

**BEST WORLD INTERNATIONAL LIMITED**

Company Registration No. 199006030Z

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**CLARIFICATION ANNOUNCEMENT IN RELATION TO THE BUSINESS TIMES ARTICLE**

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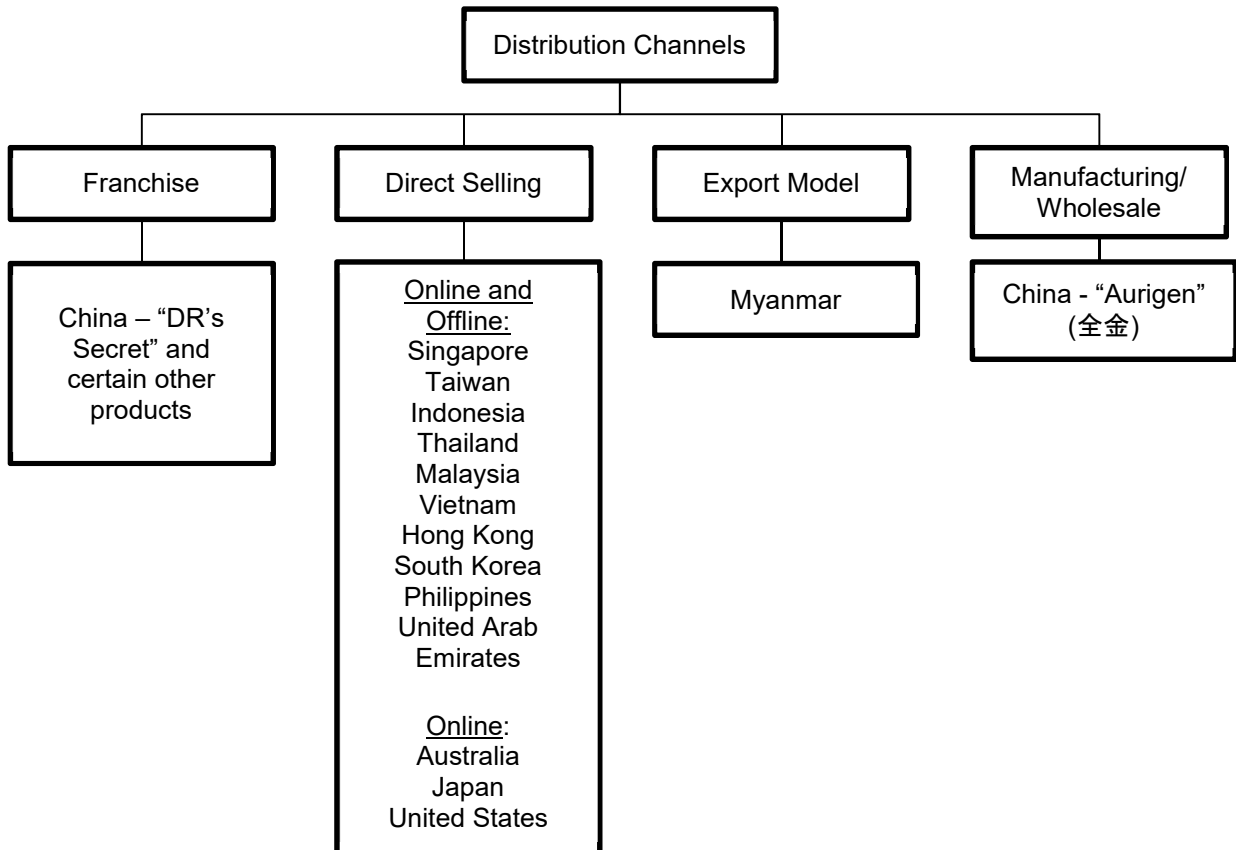
The Board of Directors (the “**Board**”) of Best World International Limited (the “**Company**” or and together with its subsidiaries, the “**Group**”) refers to the Business Times article entitled “Sales of DR’s Secret in China: Best World’s best-kept secret?” published on 18 February 2019 (the “**Article**”).

The Article primarily focuses on the Group’s operations in the People’s Republic of China (“**China**”). The Board welcomes the questions posed in the Article and would like to take this opportunity to provide shareholders with further information on the Group’s distribution models in China and to clarify certain matters discussed in the Article.

