

BEST WORLD INTERNATIONAL LIMITED

(Company Registration Number: 199006030Z)
(Incorporated in the Republic of Singapore)

QUALIFIED OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANACIAL YEAR ENED 31 DECEMBER 2021

1. QUALIFIED OPINION

- 1.1 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, Nexia TS Public Accounting Corporation, has issued a qualified opinion in its Independent Auditor’s Report dated 16 June 2022 (the “**Independent Auditor’s Report**”) in relation to the Group’s financial statements for the financial year ended 31 December 2021 (“**FY2021**”) (the “**Financial Statements**”).
- 1.2 With reference to the Independent Auditor’s Report, it is the independent auditor’s qualified opinion that, except for the possible effects of the matters described in the Basis for Qualified Opinion section therein, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 and Singapore Financial Reporting Standards (International) (SFRS(I)s) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2021, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.
- 1.3 A copy of the Independent Auditor’s Report (pages 97 to 104) and an extract of Note 2.1 to the Financial Statements (pages 112 to 115) are attached to this announcement. Shareholders are advised to read this announcement in conjunction with the Company’s Annual Report for FY2021, which will be released on SGXNET and despatched (or disseminated in accordance with applicable laws or regulations) to Shareholders in due course.

2. TRADING SUSPENSION

- 2.1 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 Pte. Ltd. (“**SGX RegCo**”) on 23 July 2020.
- 2.2 The Company remains in consultation with SGX RegCo and will provide an update to shareholders on any material developments in relation to the trading suspension of the Company.

3. DIRECTORS’ RESPONSIBILITY STATEMENT

- 3.1 The Directors (including those who have delegated detailed supervision of the preparation of this announcement) have taken all reasonable care to ensure that the facts stated, and all opinions expressed in this announcement are fair and accurate and that no material facts have been omitted from this announcement, and they jointly and severally accept responsibility accordingly.

4. CAUTIONARY STATEMENT

- 4.1 Shareholders are advised to read this announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, bankers, solicitors or other professional advisers if they have any doubt about the actions they should take.**
- 4.2 Shareholders are further advised that this announcement serves as only an update to shareholders and does not constitute an offer.**

By Order of the Board
BEST WORLD INTERNATIONAL LIMITED

Huang Ban Chin
Chief Operating Officer and Executive Director

8 July 2022

INDEPENDENT AUDITOR'S REPORT

to the Members of Best World International Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Best World International Limited (the “Company”) and its subsidiary corporations (the “Group”), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 (the “Act”) and Singapore Financial Reporting Standards (International) (SFRS(I)s) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2021 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Qualified Opinion

The financial statements of Best World International Limited for the financial year ended 31 December 2020 were audited by an independent auditor (the “predecessor auditor”) other than Nexia TS Public Accounting Corporation. The independent auditor’s opinion on the consolidated financial statements of the Group and the statement of financial position and the statement of changes in equity of the Company for the financial year ended 31 December 2020 were disclaimed by the predecessor auditor in respect of the areas relating to the following:

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

The predecessor auditor was not able to obtain sufficient audit evidence to establish the business rationale for the arrangements between the Group, its import agents and marketing agent, or the exact nature of the relationship between the Group and these entities. Due to a lack of evidence available to the predecessor auditor, they were unable to consider all the relevant facts and circumstances to assess if the entities are related to the Group or whether the financial results of these entities should be included in the consolidated financial statements of the Group for the prior financial years. The predecessor auditor was 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.

Report on the Audit of the Financial Statements (cont'd)

Basis for Qualified Opinion (cont'd)

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

Notwithstanding that the Group has terminated the arrangements with its import agents and marketing agent during the financial years 2019 and 2020 respectively, as disclosed in Note 2.1(b) to the financial statements, we were unable to carry out any alternative audit procedures to obtain sufficient and appropriate audit evidence to determine whether adjustments or disclosures, if any, are required to be made to the opening balances, and whether there will be possible effects on the comparability of current financial year's figures with corresponding financial year's figures.

(ii) Classification of payments to promotional companies

Due to lack of documentary evidence available to the predecessor auditor, they were unable to ascertain the breakdown between other payments to sales representatives and the service fee retained by the third-party promotional companies for services rendered by the sales representatives. 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, the predecessor auditor was unable to determine if revenue and the related expenses were appropriately classified, presented and disclosed in the profit or loss for the prior financial year.

