

BEST WORLD INTERNATIONAL LIMITED

Company Registration No. 199006030Z

DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**Listing Manual**”), the board of directors (the “**Board**”) of Best World International Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s independent auditor, Ernst & Young LLP, has issued a disclaimer of opinion (the “**Disclaimer of Opinion**”) in its Independent Auditor’s Report dated 11 February 2021 (the “**Independent Auditor’s Report**”) in relation to the Group’s financial statements for the financial year ended 31 December 2019 (“**FY2019**”) (the “**Financial Statements**”).

The Disclaimer of Opinion relates to the matters disclosed in Note 2.1 to the Financial Statements that were raised by PricewaterhouseCoopers Advisory Services Pte. Ltd. (the “**Independent Accountant**”) in the final report (the “**Final Report**”) that it issued further to its independent review of the Export Model and the Franchise Model adopted by the Group in China (the “**Independent Review**”)¹. The Company released an announcement on the key findings of the Independent Review and management’s responses, together with an executive summary of the Final Report, on 23 July 2020. The Company subsequently announced on 8 November 2020 that it had submitted a resumption proposal (the “**Resumption Proposal**”) to Singapore Exchange Regulation (“**SGX RegCo**”), which sought to address concerns in relation to the (a) Independent Accountant’s observations and recommendations, (b) legality of the Company’s sales and distribution model in China, and (c) lack of clarity in the Company’s financial position. The Company provided shareholders of the Company (“**Shareholders**”) with an update on the status of the Resumption Proposal on 10 December 2020.

For the avoidance of doubt, the Disclaimer of Opinion does not raise any audit issues which may give rise to material uncertainty on the Group’s ability to continue as a going concern.

A copy of the Independent Auditor’s Report and an extract of Note 2.1 to the Financial Statements are attached to this announcement. Shareholders are advised to read this announcement in conjunction with the Company’s Annual Report for FY2019, which will be released on SGXNET and despatched (or disseminated in accordance with applicable laws or regulations) to Shareholders in due course.

Shareholders are reminded that the trading suspension of the Company’s shares will only be lifted upon fulfilment of the conditions required by SGX RegCo, including the finalisation of the Group’s audited financial statements for FY2019, and SGX RegCo indicating that it has no objections to the Resumption Proposal.² The Board will make further announcement(s) as and when there are any material developments on this matter.

BY ORDER OF THE BOARD

Huang Ban Chin
Director and Chief Operating Officer
11 February 2021

¹ Please refer to the Company’s announcements dated 23 February 2019, 19 March 2019, 15 July 2019, 12 December 2019, 14 February 2020, 22 March 2020 and 23 July 2020 for further details of the Independent Review.

² Please refer to the announcement made by SGX RegCo on 9 May 2019 in relation to the trading suspension of the Company’s shares.

Independent Auditor's Report

For the financial year ended 31 December 2019

Independent auditor's report to the members of Best World International Limited

Report on the Audit of the Financial Statements

Disclaimer of opinion

We were engaged to audit the financial statements of Best World International Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the statements of financial position of the Group and Company as at 31 December 2019, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group, and the statement of financial position and the statement of changes in equity of the Company. Due to the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The final report by the independent reviewer appointed by the Company was issued in July 2020 and contained certain matters which were in line with the interim findings announced in March 2020, as disclosed in Note 2.1 to the financial statements. We carried out audit procedures, including follow-up procedures on the findings of the independent review, but have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion in respect of the following areas:

(a) Potential unrecorded transactions

As disclosed in Note 2.1(b) to the financial statements, up to 30 June 2019, the Group recorded sales revenue in China based on tax invoices issued to its franchisees. The invoiced amounts of the goods average approximately 80% of the sales value of the goods to these franchisees under the franchise model. It was noted that the balance amounts (approximately 20% of the sales value) were paid by these franchisees into personal bank accounts not belonging to the Group.