**(A) The Group’s Business in China**

**Overview of the Group’s Distribution Channels**

The Group has developed four distinct distribution channels that it believes best serves the markets where the Group’s products (“**Products**”) are distributed. The chart below shows the different distribution channels employed by the Group in the markets in which it operates as at the date of this announcement (this “**Announcement**”).



(a) Franchise Model

The Group transitioned from the Export Model to the Franchise Model in China in the second quarter of 2018. Under the Franchise Model, the Group's franchisees (the "**Franchisees**") are independent third parties who are permitted to establish and operate BWL Lifestyle Centers in China and exclusively distribute the Products under franchise agreements entered into with the Group.

Pursuant to the franchise agreements entered into between the Group and each Franchisee, the Franchisees purchase the Products from the Group for distribution through BWL Lifestyle Centres to end consumers and independent third parties who operate salons, spas, beauty centres and other retail outlets ("**Workshops**"). Some Workshops are also licensed to use the Group's brands and trademarks in selling the Products to other consumers in China. Under this model, only the Franchisees, who operate and manage BWL Lifestyle Centres and distribute the Products to its customers, are the direct customers of the Group.

Franchisees are required to set up BWL Lifestyle Centers in accordance with the Group's signage and fit-out franchise guidelines. The Group also actively works with Franchisees to manage the Workshops, with a view to ensuring that the set-up of these stores and the quality of services they provide to consumers are consistent with the Group's brand standards. The Company periodically visits the Franchisees to understand their operating conditions and the market demands for the Products.

(b) Direct Selling Model

The Group distributes its premium Products, such as those under its "DR's Secret", "Avance", "Optrimax", "Miraglo" and "Pentalab" brands, to members (including through online stores) in Singapore, Taiwan, Indonesia, and other markets such as Thailand, Malaysia, Vietnam, Hong Kong, South Korea, the Philippines and the United Arab Emirates through its subsidiaries. The Group has its own online stores in Singapore, Taiwan, Thailand, Malaysia, Philippines and South Korea. The Group also distributes the Products through the Singapore online store to members in Australia, the U.S. and Japan. In order to purchase the Products at member's prices (which are set at a discount to retail prices), consumers are required to sign up as members under the Direct Selling Model.

(c) Export Model

In Myanmar, the Group sells the Products to a third party Import Agent who purchases the Products from the Group as principal, imports the Products into Myanmar and on-sells them to its customers in the domestic market. The direct customer of the Group under this distribution model is the Import Agent, who also acts as the Group's third party distributor in Myanmar.

Under the Export Model, the Import Agent would purchase the Products from the Group based on its expected sales to its customers. The Import Agent manages and operates its own business, and is responsible for warehousing, customs clearance and on-selling the Products to its own customers in its local market.

The Group previously employed the Export Model in China, and completed the transition to the Franchise Model in the second quarter of 2018.

(d) Manufacturing/Wholesale

The Group manufactures its “Aurigen” (全金) line of health supplements at its facility in Hangzhou, China, and sells these Products to wholesalers in China, who purchase these Products as principal and on-sells them to retail outlets, as well as directly to consumers in China.

**Transition from Export Model to Franchise Model in China**

From 2014 to 2018, the Group distributed its “DR’s Secret” products and certain other Products in China through independent agents, who would purchase the Products as principals and on-sell such Products to customers throughout China (the “**Import Agents**”) under the Export Model. Generally, the Import Agents were responsible for importing the Products, warehousing, customs clearance, and receiving and fulfilling orders from customers. The Import Agents were independent third parties who took ownership of the Products purchased and bore inventory risk.

Although the Group worked with and sold its products to several Import Agents in China under the Export model, it largely worked with one primary Import Agent in promoting its products in China (the “**Primary Import Agent**”). In doing so, the Group had direct contact with the Primary Import Agent’s customers while providing them with product expertise support and competency training.

The Group worked with the Primary Import Agent on developing a base of customers in China including wholesalers, retail outlets and individual customers with diverse backgrounds and changing composition over the years. During this time, a number of these wholesalers and retailers started distributing the Products exclusively. These wholesalers and retailers purchased the Group’s premium skincare Products from the Group’s Import Agents, and thus took ownership and bore the inventory risk of such Products from the Import Agents. The Import Agents and these customers are independent and are not related to the Group.