As disclosed in Note 2.1(c) to the financial statements, the sales representatives of the franchisees do not have any employment relationships with the Group, therefore, the Group is not obliged to make any payments to the sales representatives. The predecessor auditor's disclaimer opinion on classification of the payments to third-party promotional companies did not impact the Group's net profit for the prior financial year. Consequently, the current financial year's figures may not be entirely comparable to prior financial year's figures. We were unable to carry out any alternative audit procedures to obtain sufficient and appropriate audit evidence to determine whether there will be possible effects on the comparability of current year's figures with corresponding figures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year ended 31 December 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Business model in China
[Refer to Note 2.1(a)]

The legal opinion from Merits and Tree (Beijing) Law Office (“M&T”) dated 22 July 2020 indicated potential risk areas relating to the Group’s franchise business model in China, which was based on the facts between 1 June 2018 to 31 December 2019. To mitigate the risks of violation, the Group has made changes to their business process under the franchise model and engaged M&T to review the revised business process. Based on the supplemental legal opinion dated 30 May 2021, the risk of the Group’s China operation violating the relevant Direct Selling and ChuanXiao Laws is remote or relatively low.

The management had also engaged another legal firm, Dentons Beijing Office, part of the global law firm Dentons (“Dentons”), to review their franchise model for the period up to 19 May 2021. Based on the legal opinion dated 19 May 2021, Dentons is of the opinion that the Group’s current franchise model is not similar to the ChuanXiao model as features of the franchise model distinguish it from the ChuanXiao model.

Both legal opinions have also opined that the Group has not been administratively penalised by any China authorities for engaging in Direct Selling or ChuanXiao activities based on the searches of the Enterprise Credit Website of the State Administration for Market Regulation as of the date of audited financial statements. Further, the risks of violation will become remote with the passage of time as Article 36 of Law of the People 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. M&T have further clarified that if the potential non-compliance risk exists during the period from 1 June 2018 to 31 December 2019, and ended on 31 December 2019, 31 December 2019 will be the commencement date of the two years period. If any non-compliance risk ended on 31 December 2019 and is not discovered within the two years of its commission, an administrative penalty will not be imposed unless it involves citizens' life and health security or financial security and causes harmful consequences.

Under the franchise business model, the Group has engaged third-party promotional companies to handle commission payments to sales representatives of the franchisees and related services disclosed in Note 2.1(c) to the financial statements. M&T and Dentons had reviewed the service agreements of SDIC Human Resources Service Co., Ltd. (“SDIC”) and opined that the contracts were legal and valid and such services provided by SDIC do not violate the provisions of law and the franchise model of the Group.

With reference to the legal opinions as mentioned above, the Company believes that the non-compliance risk of the Group’s business model in China with regards to the direct selling and ChuanXiao laws continues to be remote and that the possibility of the China authority commissioning any penalty on the Group would be remote.

We focused on this area due to complexities and judgements involved in determining the risks of violation of the Group’s franchise business model with the Direct Selling and ChuanXiao Laws, potential tax implications and penalties, in any, which would be administered by competent authorities.

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

- (a) Business model in China (cont'd)
[Refer to Note 2.1(a)]

How our audit addressed this key audit matter

In obtaining sufficient audit evidence, we have performed the following procedures:

- Discussed and obtained an understanding on the business model in China and performed walkthrough of the business process by verifying to relevant supporting documents;
 - Reviewed the independent legal opinions obtained by the managements ;
 - Obtained and reviewed the updated legal opinions as of the date of audited financial statements with respect to the potential risks of violation of Direct Selling and ChuanXiao Laws and the likelihood for the competent authorities to commission a penalty due to historical potential violation of Direct Selling and ChuanXiao Laws;
 - Reviewed and identified tax penalty paid historically and during the current financial year, if any;
 - Performed independent search on legal and compliance issues relating to the Group operation in China via the TianYanCha platform. TianYanCha is a credit investigation institution established in accordance with laws and regulations and approved by government in China. It provides company background, shareholder information and relationship, industrial and commercial information, litigation related information, and etc;
 - Obtained the representation letter from the Group to confirm the directors and substantial shareholders of the promotional companies have no connections nor any business relationship with the Group;
 - Performed independent search on business profile of the promotional companies via the TianYan Cha platform;
 - Assessed provisions to be recognised in accordance with SFRS(I) 1-37 Provisions, Contingent Liabilities and Contingent Assets, if any; and
 - Considered the adequacy of the disclosures in the financial statements.
- (b) Revenue recognition
[Refer to Notes 2.3 and 4]

Revenue is recognised at an amount that reflects the consideration in the contracts to which the Group expected to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, and when the Group satisfies a performance obligation by transferring a promised goods or services to the customer, which is when the customer obtains control of the goods or services at a point in time.