Management explained, as in the previous year, the money in these bank accounts belong to the franchisees and are not recorded in the books and records of the Group as this represents mainly trade rebates given to the franchisees. As disclosed in Note 2.1, management also represented that a key personnel of the Group's subsidiary in China was involved in the management of these bank accounts on behalf of the franchisees. Accordingly, they are not recorded in the accounting records of the Group. The outflows from these bank accounts included payments of commissions to members (sales representatives), business expenses and transfers made to the marketing agent mentioned in paragraph (b) below.

Separately, with effect from 1 July 2019, the Group engaged external promotional companies to assist in the payment of commission to sales representatives, amongst other services. The payments to the promotional companies comprise payments to sales representatives, service fee for services rendered by these promotional companies and other payments. The payments made by the Group to the promotional companies during the year included other payments of S\$2,008,000 (RMB10,165,000) which was netted

Basis for disclaimer of opinion (cont'd)

against revenue and a service fee of S\$8,338,000 (RMB42,204,000) which was classified as marketing expenditure. Management has represented that the commission rates have been verbally agreed between the Group, the franchisees and sales representatives. Based on information available to us, we are unable to determine whether the service fees and other payments are used for payments to the sales representatives or appropriately classified. If the payments made to the promotional companies are used for payments to sales representatives, such payments could fall as consideration payable to customers under SFRS(I) 15 Revenue from Contracts with Customers and is to be recorded against revenue. Due to the lack of information available to us, we are not able to ascertain the appropriateness of classification of the service fee paid to the promotional companies as operating expense or whether the other payments should be netted against revenue. Accordingly, we are unable to determine if revenue and the related expenses are appropriately classified and presented/disclosed in the income statement.

We were unable to obtain all necessary information and explanations to verify management's representations due to insufficient documentary evidence and determine the completeness of the commission expense recorded by the Group. Due to the absence of relevant details with respect to the above arrangements in the agreements with the franchisees, sales representatives and promotional companies, we are neither able to determine the legality and substance of these arrangements nor determine the basis and nature of the payments, including whether any of these payments were made on behalf of the Group. Therefore, we are unable to determine the rights and obligations of the Group under these arrangements and whether there are any other financial statements implications to the Group, including the relevant legal and regulatory compliance, and taxation.

(b) Relationship with the Group's import agents and marketing agent

As disclosed in Note 2.1(c) to the financial statements, notwithstanding that the Group does not hold any beneficial equity interest in these entities, the Group was substantially involved in the daily operations and exercised certain degree of management oversight and control over the financial affairs of its import agents and marketing agent. The Group management had represented that none of these entities are related to the Group and that the Group had justifiable commercial rationale for playing such roles in the entities.

The Group's active involvement in the operating and financial matters of these entities raise questions on the commercial substance of the arrangement between the Group and its import and marketing agents.

As in the previous financial year, we have not been able to obtain sufficient audit evidence to establish the business rationale for these arrangements or the exact nature of the relationship between the Group, its import agents and marketing agent. Due to a lack of evidence available to us, we are unable to consider all the relevant facts and circumstances to assess if the entities are related to the Group or whether their financial results should be included in the consolidated financial statements of the Group for the years ended 31 December 2019 and before. We are also unable to determine whether these arrangements are in compliance with the applicable laws and regulations or if there will be any consequential impact to the financial statements.

(c) Goods sold but undelivered in the previous financial year

As disclosed in Note 2.1(a) to the financial statements, management made adjustments to revenue and other related accounts during the financial year ended 31 December 2018 by approximately S\$11,028,000 pertaining to sales made during that financial year but the related goods were undelivered to customers as at 31 December 2018. Due to insufficient information available to us, we were unable to determine the completeness of this adjustment to revenue, cost of sales and other related accounts for the year ended 31 December 2018. As opening balances affect the determination of results for the current financial year, we are unable to determine if any consequential adjustments are required in respect of revenue, cost of sales and other related accounts for the year ended 31 December 2019.