The Group decided to transition to the Franchise Model in China in 2018. Under the Franchise Model, the role of the Primary Import Agent would be replaced by Best World (China) Pharmaceutical Co., Ltd. (全美世界(中國)藥業有限公司) (“**BWL China**”), a wholly owned subsidiary of the Company, and selected distributors of the Products (who were the Primary Import Agent’s customers) in China would be converted into Franchisees by entering into franchise agreements with the Group. To ease the transition from the Export Model to the Franchise Model, the Group also hired certain employees from the Primary Import Agent who were familiar with the Group’s operations under the Export Model. Taking over the role of the Import Agents eliminated the need to accommodate the Import Agents’ margins, and allowed the Group to sell the Products directly to Franchisees at the Franchisee wholesale price, which increased the Group’s gross profit and gross profit margins, while the Group’s cost of sales for the Products on a per unit basis was not materially affected by the transition.

In April 2018, the Group was notified by the Ministry of Commerce of the People’s Republic of China (“**MOFCOM**”) that the Group was permitted to operate under the Franchise Model (see <http://txjy.sygggs.mofcom.gov.cn/manager/prosecute.do?method=add&id=6652565>)<sup>1</sup>. BWL China then commenced the importation of the Products into China for sale to the Franchisees.

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<sup>1</sup> As at the date of this Announcement, the information on this website is outdated as the website is updated by the relevant authorities on a yearly basis.

The Franchisees would purchase the Products directly from BWL China instead of the third-party Import Agents, and would continue to be independent third parties (in relation to the Group) and take ownership of the Products upon purchase.

As opposed to the Export Model, where the Franchisees (then operating as distributors) would deal with the Primary Import Agent as customers, the transition to the Franchise Model would give the Group the ability to enter into franchise agreements with the Franchisees directly and strengthen the Group's relationships and controls over the distribution of the Products in China. In addition, it would give the Group greater control over how the Products are promoted and sold, as the Group worked together with the Franchisees to expand the brand's reach across China.

The Company had obtained legal advice from its legal counsel, one of the largest law firms in China, confirming (a) that the operation of the Franchise Model is lawful, (b) that the Group has obtained all material licences for the conduct of such operations in China, and (c) the business of the Group under the Export Model and Franchise Model did not and do not constitute direct selling activities in China.

### **Rationale for Transition to Franchise Model**

Since the Group's entry into the China market through the Export Model, the Group had been exploring various options to evolve its business model to improve efficiency, enhance earnings and generate returns for shareholders. The Group considered transitioning the Export Model to the Direct Selling Model in China, which would require the expansion of the coverage of the Group's direct selling licences, as well as establishing service outlets in every district of every city in which the Products are distributed due to legal requirements relating to direct selling in China. This was considered inefficient, costly and may inevitably lead to market competition between the Company and the existing primary distributors.

After careful evaluation of the different options and in consideration of market factors and the competitive landscape in China, the Group decided to transition to the Franchise Model in China. The Franchise Model would allow a more seamless integration with the Group's existing network of primary distributors under the Export Model, which would allow the Group to leverage on the growth momentum already achieved in China. In addition, given the population size and geographic expanse of the China market, the Group believed that the Franchise Model would enable the Group to effectively establish a physical presence in several locations across China through close collaborations with the Franchisees.

Accordingly, the Company announced its intention to transition to the Franchise Model in May 2018 (at that time referred to as the "China Wholesale segment")<sup>2</sup>. However, to avoid confusion with the Group's Manufacturing/Wholesale Segment in China of the Group's "Aurigen" Products, the term "China Wholesale segment" was later changed to "Franchise segment", which also more accurately reflected the Group's legal relationship with the Franchisees in China<sup>3</sup>.

The transition also gave the Group direct contractual relationships with the Franchisees, allowing the Group to work closer with them to expand in China and with greater control over the quality and consistency of services delivered to the consumers.

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<sup>2</sup> Please refer to the Company's announcement dated 14 May 2018 of its financial results for the three months ended 31 March 2018 ("1Q2018").

<sup>3</sup> Please refer to the Company's announcement dated 7 August 2018 of its financial results for the six months ended 30 June 2018 ("2Q2018").

