SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Business Value, Governance & Risk (BG)

EXAMINATION DATE: 9 December 2025

Section 1
General comments

The December 2025 BG examination consists of a single company case study with financial data covering four questions namely Q1 and Q4, covering risk and governance learning outcomes and business valuation learning outcomes covered by Q2 and Q3.

Generally, Candidates performed well for both Question 1 and Question 4. Those who did not perform well need to improve on:

- Understanding the requirements well.

- Using specific information in the case scenario to support analysis or explanation.

- Providing more details in explanation or analysis.

Some Candidates showed a lack of technical knowledge of the subject matter and relied on general knowledge in their responses.

For Question 2, most Candidates handled the computational and descriptive components reasonably well, particularly in valuing CleanPack and calculating WACC. However, the performance weakened where questions required the interpretation of valuation results and negotiation strategy. This highlighted a gap between technical valuation skills and the ability to apply valuation outcomes in a practical transaction context.

For Question 3, most Candidates correctly applied the lease-versus-buy NPV framework and provided relevant qualitative discussion. The main weakness related to handling of foreign currency in free cash flow calculations, where some Candidates mixed cash flows in different currencies, indicating a lack of understanding of currency consistency in capital budgeting. Qualitative discussions on leasing and financing options were generally clear, with weaker responses mainly attributable to repetition or time management issues.

Section 2
Analysis of individual questions

Question 1

Part (a)

This question required Candidates to explain four consequences of EnviroTech's current approach to risk management.

Candidates who did not perform well focused on indicators of the current risk management approach (such as the lack of a risk committee and a risk management system) rather than on the consequences (such as strategic drift, operational disruption, financial loss, compliance breaches, etc.).

Part (b)

Candidates were required to recommend five improvements (including their benefits) which will strengthen risk management at EnviroTech.

Some Candidates gave four recommendations instead of five. This could be due to not reading the question requirements carefully or a time management issue. The case scenario provided several weaknesses in different aspects of risk management which most Candidates identified and used as a basis for formulating the recommendations. Candidates who did not perform well focused on recommending improvements to address one or two weaknesses only and lost marks available for other weaknesses.

Part (c)

Candidates were required to evaluate five given risks in terms of likelihood (high or low) and impact (high or low).

The requirement is clear that the evaluation conclusion for likelihood or impact should be either high or low, but some Candidates concluded with medium likelihood or medium impact. Some Candidates are confused between likelihood and impact. For example, the hedging by the finance department does not reduce the volatility of foreign currency movements but reduces the impact of the volatility on the company. Some Candidates wrote that the likelihood of exchange rate fluctuation is low due to the hedging.

Question 2

Part (a)

This question required Candidates to evaluate two pros and cons of divesting CleanPack.

Overall performance for this part was satisfactory. Most Candidates were able to correctly identify two advantages and two disadvantages of divesting CleanPack from the parent company's perspective, such as strategic refocusing, capital recycling, loss of future growth, or loss of control.

However, a small number of Candidates demonstrated conceptual misunderstanding, either:

- analysing divestment from CleanPack's perspective, or
- incorrectly interpreting divestment as an investment decision in CleanPack.

Part (b)

Candidates were required to determine a suitable cost of equity and WACC of EnviroTech for the purpose of valuing CleanPack.

Most Candidates performed well technically and were able to compute the cost of equity ($K_{e\%}$) and WACC correctly.

Marks were commonly lost due to:

- the omission of the re-gearing (deleveraging and re-leveraging) process, despite using appropriate inputs; and
- failure to clearly show intermediate steps, which limited the examiner's ability to award method marks.

Part (c)

Candidates were required to use the methods of valuation requested by the Board of EnviroTech to provide a summary of the range of possible valuations of CleanPack.

The majority of Candidates performed well in this part. Most demonstrated sound understanding of valuation mechanics.

Common errors arose from not reading the question carefully, leading to omissions such as:

- valuing assets at book value instead of market value as required;
- failing to apply the corporate tax rate of 17%;
- not adding back the 4% interest expense when computing free cash flows; and
- omitting surplus cash from the valuation.

