

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 2018

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**Listing Manual**”), the board of directors (the “**Board**”) of Best World International Limited (the “**Company**”) and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s independent auditor, Ernst & Young LLP, has issued a disclaimer of opinion (“**Disclaimer of Opinion**”) in its Independent Auditor’s Report dated 5 June 2020 (the “**Independent Auditor’s Report**”) in relation to the Group’s financial statements for the financial year ended 31 December 2018 (“**FY2018**”) (the “**Financial Statements**”).

The Disclaimer of Opinion relates to matters disclosed in Note 2.1 to the Financial Statements that were raised in the course of the independent review conducted by PricewaterhouseCoopers Advisory Services Pte. Ltd. (the “**Independent Accountant**”) of the Export Model and the Franchise Model adopted by the Group in China (the “**Independent Review**”)¹. As at the date of this announcement, the Independent Review is ongoing and close to finalisation and the Company will provide clarifications on the key matters raised in due course. The Company would like to reassure shareholders of the Company (“**Shareholders**”) that it will continue to devote the necessary resources to complete the Independent Review as soon as reasonably practicable. For the avoidance of doubt, the Disclaimer of Opinion does not raise any audit issues which may give rise to material uncertainty on the Group’s ability to continue as a going concern.

A copy of the Independent Auditor’s Report and an extract of Note 2.1 to the Financial Statements are attached to this announcement. Shareholders are advised to read this announcement in conjunction with the Company’s Annual Report for FY2018, which will be released on SGXNET and the Company’s website at <http://bestworld.listedcompany.com/ar.html>.

Shareholders are reminded that the trading suspension of the Company’s shares will only be lifted after the Company has submitted a trading resumption proposal pursuant to Rule 1304 of the Listing Manual and upon fulfilment of the conditions required by Singapore Exchange Regulation (“SGX RegCo”), including the finalisation of the Group’s audited financial statements for FY2018 and FY2019, and SGX RegCo indicating that it has no objections to the resumption proposal.² The Board will make further announcement(s) as and when there are any material developments on this matter.

BY ORDER OF THE BOARD

Huang Ban Chin
Director and Chief Operating Officer
7 June 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 and 22 March 2020 for further details of the scope and progress of the Independent Review. The Company released an announcement on the interim findings from the Independent Review on 22 March 2020.

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

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report For the financial year ended 31 December 2018

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 balance sheets of the Group and Company as at 31 December 2018, 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. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Company has appointed an external professional firm to conduct an independent review on certain matters as disclosed in Note 2.1 to the financial statements. On 22 March 2020, the Company made an announcement on the interim findings from the review. The review is ongoing as at the date of this report. We have carried out audit procedures on the interim findings of the review, but have not been able to complete our audit procedures to obtain satisfactory audit evidence or explanations in respect of the following matters:

(a) Potential unrecorded transactions

As disclosed in Note 2.1(b) to the financial statements, the Group has recorded sales revenue based on tax invoices issued to its franchisees in China and the invoiced amount of the goods averages approximately 80% of the sales value of the goods to these franchisees under the franchise model during the financial year ended 31 December 2018. It was noted that the balance amounts (approximately 20% of the sales value) were paid by these franchisees, into bank accounts not belonging to the Group. According to management, the money in these bank accounts belong to the franchisees and are not recorded in the books and records of the Group as this represents mainly trade rebates given to the franchisees, and sales in the financial statements are therefore recorded net of trade rebates. Management also represented that a key personnel of the Group's subsidiary in China had been involved in the management of these bank accounts in his personal capacity and not on behalf of the Group. Due to limited documentary evidence available to us, we were unable to verify management's representation.

It was noted that the outflows from these bank accounts included payments of commissions to members (sales representatives), payments made to staff and transfers made to Vicstar Lifestyle Pte Ltd (the marketing agent mentioned in para (b) below). We were unable to establish the basis and nature of the payments, including whether any of these payments had been made on behalf of the Group, and therefore unable to determine the Group's rights and obligations under these arrangements.

Basis for Disclaimer of Opinion (cont'd)

(a) Potential unrecorded transactions (cont'd)

Accordingly, we are unable to determine whether the above arrangements have any financial statements implications to the Group, including whether they should be recorded in the financial statements of the Group to faithfully present the results of its operations. The impact to the financial statement of the Group as at 31 December 2018 cannot be reliably estimated. We are also unable to determine whether the above arrangements are in compliance with laws and regulations.