## Selection of Franchisees

Under the previous Export model, the Primary Import Agent worked with the Group to develop a base of customers in China, which included wholesalers, retail outlets and individual customers. This strategy was refined in 2016 and 2017 to streamline the Group's and Primary Import Agent's growth and expansion, as well as its business operations to work with a smaller number of wholesalers and retailers, with the view to better manage the sale of DR's Secret products in China. Selected wholesalers and retailers became the primary distributors of the Products in China, and were responsible for managing their own customer base (including other independent third-parties who operate Workshops).

The Franchisees were carefully selected from the Group's pool of primary distributors based on a number of criteria, including (but not limited to) their historical sales performance, Product knowledge, familiarity with local regulations, adherence to the Group's corporate values, service quality and their relationship with the Group and its Primary Import Agent.

As at 31 December 2018, the Group had signed a total of 28 Franchisees, with whom the Group had worked with for an average period of five years. The Group signed five additional Franchisees in January 2019, and has a total of 33 Franchisees as at the date of this Announcement. The Franchisees are independent third party business entities that are unrelated to the directors and substantial shareholders of the Company. The Franchisees are now listed on the Company's website at <http://www.bestworld.com.sg/franchise.html>.

## Details on the Franchise Agreements

The Group enters into identical non-exclusive, one-year franchise agreements with all Franchisees, which are renewable on an annual basis upon fulfillment of a minimum monthly sales target during the term of the current agreement. In the three month period ended 30 September 2018, the average amount purchased by the Franchisees on a monthly basis far exceeded the minimum monthly sales target.

The key terms of the franchise agreements are as follows:

Payment terms:	Cash payment before delivery, though the Group may offer credit terms on a case by case basis.
Designated area:	Each Franchisee is designated an area where it is permitted to establish and operate a BWL Lifestyle Center.
Trademarks:	Franchisees are permitted to use certain trademarks of the Group in connection with the franchise agreement.
BWL Lifestyle Center Requirements	Franchisees are required to: <ul style="list-style-type: none"><li>• maintain records in accordance with the Group's requirements;</li><li>• allow the Group to conduct physical inspections;</li><li>• comply with the operating manual provided by the Group; and</li><li>• comply with service and quality standards established by the Group.</li></ul>

The Group does not charge franchise fees in order to sell the Products or to use its brand name. The Group works closely with the Franchisees to ensure that they comply with the terms of the franchise agreements and abide by the Group's operating manual.

### **Sales and Distribution in China**

For the avoidance of doubt, the Group operates two business segments in China: (a) the Franchise Model for the distribution of the Group's premium skincare and certain other Products; and (b) the Manufacturing/Wholesale Model for the manufacture of "Aurigen (全金)" line of health supplements and distribution to retailers.

(a) Sales and Distribution: Franchise Model

Under the Franchise Model, the Group sells premium skincare and certain other Products to its 33 Franchisees. The Franchisees are independent third parties who operate BWL Lifestyle Centers and who purchase the Products from BWL China as principals and exclusively on-sell the Products to consumers and Workshops. First time consumers often visit a BWL Lifestyle Center in person in order to test Products, obtain a consultation and place orders. Repeat consumers may place orders directly with Franchisees in various ways, including by sending messages through online or mobile platforms like Wechat to Franchisees to place orders informally, make payments separately by bank transfer or online money platforms, and arrange for delivery or pick-up of such products at BWL Lifestyle Centers.

As at the date of this Announcement, the Group has 33 Franchisees in locations such as Zhejiang, Sichuan, Guangdong, Henan, Heilongjiang, Xinjiang, Hunan, Guizhou, Fujian, Jiangsu, Yunnan and Chongqing. These locations are mostly tier-2, tier-3 and tier-4 cities in China. The Company believes that there is significant growth potential for the premium skincare market in China's tier-3 and tier-4 cities due to increasing urbanisation rates and growth of disposable income per capita in these cities.

The Group believes that the Franchise Model will allow the Group to leverage its relationships with its existing Franchisees. The Group also continues to consider expansion into new geographic areas and to enter into new franchise agreements. All potential franchisees will be carefully selected based on similar criteria to the existing Franchisees, taking into consideration proposed locations and potential competition with existing Franchisees.