Basis for disclaimer of opinion (cont'd)

(d) Legal review

As disclosed in Note 2.1(d) to the financial statements, the legal advice obtained by the Group has indicated potential risk areas of the franchise business model in China. Based on the information available to us, we are unable to conclude on whether the Group's business operations in China are in violation of the relevant provisions under China laws.

Accordingly, we are unable to determine if any adjustments or disclosures are required to the current and prior year financial statements.

In view of the matters set out in the preceding paragraphs, we are unable to determine the completeness and accuracy of the financial statements, nor are we able to quantify the extent of further adjustments or disclosures that might be necessary to the financial statements of the Group and the balance sheet and statement of changes in equity of the Company for the year ended 31 December 2019.

The audit opinion on the financial statements of the Group and Company for the year ended 31 December 2018 were disclaimed for similar reasons.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (the "ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (the "ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on other legal and regulatory requirements

In our opinion, in view of the significance of the matters referred to in the Basis for disclaimer of opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Ang Chuen Beng.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore
11 February 2021

Notes to the Financial Statements

For the financial year ended 31 December 2019

1. Corporate information

Best World International Limited ("the Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited.

The registered office and principal place of business of the Company is located at 26 Tai Seng Street, #05-01, Singapore 534057 and 15A Changi Business Park Central 1, Eightrium, #07-02, Singapore 486035 respectively.

The principal activities of the Company are those of investment holding and the distribution of nutritional supplement products, personal care products and healthcare equipment. The principal activities of the subsidiaries are disclosed in Note 16 of the financial statements.

2. Summary of significant accounting policies

2.1 Independent Review of the Group

On 13 May 2019, SGX RegCo issued a Notice of Compliance ("Notice of Compliance") to the Group in connection with the Business Times article "Sales of DR's Secret in China: Best World's best-kept secret?" published on 18 February 2019 and Bonitas Research report dated 24 April 2019, requiring the Group to:

- a. direct PwC ("Independent Accountant") to report solely to SGX RegCo on the scope and all findings pursuant to its independent review;
- b. expand the scope of the Independent Accountant's review to determine the veracity of the Group's sales in China under the Export Model from FY2015 to FY2018 and whether these sales were conducted on normal commercial terms;
- c. obtain an independent legal opinion on the legality of the Group's sales and distribution business under the franchise model;
- d. procure the primary import agent and other import agents to provide access to financial, accounting and other corporate records and render all reasonable acts of assistance to SGX RegCo, the Independent Accountant or any person(s) as directed by the exchange; and
- e. render full cooperation to SGX RegCo, the Independent Accountant or any person(s) as directed by SGX RegCo on their requests pursuant to the independent review.

On 22 March 2020, the Independent Accountant issued an interim update setting out its interim observations concerning the Group's sales in China under the Export Model and Franchise Model.

On 23 July 2020, the Independent Accountant completed its independent review and set out its findings in a final report ("Final Report") that was issued to the audit committee of the Company ("AC"). The Company announced the key findings of the Independent Accountant and management's responses, together with an executive summary of the Final Report, on 23 July 2020.

On 8 September 2020, the Company engaged BDO Advisory Pte Ltd ("BDO") to perform certain agreed upon procedures to address some of the areas of concern highlighted in the Final Report. BDO issued its final report on 5 February 2021. The procedures performed by BDO included reviewing processes related to sales and revenue recognition, inventory and delivery operations, conflict of interest management, and payments to third party promotion companies for the period from July 2020 to September 2020.

2. Summary of significant accounting policies (cont'd)

2.1 Independent Review of the Group (cont'd)

In the Final Report, the Independent Accountant noted the following:

- (a) *Potential sales cut-off issue for goods sold which were paid for but remained undelivered by the third-party logistics service provider*

As part of its samples testing on inventory and sales to significant franchisees, the Independent Accountant noted undelivered goods at the third-party logistics service provider with an estimated value of approximately RMB111.8 million as at 31 December 2018.