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

We noted that the Group was substantially involved in the daily operations and exercised certain degree of management oversight and control over the financial affair of its import agents and marketing agent although the Group does not hold any equity interest in these entities. Group management had represented that none of these entities are related to the Group.

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. We have not been able to obtain relevant information to determine the business rationale for these arrangements or the true nature of the relationship between them due to lack of evidence available to us. Accordingly, we are unable to consider all relevant facts and circumstances to complete our assessment as to whether the entities are related to the Group or if any of their financial results should be included in the consolidated financial statements of the Group for the year ended 31 December 2018 and prior years or could give rise to non-compliance with any laws and regulations. The potential impact to the financial statements of the Group cannot be reliably ascertained due to lack of information.

(c) Goods sold but undelivered as at 31 December 2018

As disclosed in Note 2.1(a) to the financial statements, the Group's accounting policies require revenue to be recognised when goods are delivered to the customer's designated location where control of the goods is transferred to the customer. It was noted that certain goods pertaining to sales made during the financial year was undelivered to customers as at 31 December 2018. Management has determined the financial statements impact to revenue from this cut-off error to be approximately \$11,028,000 and has accordingly adjusted the revenue and other related accounts for the financial year ended 31 December 2018. Due to insufficient information available to us, we were unable to reliably determine if the amounts quantified and adjusted by management is complete. As a result, we were unable to determine the completeness of the adjustments made to revenue, cost of sales and other related accounts for the year ended 31 December 2018.

(d) Ongoing reviews

The independent review and the legal review disclosed in Note 2.1 are still ongoing as at the date of this report and the outcome of these reviews may uncover other information or non-compliance with laws and regulations which could result in further adjustments to the current or prior years' financial statements. As at the date of this report, we are unable to determine the nature and extent of audit procedures which may need to be performed in this regard and whether such audit procedures would uncover further information which may also impact the financial statements.

In view of the matters set out in the preceding paragraphs, we are unable to determine the completeness and accuracy of the financial statements, nor are we able to quantify the extent of further adjustments or disclosures that might be necessary to the financial statements of the Group and the Company. In addition, as the review by external professional firm is ongoing and more information may be available as the review progresses that may have an impact on the financial statements, we are not able to determine if further adjustments are necessary.

Independent
AUDITOR'S REPORT

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
7 June 2020

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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 the wholesale of cosmetics, toiletries and health supplements which including import, export, online sales and assembly activities. 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 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 (the “external professional firm”, also referred to as “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 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; and
- 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.

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

In respect of the work done for veracity of sales under the Export Model during the period from January 2015 to June 2018, the Independent Accountant did not note any significant exceptions other than the following:

- (a) *Potential sales cut-off issue for goods sold which were paid for, but remained undelivered by the third-party logistics service provider as at 31 December 2018.*

The Independent Accountant noted undelivered goods at the third-party logistics service provider with an estimated value of approximately CNY118,000,000 as at 31 December 2018.

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

2.1 Independent Review of the Group (cont'd)

- (a) *Potential sales cut-off issue for goods sold which were paid for, but remained undelivered by the third-party logistics service provider as at 31 December 2018. (cont'd)*

The undelivered goods at the third-party logistics service provider noted by the Independent Accountant are goods that had already been paid for by the franchisees, but were physically held by the third-party logistics service provider pending delivery. The third-party logistics service provider provided both warehousing and logistics services for the Group. The agreement with the third-party logistics service provider provides that the Group does not bear inventory risk; the third-party logistics service provider will bear the replacement costs if goods belonging to the customers are damaged or undelivered.

The Group's delivery arrangements allow for (i) the goods sold to be delivered to the franchisees or directly to the franchisees' customers, (ii) goods purchased to be delivered at a later date, or (iii) for the consolidation of multiple orders into a single delivery, at the request of the franchisees. Invoices generated by the Group for each order may be split into multiple warehouse delivery orders and courier slips for deliveries. Such records have not been properly maintained by the third-party logistics service provider. The Group does not maintain an integrated electronic inventory system with the third-party logistics service provider. The Independent Accountant was thus unable to reconcile the records of the Group with the voluminous improperly maintained records of the third-party logistics service provider.