(b) Sales and Distribution: Manufacturing/Wholesale Model

Under the Manufacturing/Wholesale model, the “Aurigen” (全金) line of health supplements are manufactured at the Group’s manufacturing facility in Hangzhou, China. These Products are sold to independent wholesalers who purchase “Aurigen” (全金) Products from us as principal and on- sell them to retail outlets, as well as directly to consumers in China. This model allows the Group to efficiently and effectively distribute these Products without being subject to lengthy product registration processes associated with importing nutritional supplements into China, and to leverage the existing distribution network of “Aurigen” (全金), which the Group acquired in 2014. Based on the unaudited consolidated financial statements of the Company for 3Q2018, the Manufacturing/Wholesale Model comprised 1.9% of the revenue of the Group for the nine month period.

**Social Media Strategy in China**

Social media platforms and applications are used by the Franchisees and Workshops to disseminate beauty and wellness related content, product information and marketing messages as part of the Group’s marketing strategy. Potential customers who view such social media content and would like to find out more about the Group’s premium skincare Products or make purchases can visit BWL Lifestyle Centers and/or Workshops.

Franchisees may also use online and social media platforms as communication tools, which, for example, enables customers to send messages through platforms like Wechat to Franchisees to place orders informally, make payments separately by bank transfer or online money transfer platforms, and arrange for delivery or pick-up of such products at BWL Lifestyle Centers. As at the date of this Announcement, the Group does not directly conduct any sales transactions in China through online stores or social media platforms.

**Revenue Recognition under the Franchise Model**

The Group recognises revenue upon delivery or completion of the sale to the Group’s direct customers. These direct customers under the Franchise Model are the Franchisees. The Franchisees purchase the Products directly from the Group, and on-sell these Products to end consumers as well as Workshops. Generally, Franchisees pay the Group for the Products in cash before delivery, though the Group may consider extending credit terms to Franchisees on a case by case basis. They are also subject to a no returns policy (except for defective goods). Accordingly, under the Franchise Model in China, the Group records its sales at the time the Products are sold to the Franchisees. This revenue recognition is in line with SFRS(I), the accounting standard of the Group.

The Group is not responsible for the accounting and sales records of the Franchisees, who are independent third parties. However, the Group’s historical working relationship with most of the Franchisees<sup>4</sup> (as they were previously the primary distributors of the Products under the Export Model) and imposes a no returns policy under its franchise agreements, except where the Products are defective. Together with the Group’s credit policy for Franchisees (cash before delivery) and careful selection of Franchisees, the no returns policy mitigates risks under the Franchise Model by transferring inventory risk to Franchisees and encourages Franchisees to only purchase the Products based on actual sales performance and demand for sustainability.

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<sup>4</sup> As at 31 December 2018, the Group had worked with each of the 28 Franchisees signed in 2018 for an average period of five years.

## **Internal Controls**

The Board strongly believes that strong internal controls are important for safeguarding the Group's assets, ensuring reliable financial reporting and achieving operational efficiency.

In conjunction with the Group's transition from the Export Model to the Franchise Model, which entailed the expansion of the Group's operations in China (e.g., inventory management and logistics as a result of BWL China's assumption of the Import Agent role), the Company engaged a third party internal controls consultant firm to review and make recommendations on the Group's internal controls policies with respect to entity-level controls, including financial and accounting procedures, cash management procedures, and other general control measures. In the course of its review, the internal controls consultant firm also conducted physical inspections of ten BWL Lifestyle Centers operated by Franchisees, as well as performed certain agreed upon procedures in respect of those Franchisees, including conducting background and qualification checks, reviewing sales and promotions records, inspecting inventory and compliance management systems, and performing contract and license reviews.

## **Audit Procedures Performed by Auditors on Sales**

The Company's auditors, Ernst & Young LLP, have presented their audit plan to the Board for the financial year ended 31 December 2018 ("FY2018") and their planned procedures for revenue, which include, without limitation, reviewing samples of revenue contracts, inquiring with management on the revenue recognition process and reviewing management's assessment on revenue recognition in accordance with SFRS(I) 15, performing test of controls, where applicable, over the sales and accounts receivables process for sales (including sales under the Franchise Model), performing test of details over samples of selected revenue transactions, and reviewing relationships with customers for evidence of related party sales. Ernst & Young LLP will also consider conducting site visits at BWL Lifestyle Centers operated by Franchisees on a sample basis, and will request confirmations from Franchisees on sales transactions with the Group.

Having reviewed the audit plan, the Directors and Audit Committee of the Company are satisfied that these planned procedures are appropriate to ensure the occurrence, completeness and measurement of revenue recognised by the Group.



