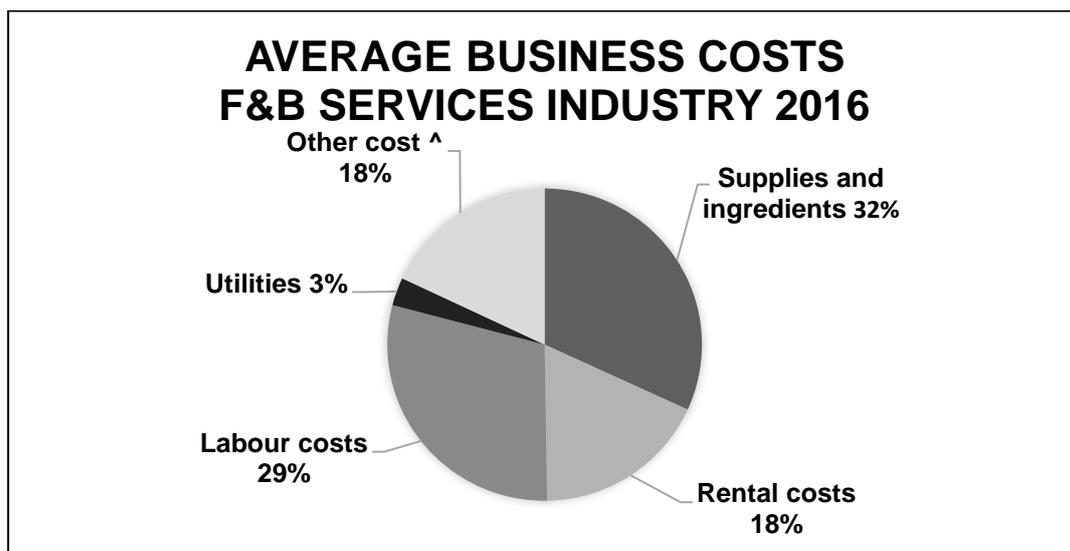
Job vacancies in the accommodation and food services sector rose from 5,010 in 2011 to 7,740 in 2014. Of these, 1,800 waiters, 850 food service counter assistants, and 840 cooks were needed. Most of these vacancies had been open for at least six months, with employers saying these jobs were hard to fill with locals ^[4]. This means the demand on the existing pool of local workers is higher, creating what industry players call an 'employee's market'. Salaries rise, driving profits down and some F&B venues are turning away customers as they do not have enough staff to service them.

Legislative changes have further compounded the situation. In July 2012, the service industry's Dependency Ratio Ceiling was reduced from 50 per cent to 40 per cent. This quota sets the maximum number of foreign workers a business can hire for every full-time local worker it employs. This is much lower than other industries (manufacturing for example has a 60 per cent quota).

Rising costs

Another big challenge is the rising costs of operations. While operating receipts (income earned from business operations) have risen by 79.4 per cent, from S\$3,893.4 million in 2000 to S\$9,022.8 million in 2016, operating costs have risen even more. They have gone up from S\$3,638.2 million in 2000 to S\$8,747.3 million. Almost a third of those costs is attributable to labour ^[5].

Table 14.2 ^[5]



^ Other costs include: administration, depreciation, royalties, repairs and maintenance, and sundry expenses.

The current state of Singapore's bakery industry

Singaporeans love their bread, and the bakery industry is thriving in the city-state. The Bakery & Cereals sector is forecast to grow by 29.6% between 2016 and 2021, driven by increasing demand for on-the-go and convenient food options ^[6].

A growing economy supported by low consumer prices and a large population base of mid-lifers is expected to have a further positive influence on this sector. However, the market is also saturated with many small individual players, which means product innovation is important [7].

Challenges facing the bakery industry

Competition from home bakers

Home bakers are putting licensed bakery shops at a further disadvantage [8]. Thanks to platforms such as Facebook and Instagram, home bakers are cashing in on the interest in personalised experiences. The added appeal of buying something home-made with quality ingredients means the number of home bakers is on the rise.

As home bakers work from their own kitchens and do not run a bricks-and-mortar shop, they are not required to be licensed by the National Environment Agency (NEA). Instead they come under the Housing and Development Board's (HDB) Home-Based Small-Scale Business Scheme, which allows them to practise 'baking on a small scale for sale' in homes 'without turning the flat into a bakery'. In contrast, bakeries have much higher running costs such as rental, utilities bills, and licence fees, which makes it hard to compete.

Healthier eating trends in Singapore

From fad diets such as paleo, raw, and clean and lean, to government initiatives, healthy eating has been gathering momentum in Singapore over the past few years.

The Health Promotion Board (HPB) has launched several healthy eating initiatives such as the Healthier Choice Symbol Programme, My Healthy Plate, and the Healthier Dining Programme. It has also partnered with 235 supermarkets to support in-store promotions of healthier-choice products.

In mid-2016, sales of food products with the Healthier Choice symbol were reported to be growing by nine per cent per annum. The number of such products available also grew steadily, from an initial 300 in 2001 to 2,500 by mid-2016 across 70 food

categories. Sales of wholegrain rice and healthier-choice wholemeal bread have also grown ^[9].

Manufacturers are increasingly educating consumers on the nutritional content of their products, driving growth in health and wellness ^[10]. They have fortified their offerings with ingredients such as wholegrains, as well as providing reduced sugar products. By extending their list of health-enhancing claims, such as lowering blood cholesterol levels, manufacturers are now becoming advocates of healthy consumption. Moreover, by leveraging on government efforts to encourage consumers to purchase healthier products, manufacturers can strengthen their brands' positioning. As consumers become more informed about health concerns for their consumption, they are likely to be discerning and purchase healthier products.

Much of this effort is to combat diabetes, a growing health problem in Singapore. Research suggests that Singapore has the second highest diabetes prevalence among developed nations, where one out of every nine residents is affected by diabetes and one in three has a chance of getting diabetes in his or her lifetime. Poor diet quality is one of the major risk factors of the disease. In April 2016, the government launched its 'War on Diabetes' campaign, targeted at reducing obesity and diabetes ^[11].

The future of the F&B industry

Singapore is facing several challenges. These include tough economic conditions, rising competition from abroad, and disruption from technological advances. However, in a bid to transform multiple industries, including F&B, in 2016 the Singapore government announced the S\$4.5b Industry Transformation Programme. Designed to lift productivity and help companies become more competitive, the programme integrates different restructuring efforts, provides a targeted and industry-focused approach to address issues, and deepens partnerships between the Government, business operators, industries, trade associations, and chambers ^[12].

The government plans to grow the F&B sector over the next five years. Key features of the plan include: developing innovative solutions such as Ready-to-Eat meals;

promoting mass adoption of manpower-lean technologies (including cashless payments); raising employees' skills and versatility, and expanding the footprint of Singapore's F&B companies in overseas markets ^[13].

However, the wider F&B industry is facing significant pressures and challenges from multiple perspectives – public health and nutrition, transparency and traceability of supply chains, climate change, waste and environmental sustainability, land use, and deforestation, to name a few. All stakeholders in the F&B services industry must be willing to reimagine, reformulate, and reinvent existing products and processes as well as transform innovative ideas into commercial reality. To achieve these goals, businesses must be open to uncommon collaborations between different groups of players to create new ways of working that will drive the future economy.

Reference list and suggestions for further research

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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 2 November 2018.

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END OF EXHIBIT 14

END OF ADVANCE INFORMATION