

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 2020

Disclaimer of Opinion

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, 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 15 September 2021 (the “**Independent Auditor’s Report**”) in relation to the Group’s financial statements for the financial year ended 31 December 2020 (“**FY2020**”) (the “**Financial Statements**”).

The Disclaimer of Opinion covers the matters disclosed in Note 2.1 to the Financial Statements. These matters relate to the findings of PricewaterhouseCoopers Advisory Services Pte. Ltd. (the “**Independent Accountant**”) in its final report dated 23 July 2020 (the “**Final Report**”) 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.

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 of the Company (“**Shareholders**”) are advised to read this announcement in conjunction with the Company’s Annual Report for FY2020, which will be released on SGXNET and despatched (or disseminated in accordance with applicable laws or regulations) to Shareholders in due course.

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.

Trading Suspension

Shareholders are reminded that the trading suspension of the Company’s shares will only be lifted subject to the Company addressing the concerns in the regulatory announcement made by Singapore Exchange Regulation (“SGX RegCo”) on 23 July 2020.

On 8 November 2020, the Company announced that it had submitted a resumption proposal (the “**Resumption Proposal**”) to 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 with an update on the status of the Resumption Proposal on 10 December 2020.

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.

On 16 March 2021, the Company announced that, following consultation with SGX RegCo, it believes that the suspension of the trading of the Company's shares will continue until the Group is able to make progress on its transition to a direct selling model in China, as SGX RegCo continues to have some regulatory concerns on the Group's current sales and distribution model in China, which the Company has been seeking to address.

Further to the above update, there have not been any material developments on the efforts undertaken to allow the Company's shares to resume trading of which Shareholders should take note. 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
15 September 2021

Independent Auditor's Report

For the financial year ended 31 December 2020

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 2020, 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

We have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion in respect of the following areas:

- Business model in China

As disclosed in Note 2.1(d) to the financial statements, the legal advice obtained by the Group in prior year indicated potential risk areas relating to the Group's franchise business model in China, including those of the transitional arrangement as disclosed in Note 2.1(b) where, up to 30 June 2019, the Group recorded sales revenue in China based on tax invoices issued to its franchisees, which average approximately 80% of the sales value of the goods to these franchisees under the franchise model. While the updated legal advice in 2021 indicates that the changes in the Group's operations in 2021 reduced the risk of violation of the relevant legal provisions under the Chinese law, the legal advice did not clearly conclude that the Group's franchise business model is in compliance with the requirements of China laws and regulations. Although the Group has obtained a separate legal opinion in 2021 from another firm, the matters stated in that legal opinion are not relevant to the audit of the current financial year as they had been prepared in respect of changes to the Group's operations in 2021.

The basis of taxation applicable to the Group's operations in China in current and prior years is dependent on the determination of how the business model is evaluated by the relevant authorities in China. Due to the uncertain evaluation surrounding the nature of the business model, we are unable to determine whether there are any legal and tax implications in China in respect of the Group's business operations, and whether any adjustments or disclosures are required to the current and prior year financial statements.

Basis for disclaimer of opinion (cont'd)

- Relationship with the Group's import agents and marketing agent

As disclosed in Note 2.1(c) to the financial statements, as noted in prior years, notwithstanding that the Group does not hold any beneficial equity interest in these entities, the Group in the past was substantially involved in the daily operations and exercised certain degree of management oversight and control over the financial affairs of its import agent 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 current and prior financial years. 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.

- Classification of payments to promotional companies

As disclosed in Note 2.1(b) to the financial statements, from 1 July 2019, the Group engaged third party promotional companies to assist in the payment of commission to sales representatives, amongst other services. The payments by the Group to the promotional companies comprise commission payments to sales representatives and service fee for services rendered by these promotional companies to the Group. The entire service fee of \$13,339,000 (RMB 66,704,000) for the financial year was classified as marketing fees in the profit or loss.

We understand from management that the service fee paid to the promotional companies also include other payments to sales representatives. Due to the lack of documentary evidence available to us, we were unable to ascertain the breakdown between other payments to sales representatives and the service fee retained by the external promotional companies for services rendered by them. Other payments to sales representatives could fall as consideration payable to customers under SFRS(I) 15 Revenue from Contracts with Customers and is to be recorded against revenue instead of operating expenses. Accordingly, we are unable to determine if revenue and the related expenses are appropriately classified, presented and disclosed in the income statement.

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 2020 and prior year.

The audit opinion on the financial statements of the Group and Company for the year ended 31 December 2019 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
15 September 2021

Notes to the Financial Statements

For the financial year ended 31 December 2020

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 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. 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.

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

2.1 Independent Review of the Group (cont'd)

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. The outcome of BDO's review was disclosed in Note 2.1 to the audited financial statements of the Group for FY2019.

The following matters relate to the Independent Accountant's findings in the Final Report:

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

As disclosed in Note 2.1 to the audited financial statements of the Group for FY2019, 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. There is no sales cut-off issue for FY2020 as revenue recorded was based on actual delivery of the goods to recipients.