To address the Independent Accountant's observation, the Group re-assessed the value of goods sold and recognised as revenue for FY2018 to address any potential cut-off date and sales issue. The Group reconciled its records of total quantities sold with the value of the total quantities of goods delivered by the third-party logistics service provider, and quantified the sales relating to goods sold but undelivered to be approximately RMB55 million (equivalent to approximately S\$11.0 million) as at 31 December 2018. The Group made the relevant adjustments to revenue, cost of sales, distribution costs, trade receivables and trade and other payables in its audited financial statements for FY2018. This sales cut-off issue has a consequential impact for FY2019.

In 2019, the Group undertook a comprehensive reconciliation of its records, based on sales orders issued by BW Changsha, warehouse delivery orders and courier slips for deliveries.

With effect from August 2020, the Company implemented an integrated electronic inventory system for use with the third-party logistics service provider, pursuant to which sales invoices will only be generated, and sales will only be recorded, upon receipt of confirmation of delivery of the goods from the third-party logistics service provider. BDO reviewed sample sales orders and delivery orders between August to September 2020, after the system was fully implemented, to check that revenue was recognised and posted after deliveries to customers were completed and did not note any exceptions based on the work done. The Group will continue to ensure that the third-party logistics service provider retains and provides full access to all delivery documents for audit purposes.

- (b) *Potential understatement of sales and expenses*

The Independent Accountant observed that the personal bank accounts used by Changsha Best during the Export Model period continued to be used by the Company's wholly-owned subsidiary, Best World (China) Pharmaceutical Co., Ltd. (Hunan Branch) (全美世界(中国)药业有限公司湖南分公司) ("BW Changsha"), during the one-year transition period to the Franchise Model from June 2018 to June 2019.

During the transition period, BW Changsha sold products to the franchisees at the franchise price (approximately 80% of the recommended retail price) and the franchisees on-sold the products to distributors at the recommended retail prices of the relevant products, giving the franchisees a margin of approximately 20% as trade rebates. The franchisees would then pay the 20% trade rebates into personal bank accounts from which commissions would thereafter be paid to the distributors. Mr. Yan Weijun ("Mr. Yan"), the general manager of the Group's former primary import agent, 长沙百世特威日用品贸易有限公司 ("Changsha Best"), who joined BW Changsha as a key executive in June 2018, was at all times in total control of these payment arrangements and the personal bank accounts in his personal capacity and not on behalf of the Group.

The Independent Accountant was unable to independently verify the above payment arrangements against any third-party supporting documents as they were private arrangements made orally between Changsha Best and the franchisees. The Independent Accountant also noted that the outflows from the relevant personal bank accounts included commission payments to members, payments to employees and transfers to the Group's former marketing agent, Vicstar Lifestyle Pte Ltd ("Vicstar"). The Independent Accountant highlighted that, in its view, from a financial perspective, all cash movements relating to BW Changsha should be fully and accurately recorded in BW Changsha's books, i.e., total sales revenue and any corresponding trade rebates, commission expenses or incentive payments to employees should be fully recorded as BW Changsha's income and expenses.

2. Summary of significant accounting policies (cont'd)

2.1 Independent Review of the Group (cont'd)

(b) Potential understatement of sales and expenses (cont'd)

Merits and Tree (Beijing) Law Office ("M&T") has advised that in the event that BW Changsha is determined by the relevant authority to be the owner of the trade rebates and the trade rebates were not recorded as income in BW Changsha's financial statements, BW Changsha could be subject to administrative punishments which include, amongst others, an order to make corrections to the accounts, to pay a fine of between RMB3,000 and RMB100,000 (inclusive) and/or to pay the unpaid or underpaid taxes and late payment fines, and concurrently receive a fine of between 50% of and five times the amount of taxes unpaid or underpaid (inclusive).