**(B) Clarification of certain statements contained in the Article**

**1. Statements in the Article:**

*“Best World says it has 28 franchisees spread across 10 provinces and one municipality in China. However, not a single one is listed on the company website.”*

*“Mr Huang declined to disclose the names of the 28 franchisees and their exact store locations: “We don’t share that. Now is not the right time. I’m in the blackout period. After results maybe we can talk more.”*

**Company’s Response:**

At the time Mr Huang was queried regarding the Franchisees, the information on the locations of the Franchisees had not yet been made public on SGXNet. To avoid selective disclosure of information and in view of the expected release of the Company’s FY2018 financial results on 26 February 2019, Mr Huang declined to disclose the information on the Franchisees at the time.

Having considered the concerns raised in the Article in connection with the Franchisees, the addresses of the BWL Lifestyle Centers operated by the Franchisees are now listed on the Company’s website at <http://www.bestworld.com.sg/franchise.html>.

Further, the Company would like to inform shareholders that in carrying out its internal controls review, the Company’s internal controls consultant conducted physical inspections of ten BWL Lifestyle Centers operated by Franchisees, as well as performed certain agreed upon procedures in respect of Franchisees, including conducting background and qualification checks, reviewing sales and promotions records, inspecting inventory and compliance management systems, and performing contract and license reviews.

The Group’s management also periodically visit the Franchisees to physically inspect physical premises, and has contacted certain customers of Franchisees for various purposes.

**2. Statement in the Article:**

*“The person who answered a telephone call in Best World’s subsidiary’s office in Hangzhou city said she was not sure how to locate the franchisees, and reckoned they were based in Hunan province.”*

**Company’s Response:**

The Company has undertaken an internal investigation of this matter and would like to clarify that the employee contacted is employed at the Group’s manufacturing facility in Hangzhou, China, which manufactures the “Aurigen” (全金) line of health supplements. The relevant employee was therefore unable to provide information on the location of the Franchisees, as

the employee was involved in a different part of the Group's business and was not privy to the information requested.

**3. Statement in the Article:**

*"But a check by BT showed that the licence covers only six health supplements under the Aurigen brand, and no skincare products - something Best World did not clarify when analyst reports stated otherwise."*

Company's Response:

Although the Group obtained a direct selling license from MOFCOM in June 2016 covering certain health supplement products over a limited geographical space in China<sup>5</sup> (see <http://zxgl.mofcom.gov.cn/front/getEnterpriseInfo/330100400049586>), the Group does not rely on the direct selling licence for the Franchise Model or Manufacturing/Wholesale Model, or the Export Model previously employed in China. Since obtaining the direct selling licence in 2016, the Group has not conducted any sales in reliance of the direct selling licence.

While the Group was waiting to receive approval for its direct selling licence, it was also exploring alternative strategies to evolve its business models in China, given the growth momentum it was experiencing at the time. Although the Group transitioned to the Franchise Model, it believes that the grant of the direct selling licence by MOFCOM serves as a testament to the Group's product quality, corporate governance and business behavior.

The Company had obtained legal advice from its legal counsel, one of the largest law firms in China, confirming (a) that the operation of the Franchise Model is lawful, (b) that the Group has obtained all material licences for the conduct of such operations in China, and (c) the business of the Group under the Export Model and Franchise Model did not and do not constitute direct selling activities in China.

**4. Statement in the Article:**

*"A search on Taobao that sorts skincare products by sales volume reflected a slower sales record for DR's Secret over the last 30 days, relative to its apparently smaller rivals like Clarins and Chanel."*

Company's Response:

The Group does not directly conduct any sales transactions in China through online stores or social media, including Taobao. The Products are primarily distributed in China by Franchisees directly to consumers through BWL Lifestyle Centers in China.

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<sup>5</sup> Please refer to the Company's announcement dated 1 July 2016 on the award of this direct selling licence, as well as Section 10 of the Company's announcement dated 22 February 2017 of its financial results for the year ended 31 December 2016 ("FY2016") and page 6 of the Company's annual report for FY2016.

**5. Statement in the Article:**

*“When Best World completed the switch from an “export” to a “franchise” model in China in July last year, it was able to charge franchisees a huge mark-up to the wholesale price that export Import Agents had paid.”*

Company’s Response:

Under the Export Model employed in China until the second quarter of 2018, the Group sold the Products to third-party Import Agents at the export prices, which were lower than the prices of Products sold under the Franchise Model. The difference in price partially reflects the margins earned by the Import Agents under the Export Model, where the Import Agents bore investment and operating costs as well as inventory risk.

