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a) A joint venture is a business form that two business entity join to set up a new company for projects.

b) Joint venture can help companies to share risk. Companies start a ^{business} with each other through joint venture, when the business fails, each company only bare divided loss instead of all loss due to the failure of new business.

Joint venture helps attain synergy. Companies cooperate through joint venture that they can share capital, technology and knowledge with each other, it reduces duplication of development and research by the companies.

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a) Mary needs money to support her daily living though she has no income after her retirement, like housing and daily transportation.

Mary needs money for medical use, as she will be old after retirement, sickness like chronic diseases may appear that require large sum of money for medical care.

b) Mary has the responsibility to observe the ^{latest} regulations on different investments like stock and currency.

Mary has the responsibility to understand the possible risk for her investments, instead of fully relying on her financial planner.

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a i) Functional departmentalisation

ii) Product departmentalisation

b) General Manager of Company A.

c) Department of Risk Management should be responsible.

The main role of the department is to assess risk of the company when operating and to suggest plans to deal with the risks like reducing the risk or transferring them.

d) According to accrual concept, expenses and revenue should be recorded when the service is used or offered, regardless of the time for the ^{cash} payment to occur. Therefore, the electricity of \$9,500 should be recorded as an expense in 2016.

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b) Planning

c) Setting goals can give clear direction for the employees to work according to, so that they will be more motivated to strive for the company goals, instead of working randomly on different things that may in vain. Setting goals can also help the managers to manage their sub-ordinates more easily that the company has clear goals that all employees should follow, the managers do not need to deal with the problem that sub-ordinates ^{are} ^{for} looking different goals.

John

a) Income statement for the year ended 31 December 2016

	\$	\$	\$
Sales	796,200		
Less returns inwards	(1,800)	794,400	
Less Cost of Good sold			
Purchases	500,400		
Less returns outwards	(1,500)	498,900	
Less closing inventory	(195,000)	(303,900)	
Gross Profit			490,500
Add other Revenue			
Discount received			2,100
			492,600
Less operating expenses			(507,000)
Net loss			(14,400)

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Comments

The candidate was able to demonstrate comprehensive knowledge and understanding of business and accounting concepts and was able to apply these concepts and knowledge in tackling business problems in unfamiliar case situations. He/She was also able to communicate ideas, opinions and suggestions in a logical and coherent manner, using appropriate business terminology.

In Question 1, the meaning of joint venture and the advantages of running a business in such a form of ownership were well explained. In Question 2, the financial needs of Mary were identified and explained clearly. The candidate was also able to list the responsibilities of Mary as an investor. In Question 3, the candidate was able to point out the form of departmentalisation of the two companies and the General Manager with a wider span of control in parts (a) and (b). In part (c), the Risk Management Department was identified and its main role was well explained. In part (d), the candidate was able to state the year of recording the amount of \$9 500 as an expense with reference to the Accrual Concept. In Question 5, the income statement was appropriately presented with correct profit figures. The candidate was able to state the management function of planning for setting goals and explain the reasons for setting goals for the firm.

The answers provided by the candidate were comprehensive, logical and showed very good analysis and evaluation of different business scenarios. This piece of work is of Level 5 in the HKDSE reporting scale.

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- a) (i) Business entity
- (ii) Timeliness
- (iii) Going Concern
- (iv) Money measurement
- (v) Realisation

(b) Materiality concept has been applied. An item of information is material if omission or misleading will cause the manager's decision made by the basis of financial statement. However, too much items will cause confusion. It is also expensive and time ^{use} to record all the item. Since the purchase of office use is \$50, it is an insignificant items that should record as an expense in the year ended

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a) The average cost of closing inventory =

$$\frac{(500 \times 40 + 1500 \times 36 + 400 \times 43)}{(1500 + 500 + 400)}$$

$$= \frac{91,200}{2,400}$$

$$= \$38 \text{ per unit}$$
 The closing inventory as at 31 March 2017 =

$$38 \times (2,400 - 250 - 1,600)$$

$$= \$20,900$$

b) Tommy Company
 Income statement for the month ended 31 March 2017

	\$	\$
Sales = (1600 x 39 + 250 x 45)		73,650
less = Cost of goods sold		
Opening inventory (400 x 43)	17,200	
Purchases (1500 x 36 + 500 x 40)	74,000	
	91,200	
less = Closing inventory	20,900	70,300
Gross profit		3,350
less = Expenses =		
Operating expenses		14,350
Net loss		<u>(11,000)</u>