Management's view is that these transactions should not have been recorded in the books of BW Changsha, as they were trade rebates given for the benefit of the franchisees and neither BW Changsha nor the Group had any legal or beneficial interest in such monies or legal rights or obligations in respect of the payment of commissions or managing the use of the personal bank accounts. There were no written agreements between BW Changsha or the Group and distributors to pay such commissions out of the franchisees' trade rebates. M&T, the Company's PRC legal counsel, has advised that oral agreements are valid and enforceable under the laws of China, and to their knowledge, are unaware of any laws or administrative regulations that require the agreement between Mr. Yan and the franchisees to have been concluded in writing. In addition, M&T has reviewed a counter authorization letter signed between BW Changsha and a franchisee on 1 January 2020 ("Counter Authorization Letter"). The Counter Authorization Letter is signed between the Group and each franchisee on the same terms. According to the Counter Authorization Letter, BW Changsha is authorised to pay sales commission (销售佣金), labor remuneration (劳务报酬), labor fees (劳务费), and consulting service fees (咨询服务费) to, and withhold personal income tax (个人所得税) from, the franchisee's sales staff on behalf of the franchisee. Although the term of the Counter Authorization Letter does not cover the Franchise Model period from 1 June 2018 to 31 December 2019, M&T has stated that the Counter Authorization Letter may constitute indirect evidence of the existence of the oral agreement between Mr. Yan and the franchisees, which would support management's position that such income should be attributed to the franchisees. Accordingly, the Group treated the oral agreements as valid and prepared its financial statements on the basis that BW Changsha did not have any legal interest or rights in the trade rebates, and the relevant income should be attributed to the franchisees.

BW Changsha was initially established with the intention that it would eventually take over the entire China business from Mr. Yan. BW Changsha hired the sales team of Changsha Best as the team was very experienced and already had an established and successful track record in promoting the Group's products in China. As the franchisees and distributors needed time to work out their respective payment arrangements, the Company agreed to a limited transition period for Mr. Yan to cease the above payment arrangements after he and his team joined BW Changsha.

The transitional arrangements ceased on 30 June 2019 with the implementation of payment gateway solutions managed by third party promotion companies to assist franchisees with the payments of commissions to their sales representatives. During the transitional period ended 30 June 2019, the promotional companies also paid other marketing expenses amounting to S\$2,008,000 (RMB10,165,000) relating to short-term sales incentives to employees which was netted against revenue. These third party promotion companies, which provide payment solutions to individuals / businesses, are independent service providers licensed by the 中国人民银行 (People's Bank of China). The terms of the contracts with the third party promotion companies were agreed on an arm's length basis. From July 2019 to March 2020, franchisees paid 100% of the recommended retail price based on tax invoices issued by BW Changsha and BW Changsha recorded 100% of the sales to the franchisees as revenue, and paid and recorded marketing fees amounting to approximately 20% of the recommended retail price (which represent the previous trade rebates) as expenses, recorded as net against revenue.

2. Summary of significant accounting policies (cont'd)

2.1 Independent Review of the Group (cont'd)

(b) Potential understatement of sales and expenses (cont'd)

As at the date of this Note 2, franchisees pay 100% of the recommended retail price based on tax invoices issued by 全美世界日用品有限公司 (Best World Lifestyle (China) Co., Ltd.) (“BWL China”). BWL China is a wholly-owned subsidiary of the Company that was incorporated on 4 November 2019 to take over the distribution function from BW Changsha in China, while BW Changsha maintains the import function. BWL China has been engaged in the distribution business since April 2020 and is currently the Group entity that is contracting with the franchisees and third party promotion companies for the implementation of the payment gateway solutions. For accounting purposes, both BW Changsha and BWL China are treated as comprising of the China operations. The sales representatives work for the franchisees, who entrust BWL China to manage the payment of commissions through the third party promotion companies. The third party promotion companies make commission payments in accordance with BWL China’s instructions and withhold and pay the personal income tax of the sales representatives.