In the transition to the Franchise Model, BWL China took over the role of the Import Agents in China. Taking over the role of the Import Agents eliminated the need to accommodate the Import Agents’ margins, and allowed the Group to sell the Products directly to Franchisees at the Franchisee wholesale price, which increased the Group’s gross profit and gross profit margins, while Group’s cost of sales for the Products on a per unit basis was not materially affected by the transition.

In addition, the difference in the prices charged to Franchisees under the Franchise Model reflects the support that the Group provides and risks that the Group assumes. Under the Export model, the Group sold the Products to the Import Agents, and provided limited support in marketing, logistics and customer services. Operations and marketing were handled by the Import Agents who also take on inventory risk, as ownership of the Products transfer upon delivery of such Products to the Import Agents. Under the Franchise Model, these costs and risks are borne by the Group, which bears the costs of cross-border shipping, importation and warehousing of the Products, costs of operations. Furthermore, the Group would be responsible for managing inventory levels in China.

Under the Franchise Model, BWL China is responsible for inventory management and logistics, and the Group also provides support to Franchisees through marketing and customer services. The Group also provides training for its Franchisees to ensure their quality of services are consistent with the Group’s standards. These additional undertakings resulted in higher operational expenses under the Franchise Model (as compared to the Export model where most of such operational expenses were borne by the Import Agents), which are thus reflected and translated into the higher prices the Group charges the Franchisees as compared to the Import Agents under the Export Model.

**6. Statement in the Article:**

*“Unlike typical franchise agreements where the franchisor takes a cut of the franchisees' sales, Best World's agreement with its Chinese franchisees allows it to recognise revenue upfront, because they must make payment before any inventory is shipped. (Recognising revenue upfront was an issue flagged by DBS' Ms Tay as she had problems reconciling it with underlying consumer demand.)”*

Company's Response:

The term “Franchise Model” was adopted by the Company to refer to the Group's distribution model for premium skincare Products in China for the purpose of reporting, and should not be interpreted narrowly. The term was used in replacement of the term “China Wholesale”<sup>6</sup> due to its similarity to the Manufacturing/Wholesale Model used for “Aurigen” (全金) Products.

The Franchise Model developed by the Group incorporates elements of authorised distributorship and franchise arrangements, where the Group sells the Products to the Franchisees, and the Franchisees on-sell these Products to consumers. The term “Franchise Model” was adopted as it describes the franchise elements of the arrangements, under which the Franchisees may only sell the Products (to the exclusion of other brands) and are permitted to use the Group's trademarks in operating BWL Lifestyle Centers, as well as comply with the Group's brand standards and operating manuals.

The Group recognises revenue upon delivery or completion of the sale to the Group's direct customers. These direct customers under the Franchise Model are the Franchisees, who are generally required to pay in cash before delivery and are subject to a no returns policy (except for defective goods). Accordingly, under the Franchise Model in China, the Group records its sales at the time the Products are sold to the Franchisees, which is when control of the inventory is passed to the Franchisees with cash payments received. This revenue recognition is in line with SFRS(I), the accounting standard of the Group.

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<sup>6</sup> The term “China Wholesale” was used in the Company's announcement dated 14 May 2018 of its financial results for the 1Q2018.

**7. Statements in the Article:**

*"When BT showed Best World's league table to Euromonitor, a Euromonitor spokesman expressed surprise."*

*"We are not sure about how they rank themselves by the reference of Euromonitor's source. Indeed, according to our research methodology in 2017 they were not significant enough to be tracked," she said."*

Company's Response:

The Company obtained the market data and industry ranking used in its 3rd quarter 2018 corporate presentation directly from Euromonitor. In late-2018, the Company commissioned Euromonitor to conduct an industry analysis and research on the markets in which the Group operates. As part of this engagement, Euromonitor performed "customized research" involving primary research (such as trade surveys with leading market participants), secondary research (such as review of published sources), review of the Company's audited financials and operating data, cross-checks, modelling and data review.

Euromonitor was not able to ascertain the Company's ranking prior to conducting the "customized research", as the Company was an emerging player operating in the fragmented premium skin care market in China. The Company's ranking was ascertained based on the additional market information and industry data obtained by Euromonitor through "customized research".