Based on the records of the third-party warehouse and confirmations from the outsourced courier companies, these goods were subsequently delivered in 2019. The Group has re-assessed the value of goods sold and recognised as Group revenue for the financial year ended 31 December 2018 to address any potential cut-off date and sales issue. The Group reconciled its records of total quantities sold with the value of the total quantities of goods delivered by the third-party logistics service provider, and has quantified the sales relating to goods undelivered as at 31 December 2018 to be approximately CNY55,000,000 (SGD11,028,000). The Group has made the relevant adjustments to revenue, cost of sales, distribution costs, trade receivables and trade and other payables as at 31 December 2018 and the financial year then ended.

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

The Independent Accountant noted the following:

Franchisees pay BW Changsha approximately 80% of the sales value of products based on the invoices issued to franchisees, which are then duly recorded as revenue received by BW Changsha. While members pay 100% of the sales value of products, proceeds of approximately 20% of the sales value of products are deposited by members into bank accounts which are not in the name of BW Changsha.

When the Group's franchise model commenced in June 2018, BW Changsha sold products to the franchisees at the franchise price, set at 80% of the recommended retail prices of the products. The franchisees would on-sell the products to the sales representatives at the recommended retail prices of the respective products, giving the franchisees a margin of approximately 20%, which represented trade rebates enjoyed by the franchisees. The franchisees would then arrange to pay commissions directly to the sales representatives via the other bank accounts, which also amounted to approximately 20% of the recommended retail prices of the products.

These other bank accounts were managed by the general manager of a former import agent (who joined BW Changsha as a key executive in June 2018) in his personal capacity and not on behalf of the Group. He had set up and had been operating the bank accounts on behalf of the former import agent before joining BW Changsha, and required a transitional period to cease these arrangements after joining BW Changsha.

Accordingly, such monies in the other bank accounts do not belong to BW Changsha or the Group. In addition, the commissions paid from these other bank accounts are not the responsibility of BW Changsha, as BW Changsha or the Group do not have any legal obligations to pay such commissions. As such, these transactions were not recorded in the books of BW Changsha, as the Group had no legal or beneficial interest in such monies nor any legal rights thereto.

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)

The Independent Accountant was unable to independently verify the arrangement against any third-party supporting documents as this arrangement was a private arrangement made orally between the previous export agent and the franchisees. The Independent Accountant has however opined in the interim update that the net financial impact of the trade rebates and the commission expenses may not be significant.

The Independent Accountant also recommended that the Board : (i) to obtain the advice of an independent and suitably qualified Chinese law expert to comment on the legality of the structure of the franchise model under local China regulations; (ii) to seek a formal legal opinion on the legal and regulatory implications of the potential understatement and the arrangement in relation to the proceeds in the other bank accounts not in the name of BW Changsha. As at the date of this audit report, the PRC Counsel is finalising its legal opinion on the Company's franchise model in China.

The Independent Accountant has also not completed the work required with regard to (i) the Group's business relationship with the import agents in China and their sales transactions with its distributors and customers, and (ii) the cash movement during the export model and franchise model periods.

2.2 Basis of preparation

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

For all periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with Financial Reporting Standards in Singapore (FRS). These financial statements for the year ended 31 December 2018 are the first the Group has prepared in accordance with SFRS(I). Refer to Note 2.3 for information on how the Group adopted SFRS(I).

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

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

2.3 First-time adoption of SFRS(I)

These financial statements for the year ended 31 December 2018 are the first the Group and Company have prepared in accordance with SFRS(I). Accordingly, the Group and Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group's and Company's opening balance sheets were prepared as at 1 January 2017, the Group and the Company's date of transition to SFRS(I).

The principal adjustments made by the Group on adoption of SFRS(I) and the adoption of the new standards that are effective on 1 January 2018 are disclosed below.

Exemptions applied on adoption of SFRS(I)

SFRS(I) allows first-time adopters exemptions from the retrospective application of certain requirements under SFRS(I). The Group has applied the exemption to deem cumulative currency translation differences for all foreign operations to be zero at the date of transition on 1 January 2017. As a result, an amount of S\$1,563,000 was adjusted against the opening retained earnings as at 1 January 2017.