BDO reviewed the payment of commissions through the payment gateways on a sampling basis for the period from July 2020 to September 2020 to check that amounts disbursed to the third party promotion companies were made from BWL China’s bank account, and that the commission payables were to recipients listed in the payment listing which matched the records in the CRM maintained by the Company. BDO did not note any exceptions based on the work done. Based on the samples tested, BDO also noted that approved payment vouchers, fapiao and the list of intended sales representative recipients of the commission payables (with details of their names, identification numbers and bank account numbers) were retained to support the amount paid to the third party promotion companies.

Management considers this issue to be historical as it would have been resolved with the completion of the transitional arrangements related to the Group’s transition from the Export Model to the Franchise Model from June 2018 to June 2019. None of the abovementioned personal bank accounts were in the name of the Company or any of its subsidiaries and none of the individuals in whose names the personal bank accounts were opened are related to management, the directors or the substantial shareholders of the Company. Mr. Yan has executed a statutory declaration confirming that the eight (8) personal bank accounts referred to in the Final Report are no longer in use and will not be used by Mr. Yan or anyone connected with the Group moving forward. BDO also obtained written confirmations from the Group’s Finance staff that they have not been depositing any funds into personal bank accounts and have not been asked to manage, monitor or prepare instructions for bank accounts that do not belong to the Group.

(c) Relationship with the Group’s former import agents and marketing agent

The Independent Accountant noted that the Group’s employees were substantially involved in the financial and operational affairs of the Group’s former import agents, 青岛贝汇贸易有限公司 (“Qingdao Beihui”) and Changsha Best, and former marketing agent, Vicstar. The Independent Accountant recommended, amongst others, that the Group’s auditors consider the implications of the Group’s involvement on its financial statements (if any). According to the Independent Accountant, it was not able to corroborate management’s representations that Qingdao Beihui, Changsha Best and Vicstar are not related to the Group.

Management’s position is that each of Qingdao Beihui, Changsha Best and Vicstar is an independent entity, and none of the Company, its subsidiaries, the directors, substantial shareholders, or senior management of the Company or their respective associates own or owned any shares in Qingdao Beihui, Changsha Best or Vicstar, save as disclosed below. The Group and its controlling shareholders did not have any beneficial interests in Qingdao Beihui, Changsha Best or Vicstar, nor did the Group have any control of the voting power or any legal right to appoint or remove any directors of any of these entities. Accordingly, management does not consider any of Qingdao Beihui, Changsha Best and Vicstar to be a related party of the Group.

2. Summary of significant accounting policies (cont'd)

2.1 Independent Review of the Group (cont'd)

(c) Relationship with the Group's former import agents and marketing agent (cont'd)

While the brother-in-law of the Company's Co-Founder, Co-Chairman, Group Chief Executive Officer and Managing Director (the "Group CEO"), was the 监事 (Supervisor) of Qingdao Beihui and the legal representative and registered owner of Changsha Best, he was only a passive investor in Changsha Best and was not involved in the management or business operations of Qingdao Beihui or Changsha Best. Mr. Yan had management control of, and an 80% economic ownership, in Changsha Best, while the shareholders of Qingdao Beihui and Vicstar were beneficially entitled to their respective profits. There is no evidence to suggest that the Company, any of its subsidiaries or management received or were entitled to any of the profits of Qingdao Beihui, Changsha Best or Vicstar. Neither management nor the Group CEO were involved in any profit-sharing agreements of Qingdao Beihui, Changsha Best or Vicstar. The working relationships between the Group and Qingdao Beihui, Changsha Best and Vicstar were governed by formal agreements entered into between the parties.

The Group had a justifiable commercial rationale for playing a role in the affairs of Qingdao Beihui, Changsha Best and Vicstar. As the Company was a supplier and consultant for Qingdao Beihui, Changsha Best and Vicstar, frequent interactions between the Group's employees and the employees of these entities were necessary for the Company to provide its services to these entities, including financial management and personnel management, information systems, and business planning and consultancy services.