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c) If the net realisable value of closing inventory is \$35 per unit, it should use, and the closing inventory become = (the lower cost instead of \$38)

$$35 \times (2400 - 1600 - 250)$$
$$= \$ 19250$$

The closing inventory will decrease \$1650 and cost of good sold increase \$1650 and the gross profit will decrease \$1650 and become \$1700 gross profit.

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a) Depreciation expense in 2015 =

$$\frac{2,400}{8,000} \times 43,200$$

$$= \$12,960$$

Depreciation expense in 2016 =

$$\frac{2,500}{8,000} \times 43,200$$

$$= \$13,500$$

b) (i) \$400,000

(ii) \$240,000

(iii) \$89,000

c) Mixed cost

d) Type P is irrelevant because it is a fixed cost that whatever you produce, how much products, the cost is also \$400,000 that remain unchanged that will not affect the profit or loss changed if accept the order.

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a) Cash at bank			
2016	\$	2016	\$
Dec 31	Bal b/d	Dec 31	Electricity
	105,468		900
v 31	K & K Limited -	v 31	Bank charges
	15,236		794
	stale cheque	v 31	Trade receivable -
v 31	Dividend income		dishonoured cheque
	3,160		11,630
v 31	Rent overstated	v 31	Deposit interest
	180		1,200
		v 31	Bal c/d
			109,520
	<u>124,044</u>		<u>124,044</u>

b) PP Limited			
Bank Reconciliation Statement as at 31 December 2016			
	\$		\$
Updated Balance as per cash at bank			109,520
Add = Unpresented Cheque =			
Co Co Limited	35,060		
Sunny Limited	7,850		42,910
.....			152,430
Less = Bank error	8,755		
Uncredited cheque	81,425		90,175
Balanced as per bank statement			<u>62,255</u>

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b) ABC Limited
Calculation the retained profit as at 31 December 2016

	¥	¥
Net profit for the year ended 31 December 2016		7,700
Add: Purchase overcast	270	
Return outwards	440	
Return inwards wrongly record	440	
Retained profit b/d	10,000	11,150
		<u>18,850</u>
less: Discount allowed omitted	3,400	
Sales overcast	450	3,850
Retained profits as at 31 December 2016		<u>15,000</u>

c) Gearing ratio = $\frac{320,000 + 760,000}{320,000 + 760,000 + 1305,000} \times 100\%$

= $\frac{1080,000}{2385,000} \times 100\%$

= 45.3%

d) Ordinary shareholders lower to claim their dividend while preference shareholders higher to claim back their dividend. Ordinary shareholders dividend is variable while Preference shareholders dividend is fixed.

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a) Total variable cost except closing inventory =
 $300,000 + 600,000 + 240,000 = \$1,140,000$

The closing inventory under margin costing =
 $\frac{900,000}{25,9600 + 1200} \times 2400$
 $= \$180,000$

The total contribution margin =
 $\$2,400,000 - (1,140,000 - 180,000)$
 $= 1,440,000$

The contribution margin per unit =
 $1,440,000 \div 9,600$
 $= \$150 \text{ per units.}$

b) The total fixed cost =
 $930,000 + 15,000 + 360,000$
 $= 1,305,000$

The breakeven sale units =
 $1,305,000 \div 150$
 $= 8,700 \text{ units}$

The breakeven sale amount =
 $8,700 \times (\$2,400,000 \div 9,600)$
 $= \$2,175,000$

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c) Predetermined fixed production overhead of M1:

$$988,000 \div (15000 \times \frac{1}{6})$$

$$= 988,000 \div 500$$

= \$ 1976.00 per direct labour hour

Predetermined fixed production overhead of Super-M:

$$988,000 \div (7000 \times \frac{1}{6})$$

$$= \$ 846.86 \text{ per direct labour hour}$$

cii) Predetermined fixed production overhead of M1:

$$988,000 \div (5000 \times \frac{4}{5})$$

$$= \$ 247.00 \text{ per machine hours}$$

Predetermined fixed production overhead of Super-M:

$$988,000 \div (7000 \times \frac{2}{3})$$

$$= \$ 211.71 \text{ per machine hours}$$

d) I would recommend Nice Company use machine hour because the M1 and Super-M predetermined fixed production overhead is lower than direct labour hour that can increase the loss of the business.