The Group derives revenue primarily from the direct selling and franchise segment and its revenue mainly from the operations in Singapore, China and Taiwan. During the financial year ended 31 December 2021, the Group's total revenue amounted to \$580,036,000, of which, \$287,013,000 was contributed from the operations in China.

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

- (b) Revenue recognition (cont'd)
[Refer to Notes 2.3 and 4]

We focused on this area as a key audit matter as there is a presumed fraud risk with regards to the revenue recognition and there was history of goods sold recorded during the financial year but the goods was not delivered before the financial year end in China's operation.

How our audit addressed this key audit matter

In obtaining sufficient audit evidence, we have performed the following procedures:

- Discussed with management on the key internal controls and processes involved in the revenue cycles and performed walkthrough tests;
- Tested the key internal controls to ascertain the effectiveness of these controls in place over the revenue cycles;
- Evaluated management's assessment on the application of SFRS(I) 15 *Revenue from Contracts with Customers*, in particular, the five-step model for each revenue stream;
- Performed tests of detail, including cut-off procedures, as at the financial year end to ascertain whether revenue is recorded in the appropriate accounting period;
- Reviewed credit notes issued subsequent to the financial year end to ascertain that revenue are appropriately recognised for the current financial year; and
- Considered the adequacy of the disclosures in the financial statements.

Specifically, in obtaining sufficient audit evidence on the occurrence of sales from China operations, we have performed the following procedures:

- Traced the orders placed by franchisees to the warehouse packing list and third-party delivery tracking list to ascertain the delivery of goods;
- Attended and observed the year-end stocktake observation and performed roll-forward/roll-back procedures to 31 December 2021;
- Obtained confirmation on the list of inventories stored at the third-party warehouse, as well as the list of goods being segregated for delivery at their respective cut-off periods;
- Obtained confirmations from the franchisees on the sales transactions during the financial year; and
- Verified to supporting documents to ascertain
 - Customers' acknowledgement to the receipt of goods;
 - Validated the timing of goods delivered by the third-party logistic provider on the customers;
 - Timing of recognition of revenue; and
 - Traced to bank statements for the receipts of payments made by customers

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

- (c) Valuation of put and call option
[Refer to Notes 19 and 26]

On 3 April 2020, the Group has through its wholly-owned subsidiary corporation, MDUK Investments Pte. Ltd (“MDUK”), entered into a sales and purchase agreement, to acquire 579 ordinary shares, representing 49.9% equity interests, in Pedal Pulses Ltd. As part of the acquisition, MDUK entered into a put and call option agreement with the owners of Pedal Pulses Ltd.

As at 31 December 2021, fair value of the put and call option of the Group amounted to S\$18,796,000 and S\$5,662,000 respectively. Fair value adjustments of S\$16,217,000 have been recognised in the profit or loss for the financial year ended 31 December 2021.

The Group has appointed an independent professional valuer (the “Valuer”) to assist in assessing the fair value of the put and call option. We focused on this area as the valuation process is inherently subjective and involves significant judgements in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied.

How our audit addressed this key audit matter

In obtaining sufficient audit evidence, we have performed the following procedures:

- Assessed the independence and competency of the Valuer, including the Valuer’s professional qualifications and experience;
- Together with our internal valuation specialists, reviewed and assessed the appropriateness of the valuation methodologies and reasonableness of the assumptions used by the management and Valuer; and
- Considered the adequacy of the disclosures in the financial statements.

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)s, 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.

Report on the Audit of the Financial Statements (cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Singapore Standards on Auditing (SSAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Report on the Audit of the Financial Statements (cont'd)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current financial year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, 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 director on the audit resulting in this independent auditor's report is Lee Look Ling.

**Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants**

**Singapore
16 June 2022**

NOTES TO THE FINANCIAL STATEMENTS

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General 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 subsidiary corporations are disclosed in Note 16 to the financial statements.

2. 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.

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.

2. Significant accounting policies (cont'd)

2.1 Independent review of the Group (cont'd)

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 promotional 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.

Notwithstanding the findings of the Independent Accountant and BDO, the predecessor auditor issued a disclaimer audit opinion on the following matters, amongst others:

(a) *Business Model in China*

As disclosed in Note 2.1(d) to the financial statements of the Group for the FY2020, in accordance with the Notice of Compliance issued by SGX RegCo, the Company engaged Merits and Tree (Beijing) Law Office ("M&T") to provide an independent legal opinion (which was dated 22 July 2020) on the legality of the Group's sales and distribution model under the franchise model ("2020 M&T Legal Opinion"), which was 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 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") 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 potential risks under direct selling and ChuanXiao laws in China which were disclosed in Note 2.1 to the audited financial statements for FY2020.