(b) Potential understatement of sales and expenses

As disclosed in Note 2.1 to the audited financial statements of the Group for FY2019, during the one-year transition period from the Export Model to the Franchise Model from June 2018 to June 2019, 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"), sold products to the franchisees at the franchise price (approximately 80% of the recommended retail price) and the franchisees on-sold the products to sales representatives at the recommended retail prices of the relevant products, giving the franchisees trade rebates of approximately 20%. These 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.

With effect from 1 July 2019, franchisees paid 100% of the recommended retail price of products based on tax invoices issued by BW Changsha and, with effect from 1 April 2020, tax invoices issued by Best World Lifestyle (China) Co., Ltd. (全美世界日用品有限公司) ("BWL China"). BW Changsha and BWL China then paid marketing fees amounting to approximately 20% of the recommended retail price (which represent the previous trade rebates) to the sales representatives of the franchisees through the third party promotion companies, which are recorded as net against revenue.

Management considers the issue of the potential understatement of sales and expenses to be historical, as the issue arose due to the transitional arrangements implemented by the Group from June 2018 to June 2019 to facilitate the Group's transition from the Export Model to the Franchise Model. Management believes that with the cessation of such arrangements since the completion of the transition in June 2019, the issue of potential understatement of sales and expenses has been resolved.

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)

BWL China, a wholly-owned subsidiary of the Company that was incorporated on 4 November 2019, has assisted BW Changsha in the distribution business since April 2020. The sales representatives work for the franchisees, who have entrusted BW Changsha and BWL China to oversee the payment of commissions to their sales representatives through the third party promotion companies since 1 July 2019. In FY2020, in consideration of the third party promotion companies making commission payments to the sales representatives of the franchisees in accordance with BW Changsha's and BWL China's payment structure, withholding and paying the personal income tax of the sales representatives and assisting with recruitment of sales representatives, BW Changsha and BWL China paid the third party promotion companies service fees, which were recorded as marketing fees as part of distribution costs. The third party promotion companies were unwilling to confirm to the Group's auditors the exact breakdown of the service fees and the actual percentage of fees retained by them respectively, due to their asserted confidentiality obligations owed to the Chinese tax authorities. Nonetheless, the service fees were based on contractual agreements at a rate which is in line with the fees charged by other payment companies that have provided quotes to management in China

On 29 January 2021, China's State-owned company, SDIC Human Resources Service Co., Ltd. ("SDIC"), was engaged by BWL China pursuant to the terms of a service agreement (the "SDIC Service Agreement") to make commission payments to the sales representatives of the franchisees, withhold and pay the personal income tax of the sales representatives, and provide talent recommendation and recruitment, assessment and human resources agency services, and management support in the aspects of sales, after-sales service, management, promotion, and advertising.

Based on a review of a contract between BWL China and a third party promotion company, BWL China and a consulting service provider, and BW Changsha and a franchisee, Merits and Tree (Shanghai) Law Office ("M&T Shanghai") opined that there is a relatively low risk of the expenses paid by BW Changsha or BWL China under the reviewed contracts being classified as commissions (as defined in the Notice of the Ministry of Finance and the State Administration of Taxation on Policies Regarding the Pre-tax Deduction of Handling Fees and Commissions Incurred by Enterprises (No. 29 [2009] of Caishui) for taxation purposes. Based on the tax opinion of M&T Shanghai, management is of the view that the associated VAT claims and corporate income tax payments were properly made.

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

In the Final Report, 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 长沙百世特威日用品贸易有限公司 ("Changsha Best"), and former marketing agent, Vicstar Lifestyle Pte Ltd ("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. The Group and its controlling shareholders did not have any legal or 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.

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)

The working relationships between the Group and Qingdao Beihui, Changsha Best and Vicstar were governed by formal agreements entered into between the relevant parties. As disclosed in Note 2.1 to the audited financial statements of the Group for FY2019, there was and 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, and none of the management, including the Group Chief Executive Officer, were involved in any profit-sharing arrangements in relation to Qingdao Beihui, Changsha Best or Vicstar. Accordingly, management does not consider Qingdao Beihui, Changsha Best or Vicstar to be a related party of the Group.

Management considers this to be a historical issue as the Group ceased to sell products to Qingdao Beihui in September 2015 and Changsha Best in June 2018, and the Group also ceased all billings and transactions with Vicstar by 31 December 2019. All service agreements between the Group and Vicstar were formally terminated in November 2020. There were no transactions between the Group and Vicstar in FY2020.

Qingdao Beihui was deregistered in February 2019 and Changsha Best was deregistered in January 2020. Management understands that Vicstar is currently dormant and is in the process of undertaking a members' voluntary winding up.

(d) Legality of the Franchise Model

In accordance with the Notice of Compliance, the Company engaged Merits and Tree (Beijing) Law Office ("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 ("2020 M&T Legal Opinion"). The 2020 Legal Opinion is based on the facts between 1 June 2018 to 31 December 2019. Based on the information on 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 advised that BW Changsha is qualified to engage in the franchise business in China and that the business model complies with franchise related laws and regulations in China. However, M&T also highlighted the following potential risks under direct selling and ChuanXiao laws in China:

(i) Direct Selling Risk

M&T noted that if the relevant authorities decide that the Sales Representatives, Province Representatives and City Representatives (collectively, the "Representatives") for the Group's products 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, BW Changsha may be found to have conducted direct selling 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.