The scope of "customized research" is narrower and more company and category focused than the research methodology used in producing "published research" of Euromonitor, which covers the entire Beauty industry, the basis of the data quoted in the Article. Euromonitor had not previously reported on the Company in its 2018 edition Passport database researched end 2017. Euromonitor focuses its annual research programme on capturing the top ten players in each category and best representing other players of significance thereafter. As an emerging player operating through a franchise model in the Chinese market, capturing a minor share of the fragmented premium skin care category, the Company had not formed part of Euromonitor's conversations with industry at the end of 2017.

Euromonitor has confirmed to the Company that they will confirm the same to The Business Times.

**8. Statements in the Article:**

*“When Best World shifted to the franchise model, it also stopped reporting the number of “consumer members” it had in China since revenue is booked when the franchisees take inventory, which renders consumer member numbers irrelevant. Mr Huang declined to comment on the size of the franchise salesforce, stating only that each franchisee has its own page and followers.*

*After the numbers from China were stripped out, Best World’s total direct selling membership shrank from 500,259 members at the end of March last year to 97,892 at the end of June.”*

Company’s Response:

As previously announced by the Company<sup>7</sup>, the total number of members previously disclosed comprised (a) members under the Direct Selling Model, and (b) consumer members under the Export Model in China. Consumer members in China were members of reward programs (frequent customer programs), and not members of the Direct Selling Model. With the transition to the Franchise Model, management was of the view that the number of Franchisees would be a more accurate indicator of the Group’s distribution capabilities in China. Accordingly, the numbers of consumer members from China were stripped out as they do not represent members under the Direct Selling Model.

**9. Statement in the Article:**

*“Separately, Best World said last Friday that independent director Chan Soo Sen has resigned to focus on work commitments and responsibilities outside of the company. He joined the board in 2016. The board has appointed Hong Kong-based Chester Fong Po Wai as his replacement.”*

Company’s Response:

As disclosed in the announcement of Mr Chan Soo Sen’s resignation on 15 February 2019, the Company would like to highlight that there were no unresolved differences in opinion on material matters between Mr Chan and the Board, and that there was no other matter in relation to his resignation or relevant information to be provided to shareholders in connection thereto.

The Company is pleased to welcome Mr Chester Fong Po Wai to the Board. Mr Fong is a Senior Advisor at McKinsey & Company and was previously a Senior Advisor at Actis LLP, a private equity firm. He was also Chairman & CEO of Greater China and CFO of Greater Asia at Colgate-Palmolive, where he also gained more than 30 years of experience in general management and corporate finance roles. The Board believes that Mr Fong’s extensive experience in the consumer products industry in the Greater China Region will be relevant to

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<sup>7</sup> Please refer to Section 8 of the Company’s announcement dated 7 August 2018 of its financial results for 2Q2018.

the Group following its transition to the Franchise Model in China and the continued focus on the market. In addition, his experience with Actis LLP will also be valuable to the Group as it seeks to explore potential opportunities for inorganic growth through mergers and acquisitions.

**(C) Statement to Shareholders**

The Company would like to assure its shareholders that it has conducted all areas of its business ethically and in compliance with applicable laws and accounting standards, and is confident that the business and accounting practices of the Group will stand up to scrutiny. As such, the Audit Committee has decided to voluntarily appoint a reputable independent professional firm (the “**Independent Reviewer**”) to independently review and address the relevant issues to provide additional comfort and assurance to shareholders. The Independent Reviewer will report its findings and conclusions to the Audit Committee and Singapore Exchange Regulation (SGX RegCo), which will be published by the Company. The Company will make further announcement(s) on this matter in due course.

**Shareholders and investors are reminded to exercise caution when dealing in the Company’s shares and to refrain from taking any action in respect of their shares which may be prejudicial to their interests. In the event that shareholders and investors are in doubt when dealing in the Company’s shares, they should consult their legal, financial, tax or other professional adviser(s).**

The Company will also endeavour to engage stakeholders in a constructive manner to address potential concerns regarding the Group’s transparency and business practices.

Any queries relating to this Announcement may be directed to:

**Financial PR Pte Ltd**

NGO Yit Sung

Director

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**BY ORDER OF THE BOARD**

Huang Ban Chin

Director and Chief Operating Officer

23 February 2019