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a)

Capital

	Bill	Ben	Tom		Bill	Ben	Tom
	\$	\$	\$		\$	\$	\$
Goodwill written off		48,000	48,000	Bal b/d	162,000	466,000	
Profit on revaluation	32,000	96,000		Cash			240,000
Loan from Bill	196,000			Goodwill (1=3)	24,000	72,000	
Bal c/d		394,000	192,000	Current account	42,000		
	228,000	538,000	240,000		228,000	538,000	240,000

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bi) Ben and Tom

Appropriation account for the year ended 31 December 2026

	£	£
Net loss before interest		(371,000)
Less = Depreciation of equipment ^(248,000 x 0.2)	49,600	
Less = loan interest ^(196,000 x 0.02)	3,920	53,520
Net loss		(424,520)
Loss = salaries to Tom (2000 x 12)		24,000
		<u>(448,520)</u>
shared of loss		
Ben (1/2) £		(224,260)
Tom (1/2)		(224,260)
		<u>(448,520)</u>

bii) Current account

	Ben	Tom		Ben	Tom
	£	£		£	£
Bal b/d	20,000		Salaries		24,000
Shared of loss	224,260	224,260	Bal c/d	244,260	200,260
	<u>244,260</u>	<u>224,260</u>		<u>244,260</u>	<u>224,260</u>

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c) Drawings, Interest on capital

d) Realisation

	\$		\$	¥
Equipment (248,000 - 49,600)	198,400	Capital = Ben (Equipment)	174,000	
Trade receivable	70,000	Bank = Trade receivable	70,000	
Inventory	98,000	Trade payable - Inventory received	96,000	
Bank - realisation expense	6,000	Loss on Realisation =	1,000	
		Capital = Ben (1/2) 15,700		
		= Tom (1/2) 15,700	31,400	
	<u>371,400</u>		<u>372,400</u>	

e) Capital

	Ben	Tom		Ben	Tom
	\$	\$		\$	\$
Realisation = Equipment	174,000		Bal b/d	394,000	192,000
Loss on Realisation	15,700	15,700	Bank	39,960	23,960
Current account	242,260	200,260			
	<u>433,960</u>	<u>215,960</u>		<u>433,960</u>	<u>215,960</u>

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Comments

The candidate demonstrated comprehensive knowledge and understanding of the accounting concepts covered by the curriculum. He/she was able to communicate ideas effectively in a logical and coherent manner with appropriate use of accounting terminology.

In the practical questions, the candidate demonstrated a good ability to apply his/her knowledge towards solving many problems in unfamiliar situations. The candidate was fully aware of the accounting treatments and most of the adjustments required for Questions 1, 2, 4, 5 and 8. Costing Questions 3 and 6, which demanded synthesis and evaluation skills, were satisfactorily answered.

In answering the theoretical questions, the candidate was able to communicate his/her arguments effectively. In Questions 1(b), 2(c), 5(d), and 8(c), the candidate was able to give appropriate points or explanations for the materiality principle, the application of the rule of lower of cost and net realisable value, the differences in terms of the right to dividends for ordinary shareholders and preference shareholders, and items to be recorded in a partner's current account.

In summary, the answers provided by the candidate were comprehensive and logical, and demonstrated very good analytical skills and evaluation of various accounting topics. This piece of work is of Level 5 in the HKDSE reporting scale.

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1a) Pure risk is the risk that there are no possibility to gain
It will only suffer a loss or no loss.

Speculative risk is the risk that there are possibility to gain. It can have a gain or suffer from loss by bearing this risk.