Further to the 2020 M&T Legal Opinion, M&T issued a supplemental legal opinion on 30 August 2021 ("2021 M&T Legal Opinion"). The 2021 M&T Legal Opinion stated that, based on the documents provided to M&T, the risk of BW Changsha violating the relevant direct selling and ChuanXiao laws is remote or relatively low, for the reasons disclosed in Note 2.1 to the audited financial statements in FY2020. In particular, M&T 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.

The Company has also obtained a legal opinion dated 19 May 2021 from Dentons Beijing Office (part of the global law firm Dentons) ("Dentons"), one of the largest law firms in China ("Dentons Legal Opinion"). 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, and typically require participants to make a sizeable upfront payment for inventory at a price much higher than the fair market price. 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 searches 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 BW Changsha or Best World Lifestyle (China) Co., Ltd. (全美世界日用品有限公司) ("BWL China") in the period commencing two years prior to 19 May 2021.

2. Significant accounting policies (cont'd)

2.1 Independent review of the Group (cont'd)

(a) Business Model in China

The Company has sought confirmations from M&T and Dentons that there are no changes to their respective findings in the 2021 M&T Legal Opinion and the Dentons Legal Opinion as of the date of the audited financial statements for FY2021. In addition, the Company has sought further clarification from M&T on the possibility of the authority in China pursuing any potential non-compliance mentioned in the paragraph above. M&T has clarified that, pursuant to Article 36, if the non-compliance risk existed during the period from 1 June 2018 to 31 December 2019, and ended on 31 December 2019, 31 December 2019 will be the commencement date of the two-year period. If any non-compliance risk ended on 31 December 2019 and is not discovered within two years of its commission, an administrative penalty will not be imposed unless it involves a citizen's life and health security or financial security and causes harmful consequences.

With reference to the legal opinions mentioned above, the Company believes that the non-compliance risk of the Group's business model in China with regards to the direct selling and ChuanXiao laws continues to be remote and that the possibility of the China authority commissioning any penalty on the Group is remote. Accordingly, the Company does not consider it necessary to disclose any contingent liability pertaining to any penalty relating to potential non-compliance with the direct selling and ChuanXiao laws in China.

The Company will continue to assess the risk of any penalty imposed by the China authority relating to potential non-compliance with the direct selling and ChuanXiao laws in China. If the risks of potential non-compliance cease to be remote, the Company will make the necessary disclosures at the end of the relevant reporting period.

(b) 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 Qingdao Beihui, Changsha Best and Vicstar are independent entities. 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.

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 no evidence to suggest that the Company, any of its subsidiary corporations 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 related parties of the Group.

2. Significant accounting policies (cont'd)

2.1 Independent review of the Group (cont'd)

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

Management considers this to be a historical issue which does not affect the FY2021 financial statements as the Group ceased to sell products to Qingdao Beihui in September 2015 and Changsha Best in June 2018 and ceased all billings and transactions with Vicstar since 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 or FY2021. 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 being struck off.

(c) Classification of payments to promotional companies

As disclosed in Note 2.1(b) to the audited financial statements of the Group for FY2020, with effect from 1 July 2019, franchisees paid 100% of the recommended retail price of products based on tax invoices issued by the Company's wholly-owned subsidiary corporation, BW Changsha and, with effect from 1 April 2020, tax invoices issued by the Company's wholly-owned subsidiary corporation, 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 promotional companies, which are recorded as net against revenue.

For FY2020, in consideration of the third-party promotional 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 promotional companies service fees, which were recorded as marketing fees as part of distribution costs. The third-party promotional 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 China 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, BWL China entered into a service agreement with China's State-owned company, SDIC Human Resources Service Co., Ltd. ("SDIC"), on 29 January 2021. Consistent with the BWL China's contractual arrangements with the franchisees, the service agreement with SDIC provides for SDIC 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. As a state-owned company, SDIC is cautious in choosing its partners and plays a role in market supervision of cooperative companies. Other promotional companies that BWL China contracts with offer similar services as SDIC. The service fees payable to the third-party promotional companies were recorded as marketing fees as part of distribution costs. These 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. The sales representatives of the franchisees do not have any employment relationships with the Group, therefore, the Group does not owe any payment obligations to the sales representatives.