With respect to Qingdao Beihui and Changsha Best, management implemented certain measures, such as requiring final validation for payments made by Qingdao Beihui and Changsha Best and providing product training to their employees, in order to safeguard the monies due to the Group for products sold on credit terms, to establish and build the Group's brand equity in the China market, and to learn and acquire market knowledge from their employees. As Qingdao Beihui and Changsha Best had their own employees and were capable of operating independently, the measures granting the Group oversight were intended to safeguard the interests of the Group and the Company's shareholders. The Group ceased to sell products to the Qingdao Beihui in September 2015 and Changsha Best in June 2018. Qingdao Beihui was deregistered in February 2019 and Changsha Best was deregistered in January 2020.

Vicstar was the strategic partner of Qingdao Beihui and Changsha Best in the development of the China market for the Group's products. Vicstar had deployed the Customer Relationship Management ("CRM") system in China for Qingdao Beihui, and subsequently, Changsha Best to develop and support their distribution networks and the expansion of sales of the Group's products in China. Due to the strict restrictions on non-trade payments out of China, the Company charged service fees to Vicstar instead of Qingdao Beihui and Changsha Best in order to reduce cross border credit risk. As Vicstar's shareholders and their spouses were distributors who had little resources and experience in managing and operating companies, the Group's employees provided assistance per the terms of the service agreement between the Company and Vicstar, for which the Company received service fees. The Group ceased to provide services to Vicstar from the end of the second quarter of FY2019 onwards in line with the completion of the transitional arrangements related to the Group's transition from the Export Model to the Franchise Model. All billings and transactions between the Group and Vicstar ceased by 31 December 2019. Vicstar is currently in the process of undertaking a members' voluntary winding up.

As part of its internal controls review, BDO developed a test to determine whether any of the Group's personnel are involved in the management of any other entities which are not part of the Group ("Independence Test"). In implementing the Independence Test, BDO obtained written declarations from key Group personnel confirming that they do not have any shareholdings or directorships in key entities that transact with the Group and that there are no potential conflicts of interests that they face in their respective roles in the Group. Other than Mr. Yan's declaration that his spouse has management control over of one of the franchisees, no other relationship with key entities were noted. The involvement of Mr. Yan's spouse in a franchisee had previously been disclosed to management and management has assessed that the risk of potential conflict of interest is low given that franchise fees and commission rates are standardised for

2. Summary of significant accounting policies (cont'd)

2.1 Independent Review of the Group (cont'd)

(c) Relationship with the Group's former import agents and marketing agent (cont'd)

all franchisees. In addition, as the senior director of the administrative and logistics department, Mr. Yan's role does not involve marketing to franchisees directly and Mr. Yan has no direct influence on any promotions relating to franchisees. The Company had announced on 12 May 2019 that Mr. Yan's spouse owns a franchisee under the Group's standard franchise arrangement.

Moving forward, the Company will conduct the Independence Test annually as a risk management measure to safeguard against potential risks associated with arrangements with entities not within the Group.

In addition to implementing any recommendations from BDO's internal control review, the AC has implemented certain corporate governance initiatives, including the conduct of corporate governance and risk management training for the directors, senior management and key personnel, the engagement of a Singapore law firm to prepare a comprehensive corporate governance handbook to serve as a governance best practices guide for management and employees, and the adoption of a situation alert protocol to trigger prompt notification of significant events to the board of directors and an annual board calendar covering, amongst others, a review of the Enterprise Risk Management (ERM) committee and key business and financial reporting issues, an analytical review of performance against plans, and management's recommended actions.

(d) Legality of the Franchise Model

In accordance with the Notice of Compliance, the Company engaged M&T to provide an independent legal opinion dated 22 July 2020 on the legality of the Group's sales and distribution model under the Franchise Model ("M&T Legal Opinion"). Based on the information of the business model under the Franchise Model (including the sales and distribution process) provided by the Company and M&T's review of the description of the business model in the Final Report, M&T has advised that BW Changsha is qualified to engage in franchise business in China and that the business model complies with franchise related laws and regulations in China.