1b) First, a theme park should take out public liability insurance.

Every tourist got hurt or their asset got damaged, theme park can use the insurance to compensate for the accident. For example, when there are tourist got hurt during they pass through the wet floor, the theme park can use the insurance to compensate to the tourist.

Second, a theme park can take out employee compensation insurance. This kind of insurance can be claimed when there are some employees got hurt during their working.

For example, the theme park can take out employee compensation insurance. When the employee got hurt during the maintenance of the equipment, theme park can use this insurance to compensate for the employees.

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2.) First, the "capacity" is one of the components of the "5 C's" of the credit standard. This "capacity" refers to the repayment ability of the borrower. In this case, a bank will assess the capacity of the borrower when deciding whether to grant credit to them. If the borrower can show that they can have a greater repayment ability of the loan, a bank will have a higher chance to grant credit to them.

Second, "Capital" is also one of the components of "5 C's" of the credit standard. This "Capital" refer to the amount capital and asset that are provided into the business. A bank will have a greater chance to grant the credit to the borrower. If the borrower can show that they are already put a huge amount of capital in order to support and operate the business.

Third, "Collateral" is the one of the component of "5 C's" of the credit standard. This "collateral" refers to the asset that the borrower can provide to the bank as a security when obtaining loan. Bank will have a right to sell the asset for compensation when the borrower cannot repay the debt. In this case, Bank will have more willingness to grant the

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credit to the borrower if they can provide a larger amount and value of collateral.

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3)

First, It can enhance driver's productivity and services quality of the drivers after having a training for them. The transportation Company can provide different kinds of training to their drivers. During the training, drivers can obtain more driving skill and knowledge, as well as the service manner of driving. As a result, the transportation company can enhance the productivity of drivers and the service quality of the company.

Second, provide training can ensure that the drivers can work in the safety environment. In this case, transportation company can provide a training to their drivers in order to tell them the importance of the safety working. Moreover, it can advise them the measure when the driver is facing the traffic accident and the usage of the safety equipment. As a result, it can enhance the driver's awareness and knowledge. Therefore, the training objective of the transportation company is to ensure their drivers can work in the safety environment.

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4.)

The main objective of the firm to market a product is to earn revenue as much as possible and reduce unnecessary expense.

In term of price, the firm can cut the product price or offer discounts to attract the customers to buy the product. In this way, the firm can stimulate the sales. In order to earn more revenue.

In term of promotion, the firm can use the most effective promotional way and do not use some ineffective promotion tool in order to reduce the promotional expense. and keep a lower cost in operation. For example, the firm can use sales promotion can stimulate the sales instead of using direct marketing.

In term of product, the firm can focus on the most popular model of its product and phase out other not popular products. It can help to maintain a higher quality of the popular products and reduce the operating cost by cutting the amount of not popular items.

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5a) There are 3 ways of methods that Marco can use to finance his five-year expansion plan. It includes long-term financing, debt financing, external financing.

- In term of long term financing, Marco's business can obtain a long-term bank loan by providing the accurate financial condition of the firm to bank. Since the five-year expansion would be implement more than 1 year. It is suitable to use long-term financing instead of short term financing to avoid the risk of frequency of refinancing. However, there are one disadvantage by using long-term financing, the charge of interest rate will be higher than short-term financing. It will be more costly to use it for Marco's business expansion plan.

- In terms of debt financing, Marco's business can raise the sufficient fund other than the owner, such as bank loan or borrow from other firms or relatives. Since Marco's business is the form of sole proprietorship. It may has a little resource of capital and hard to raise capital from the owner (i.e Equity financing), therefore, debt financing is more suitable for Marco. However, there is one disadvantage by using debt financing. In terms of the risk, if Marco

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business cannot repay the interest rate or principle, it may force to be wound up and terminate the business.

Marco should consider the rate of bankruptcy when using debt financing.

- In term of external financing. Marco can obtain sufficient fund to support the expansion plan by raise capital outside the firm. (i.e bank loan). As Marco's business is the sole proprietorship, it is difficult for it to have enough retain profit to support the plan. It is more suitable to use external financing instead of internal financing.