Part (d)

Candidates were required to interpret the valuation results from part (c) and recommend, with justification, an appropriate starting price for negotiating the sale of CleanPack.

This part was generally poorly attempted. While most Candidates recognised that valuation produces a range of values, many failed to address the core requirement of the question, namely:

- commenting on the merits and limitations of each valuation method, and
- linking valuation outcomes to price negotiation dynamics.

In particular, many Candidates did not appreciate that:

- from the seller's perspective, the starting point for negotiation is typically the highest defensible valuation derived from appropriate valuation methods;
- buyers will usually make an initial offer below this value; and
- sellers often set a higher asking price deliberately to allow room for downward negotiation.

The absence of this commercial and behavioural insight significantly weakened responses. This part highlighted a gap between technical valuation knowledge and practical transaction understanding.

Part (e)

Candidates were asked to provide three reasons why a potential purchaser may be prepared to pay more than the price suggested in part (d).

This part was generally well attempted. Most Candidates were able to articulate relevant strategic motivations for acquisition, including:

- ESG considerations and sustainability mandates.
- market entry or expansion objectives; and
- pre-emptive acquisition to eliminate or neutralise potential competitors, particularly in a competitive bidding context.

Responses were typically clear, relevant, and well-linked to the scenario.

Part (f)

Candidates were asked to provide three reasons why a potential purchaser may offer less than the price suggested in part (d).

While most Candidates were able to provide valid reasons for making a lower offer (e.g. risk adjustments, integration uncertainty, or capital constraints), this part was not as well attempted as Part (e).

Weaker responses tended to either list generic points without linking them clearly to the case facts or lack depth in explaining how risks translate into price discounts.

Question 3

Part (a)

This question tested Candidates' knowledge of lease-versus-buy NPV analysis to determine whether it is financially beneficial to purchase or lease the required new production and machinery.

Most Candidates understood the requirement to:

- compute the NPV of leasing costs,
- compute the NPV of purchasing costs, and
- compare the two NPVs to support a lease-versus-buy decision.

The most common error related to foreign currency handling, specifically:

- failure to correctly convert CNY cash flows into SGD; and
- confusion over whether cash flow line items should be presented in CNY or SGD.

As a result, some Candidates presented NPVs calculated using a mixture of currencies, which is conceptually incorrect. This indicates a gap in understanding currency consistency in capital budgeting.

Part (b)

Candidates were asked to discuss four potential benefits to EnviroTech of leasing the new production equipment compared with purchasing.

This part was generally well attempted. Most Candidates were able to discuss the benefits of leasing relative to purchasing, including:

- cash flow smoothing and reduced upfront capital outlay;
- operational convenience and reduced maintenance burden; and
- flexibility in asset replacement or disposal.

Part (c)

This question asked Candidates to discuss one pro and one con of (i) arranging a bank loan, (ii) issuing a corporate bond and (iii) proceeding with rights issue of new equity shares.

Candidates who performed well demonstrated:

- balanced discussion of different financing sources; and
- awareness of trade-offs between cost, flexibility, risk, and control.

Weaker responses were characterised by:

- repetitive points, particularly when discussing bank loans and corporate bonds; or
- incomplete answers due to time constraints, suggesting exam time management issues.

Question 4

Question 4a

This question tested Candidates' knowledge on how the (i) Board of Directors, (ii) Remuneration Committee, (iii) Audit Committee, and (iv) Nomination Committee contribute to good corporate governance.

Generally, Candidates performed well. Candidates, who did not perform well, showed a lack of understanding of the role of the board and the three board-level committees. Some Candidates wrote that each would contribute to sustainability as the main theme for all of them.

Question 4b

Candidates were required to identify and explain six instances of poor governance or non-compliance with the Singapore Code of Corporate Governance and make recommendations for improvements.

Candidates performed well in the identification of poor corporate governance but could not explain the consequences of such weaknesses. As in part (a), some Candidates who performed badly showed a lack of knowledge of corporate governance. Some Candidates could not differentiate between the chairman of the audit committee and the chairman of the board. Some recommendations were repeating the requirements in the Code of Corporate Governance without the steps that should be taken to ensure compliance.