M&T has highlighted the following potential risks under other laws in China:

(i) Direct Selling Risk

M&T noted that there remains some ambiguity in whether the Sales Representatives, Province Representatives and City Representatives (collectively, the "Representatives") promote products on behalf of the franchisees, despite reviewing the Counter Authorization Letter which may constitute indirect evidence that such representatives promote products on behalf of the franchisees. If the relevant authorities decide that the Representatives are in fact sales representatives of BW Changsha (as opposed to the franchisees), and determine that the Representatives sold relevant products to ultimate consumers outside of BW Changsha's fixed places of business, they may find BW Changsha guilty of conducting direct selling illegally (i.e., beyond the scope of the Group's direct selling licence). If such a finding were to be made, BW Changsha may be subject to administrative punishments which include confiscation of its direct selling products and illegal sales income, as well as a fine of between RMB50,000 and RMB500,000 (inclusive), and may be banned from operating. Further, the business license of the branch of a direct selling company which has illegal operations may be revoked.

BW Changsha has confirmed to M&T in its Commitment Letter dated 8 July 2020 that the Representatives promoted the relevant products on behalf of the franchisees, and BW Changsha did not recruit door-to-door salesmen to sell the relevant products directly to ultimate consumers outside its fixed places of business, and only distributed the relevant products in China under the Franchise Model. Based on the foregoing facts confirmed by BW Changsha, M&T has confirmed that the Group's business model in China does not constitute direct selling.

2. Summary of significant accounting policies (cont'd)

2.1 Independent Review of the Group (cont'd)

(d) Legality of the Franchise Model

(ii) ChuanXiao Risk

The commission structure under which Province Representatives and City Representatives receive commissions based on the purchase volume of that “member’s group”, which consist of members directly or indirectly recruited by the Province Representatives or City Representatives, may constitute one of the situations indicative of a ChuanXiao scheme in violation of ChuanXiao related provisions under China law. In the event that the commission structure is determined to contravene ChuanXiao related provisions, BW Changsha may be subject to administrative punishments that include the confiscation of illegal properties and gains, a fine of between RMB100,000 and RMB2,000,000 (inclusive), and/or suspension of operations for rectification or revocation of its business license. As management has confirmed that the sole objective of BW Changsha’s business activities was the sale of products in China and its business does not profit from recruiting persons and remunerating recruiters on the basis of the number of persons recruited, or requiring recruiters to pay to participate, M&T has opined that, assuming BW Changsha is found guilty of contravening ChuanXiao related provisions, BW Changsha is unlikely to be subject to criminal liability and may only receive administrative punishment. M&T further highlighted that it has observed that, in practice, the competent authority is usually very cautious in making a determination of ChuanXiao behavior.

While the M&T Legal Opinion may indicate potential risk areas of the franchise business model in China, it does not constitute a determination by a competent court or governmental authority of any breach of law, or confirmation of liability. M&T has not identified any instances of BW Changsha having been administratively punished by any Chinese authorities for engaging in illegal direct selling or ChuanXiao activities within the period from 1 June 2018 and up to 31 December 2020. In addition, the Company has provided M&T with certificate letters issued by the competent ChuanXiao authorities from the Zhejiang Province, the Sichuan Province, Chongqing City, Guiyang City, Changsha City, and the Panlong District of Kunming City, which state that BW Changsha has no records of administrative penalties for ChuanXiao. M&T has advised that normally the Chinese competent authorities are cautious in issuing the abovementioned certificate letters, as such certificate letters to some extent reflect the low likelihood of these competent authorities taking investigative action against BW Changsha. Accordingly, M&T has advised that the risk of investigation by such competent authorities in the near future is relatively low.

2.2 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)”).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars (SGD or S\$) and all values in the tables are rounded to the nearest thousand (S\$’000), except when otherwise indicated.