However, there is a one disadvantage of using external financing. There is lower freedom in decision making, Marco's business has to disclose the reason of the financing and need to use it more carefully. As a result, the freedom of using external financing is lower.

5b) The first level is the "ego need." In this case, the sales person is not satisfy from the high salary level or the comprehensive benefit. To satisfy ego need, Marco can give more appreciation or recognition to their

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employees and show the care to them.

The second level is the the "social need". The salespersons may not have enough chance to interact with each other.

In this case, Marco's business provide high salary is not suitable to satisfy the social needs. It should set-up

Some social gathering (i.e BBQ.), to increase the chance of interaction between the employees and help them to build social network to satisfy the need.

5c) First, customer relationship management could help increase sales to existing customer by using Cross-Selling.

It is important to maintain a good relationship with customer. They will become loyal customer when they feel satisfy for the company products. They will keep to repurchase the same brand and company can introduce other product to them to achieve cross-selling. As a result, it can increase sales to existing customer.

Second, setting up a good customer relationship management can help to tailor-made product to existing customer to increase sales. For example, with a well-develop customer base, the company can better understand the

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buying habit and pattern of each customer. To tailor-made product for them can enhance their loyalty to our company and they will not try to switch to other brand and keep repurchasing with the same brand. Therefore, it can increase sales to existing customers.

5d) First, the limitation of appointing a customer relationship manager through internal promotion is that there may be no new insight and idea from the internal worker. For example, internal worker may just focus on the existing working environment, they may do not have enough information or knowledge about the outside environment. As a result, it may not be able to inject new-insight through internal promotion.

Second, the morale of the existing employees may be negatively affected. There will be a keen competition between employee and they may want to have better performance than others. In order to have a higher chance to be customer relationship managers, it will reduce the harmonious working environment. Also, the

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employees that are not selected to be CRM managers will have a lower morale, and may increase the staff-turnover rate.

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ba)- In term of the intangibility of service, the service cannot be felt, tasted before the customer used the service. In this case, some customer complaint that the dining environment is unpleasant. In order to provide a tangible evidence to enhance the service quality of the services, King' restaurant can clean the dining environment regularly and increase the frequency of cleaning. The cleanness of environment will be better and increase the confident of the customer to use it by this tangible evidence.

- In term of the variability, the quality of service will vary among different provider. Some customer complaints that some of the waiters are rude. In order to solve this problem, King's restaurant may set up a better recruitment and training system to reduce the variability of the service. For example, King restaurant can set up training of the service manner. Or recruit the suitable waiter that can be polite. As a result, the waiters will have a high quality of performance and thus increase service quality.

In terms of perishability, the service cannot be stored

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for later use, It is hard to meet the fluctuate of demand of services. Some customer complain that the waiting time is too long. In order to solve this problem, King's restaurant can set up a reservation system. Customer has to book for the service before they use. As a result, it can forecast the demand of services. Moreover, King's restaurant can set-up complementary service to customer to reduce their impatience. For example, King restaurant can offer free drink when customer are waiting. As a result, the service quality can be enhanced and solve the complaints.

(b) First, the target population is too large if sending questionnaire to all customer. It requires high administrative cost and time consuming to shortlist the right response to the system.

Second, the reliability of the questionnaire may be lower. As customer are forced to answer the pre-set answer and they may lack of knowledge about the robot service, the effectiveness of this may be too lower and lower the reliability.

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$$\begin{aligned} \text{bc(i) Payback period} &= \frac{4000000}{1420000} \\ &= 2.82 \text{ years (round to 2 d.p.)} \end{aligned}$$

bc(ii) Net present value of the robot system.

$$= -4000000 + \frac{1420000}{(1.06)} + \frac{1420000}{(1.06)^2} + \frac{1420000}{(1.06)^3}$$

$$= \$ -204323 //$$

bd) The robot project should not be accepted
since the net present value is negative.

be) Accounting rate of return (ARR)
$$\frac{\text{Annual Profit}}{\text{Investment amount}}$$

It can be used to evaluate the amount of profit that can be generated by the amount of investment.