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

2.1 Independent Review of the Group (cont'd)

(d) Legality of the Franchise Model (cont'd)

(i) Direct Selling Risk (cont'd)

BW Changsha confirmed to M&T in its Commitment Letter dated 8 July 2020 that the Representatives promoted the relevant products on behalf of the franchisees, 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 it 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. In addition, further to the 2020 M&T Legal Opinion, M&T issued a supplemental legal opinion on 30 August 2021 ("2021 M&T Legal Opinion"), which stated that based on the documents provided to M&T, the risk of BW Changsha violating the relevant direct selling laws and regulations is remote.

(ii) ChuanXiao Risk

Management would like to highlight that the sole objective of the business activities under the Franchise Model is the sale of products in China and the Group's 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 and distribute the Group's products.

In the 2020 M&T Legal Opinion, M&T noted that the commission structure under which Province Representatives and City Representatives receive commissions based on the purchase volume of the members recruited by the Province Representatives or City Representatives may be 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, M&T has advised that 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, but BW Changsha is unlikely to be subject to criminal liability. M&T has further observed that, in practice, the competent authority is usually very cautious in making a determination of ChuanXiao behavior.

While the 2020 M&T Legal Opinion may indicate potential risk areas of the Franchise 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. Based on searches conducted by M&T with various legal information search platforms, including the Zhejiang Province administrative punishment information public network, M&T has not identified any instances of BW Changsha or BWL China having been administratively punished by any Chinese authorities for engaging in illegal direct selling or ChuanXiao activities within the period from 1 June 2018 to 30 June 2021. In addition, M&T has reviewed certificate letters issued during 2019 and 2020 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 the Chinese competent authorities are normally cautious in issuing such certificate letters, as such certificate letters to some extent reflect the low likelihood of these competent authorities taking investigative action against BW Changsha in future. Accordingly, M&T has advised that the risk of investigation by such competent authorities in the near future is relatively low.

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

2.1 Independent Review of the Group (cont'd)

(d) Legality of the Franchise Model (cont'd)

In the 2021 M&T Legal Opinion, M&T advised that since ChuanXiao laws and regulations are not specific, and whether any violation exists primarily depends on the administrative authority's determination after investigation, the risk of an investigation being initiated is relatively low, and this could demonstrate that the risk of being determined to violate the relevant laws and regulations is relatively low. Pursuant to the SDIC Service Agreement executed on 29 January 2021, sales representatives are recruited and managed by SDIC, a State-owned company. M&T has advised that the main risk takers under the relevant Chinese law are managers. Given SDIC's obligations to supervise BWL China under the SDIC Service Agreement, M&T has advised that the legal risks to BW Changsha and BWL China could be further reduced. In respect of the potential risks noted in the 2020 M&T Legal Opinion, M&T has advised that such risks will become more remote with the passage of time as Article 36 of Law of the People's Republic of China on Administrative Penalties ("Article 36") provides that the competent authorities will not launch an investigation of an unlawful act that does not involve a citizen's life and health security or financial security after two years of its commission. As a result, M&T has advised that the Group's operations after the date of the 2020 M&T Legal Opinion can further reduce the relevant legal risks.

Subsequent to the financial year end, the Company has also obtained a legal opinion dated 19 May 2021 from Dentons Beijing Office (part of the global law firm Dentons), one of the largest law firms in China ("Dentons Legal Opinion"). The scope of the Dentons Legal Opinion included an assessment of whether BW Changsha's current business in China violates the relevant ChuanXiao related provisions under China law. Management provided Dentons with the same description of the commission structure for sales representatives and basis of computation of sales commissions that was provided to M&T.

The Dentons Legal Opinion concluded that the Group's Franchise Model is not similar to a ChuanXiao model, as features of the Franchise Model distinguish it from a ChuanXiao model. Under the Franchise Model, the franchisees are rewarded for actual product sales to consumers, and these sales are supported by a transparent return and refund policy, which safeguards consumers' interests. This is markedly different from a ChuanXiao model, which rewards participants for recruiting new participants instead of sales of products. Such schemes are not designed to promote sales of products to consumers, and typically require participants to make a sizeable upfront payment for inventory at a price much higher than the fair market price. As there is no intention to sell the products to actual consumers, ChuanXiao schemes do not provide for a return and refund policy. Participants in ChuanXiao schemes subsequently profit by recruiting more people to make the same upfront payments and are compensated based on the number of people that they recruit. In addition, the Dentons Legal Opinion advised that, pursuant to Article 36, no administrative penalty will be imposed for an illegal act which is not found within two years. Based on a search of the enterprise credit website of the State Administration for Market Regulation, Dentons have not found any record of ChuanXiao sale or penalty with respect to the Company, BW Changsha or BWL China in the past two years.

Based on the conclusions in the 2021 M&T Legal Opinion and the Dentons Legal Opinion, management believes that the risk of the Group's operations' non-compliance with the direct selling and ChuanXiao laws in China is remote.