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8a) First, the marketing manager of the fashion chain can review the current performance of its fashion chain. For example, He can obtain information about the market share of its fashion chain and its profitability.

Second, the marketing manager can conduct the SWOT analysis (Strength, Weakness, Opportunity and threat). For example, the fashion chain may having a good quality of clothes as its strength.

- A long holiday to increase the demand of its fashion clothes as an opportunity.

Third, the marketing manager can cut the market into different segment and identify the target market. For example, the fashion chain may use demographic to divide the market and target the high income group as its target market.

Also, it can use different criteria to evaluate the attractiveness of the segment to choose the target market.

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Fourth, Marketing manager has to develop marketing mix strategies. (4P.). In order to better serve its customer. The fashion chain may use differentiated market to provide different product to its customer. It may also set a low price to increase sales, and attract customer.

Fifth, Marketing manager have to implement the market plan of the fashion chain. He may always keep track to the change and develop the better strategies for its customer.

8b) There will be socio-cultural factors (cultural, social-class and reference group) and psychological factor (personality, learning, belief and perception) to affect the buying behavior.

In term of cultural, Different region may have different need of the fashion. For example, some Chinese may want to buy red clothes during lunar new year. Some western country may want to have smarter cutting.

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- In term of social-class, different social class share the similar need according to their income level and educational level. For example, high income group may want to purchase a more expensive and grand clothes to show their social class.

- In term of reference group, there is direct and indirect reference group which will affect the buying decision of fashion chain. For example, the family member and the spokesperson of the fashion chain may affect the buying decision when customer listen to their advise.

- In term personality, It will also affect the buying decision of the fashion chain. If the customer is conservative, they may refuse to switch to the new brand of fashion. If the customer is open-minded, they may willing to try the new fashion brand.

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- In term of learning, customer will gain knowledge and experience, it will change their buying decision of the fashion chain. For example, if the customer heard that the quality of the fashion chain is high, they may willing to have a try of this fashion chain.

- In term of belief, It is the evaluation of the customer toward the fashion chain. If the customer believe that the chain is good, they will purchase it.

- In term of perception, It will stimuli customer buying decision, If the brand image is green, customer may think it is a environment-friendly fashion chain. Those who support environmental will try to purchase it.

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Comments

Marco, the candidate demonstrated comprehensive knowledge and understanding of business management concepts. The candidate was able to apply those concepts in analysing management problems in different settings. He/She was able to communicate ideas and arguments in a logical and coherent manner using appropriate business terminology.

The candidate demonstrated good knowledge of pure risk and speculative risk and the correct applications of liability insurance as required in Question 1. In Question 2, the candidate showed him/herself to be quite familiar with the components of the '5Cs' of the credit standard. In Question 3, the candidate expressed some good ideas about the objectives of providing training to the drivers of a transportation company. In Question 4, the candidate was able to identify some proper ways based on the three elements of marketing mix to market a product in the decline stage of the product life cycle.

In Question 5, despite some misinterpretations, the candidate discussed clearly some types of methods that Marco could use to finance his five-year plan and their disadvantages. The candidate also showed that he/she had a clear concept of Maslow's Hierarchy of Needs Theory. In addition, appropriate reasons why customer relationship management could help increase sales to existing customers were identified and well explained. Lastly, the limitations of appointing a customer relationship manager through internal promotion were clearly discussed.

In Question 6, the candidate understood the meaning of different characteristics of service very well, and was able to give suitable measures to solve the problems relating to the restaurant's service quality. However, his/her discussion on the limitations of sending questionnaires to all members for collecting customers' attitudes towards robot service was a bit vague. However, the candidate demonstrated good knowledge of the payback period and net present value. His/Her understanding of the other capital investment appraisal method was quite good too.

In Question 8, the candidate's knowledge of different steps in formulating a marketing plan was quite good and the discussion clearly referred to the question's context, though it was a bit incomplete. Also, major socio-cultural factors and psychological factors affecting the buying decisions of the fashion chain's customers were highlighted and explained. This piece of work is of level 5 in the HKDSE reporting scale.