



Regulatory Announcement

23 July 2020

SGX RegCo requires Best World to address independent reviewer's findings

Singapore Exchange Regulation (SGX RegCo) refers to the Notice of Compliance issued to Best World International Ltd (Company) on 13 May 2019, the Company's interim update of 22 March 2020 on the independent review by PricewaterhouseCoopers Advisory Services Pte Ltd (PwC) and the Company's announcement of 23 July 2020 on PwC's final report. PwC completed its review and reported its findings solely to SGX RegCo.

The Company sold its products to China through a Singapore-incorporated entity, Vicstar between 2010 and 2011. In December 2011, it ceased its China sales through Vicstar and exported its products to China through import agents (the Export Model) before transitioning to a Franchise Model in July 2018 through its wholly-owned subsidiary, BW Changsha.

Under the Export Model, the Company distributed its products through the first import agent, Qingdao Beihui (from January 2012 to September 2015). Changsha Best, an entity owned by Mr. Koh Kim Chuan, the brother-in-law of the Company's CEO, took over from Qingdao Beihui as the Company's import agent from September 2015 to June 2018. Notwithstanding the cessation of China sales through Vicstar, Vicstar continued to support the China operations of Qingdao Beihui and Changsha Best by maintaining its China members database and computing the commissions due to the China distributors / members of the import agents. With the Franchise Model taking effect from July 2018, BW Changsha sold directly to the franchisees and ceased operating through the import agent in June 2018. PwC did not note any significant exceptions on the Company's sales under both the Export and Franchise Models based on the work performed on the samples selected. However, PwC highlighted the following concerns surrounding the Company's operations under both the Export and Franchise Models:

- (a) The Company's employees were substantially involved in the daily operations and financial activities of the import agents and Vicstar (ostensibly entities that are not part of the group), such as approving expenses to be incurred, holding some of Changsha Best's bank tokens, and liaising with the external auditors on the financial audit of Vicstar;
- (b) The import agent, Changsha Best, recorded about 60% of the sales to the distributors / members in its official bank accounts, while the remaining 40% was deposited in the personal bank accounts of various individuals (one of whom was the spouse of a Company's employee). The monies in the personal bank accounts were used for payment of sales incentives to Changsha Best's employees, commissions to distributors / members and transfers to Vicstar;
- (c) The Company's subsidiary, BW Changsha, recorded about 80% of the sales to the franchisees. The remaining 20% was deposited in the personal bank accounts of various individuals. The Company explained that the 20% deposits represented trade rebates given to the franchisees and belonged to the franchisees. However, PwC was unable to verify this as they noted that the

monies in these bank accounts were also being used to make various payments to BW Changsha's own employees;

- (d) PwC found that some of the personal bank accounts used by Changsha Best – the import agent and ostensibly an entity that is not part of the group - and BW Changsha were the same. Some of the monies from these bank accounts were transferred to Vicstar;
- (e) A total of S\$16.8 million was transferred from the personal bank accounts to Vicstar and Vicstar had paid a majority of this as service fees to the Company. The service fees were pursuant to various service agreements between the Company and Vicstar for the Company to provide financial, personnel management, IT and business management services to Vicstar; and
- (f) PwC noted that the Company's employees had prepared the financial statements of Vicstar and Vicstar's financial statements might not accurately reflect the true and commercial substance of its business activities.

As a result of BW Changsha's practice of having 20% of the sales deposited in personal bank accounts, PwC raised concerns as to whether the accounting records of the group were maintained in accordance with Section 199 of the Companies Act. PwC also highlighted the group's potential exposure to legal and regulatory risks given its substantial involvement in the operating and financial matters of the import agents and Vicstar. The concerns surrounding Changsha Best and Vicstar included Changsha Best's practice of depositing 40% of its sales in personal bank accounts and that Vicstar's financial statements might not reflect the true and commercial substance of the activities of the company. PwC further noted that the nature of the relationship between the import agents and the Company was unclear and was unable to establish the directing mind of Vicstar. PwC's review was subject to certain limitations such as not being provided with the underlying source documents of Changsha Best and Vicstar.

On the legality of the group's sales and distribution business in China (Legal Review), the Company's legal advisor has opined that the group complies with the applicable franchise related laws and regulations in China, but certain features of the Franchise Model may potentially be in breach of the regulations on Direct Selling and ChuanXiao 传销.

The Company's statutory auditor, Ernst & Young LLP (EY) has considered the findings in PwC's Interim Review Report and issued a Disclaimer of Opinion on the group's financial statements for FY2018. The bases for EY's Disclaimer of Opinion included concerns about the Company's relationship and arrangement with the import agents and Vicstar, the group's potential unrecorded transactions through the payment of partial sales proceeds by franchisees into personal bank accounts as well as the potential impact on the group's current or prior years' financial statements given the ongoing independent review and Legal Review. The findings of PwC as well as the Disclaimer of Opinion by EY raise concerns on whether the Company's financial statements present a true and fair view of the group's financial position and financial performance.

In the absence of sufficient clarity on the actual financial position of the group and legality of the business including compliance with PRC regulations, trading in the shares of the Company cannot resume in a fair, transparent and orderly manner. The Company will need to submit a proposal to resume trading that addresses concerns raised on (i) PwC's observations and recommendations; (ii) legality of its sales and distribution model in the PRC; and (iii) lack of clarity in its financial position. SGX RegCo will consider the Company's proposal and its audited financial statements for FY2019 before making a determination on the Company's continuing listing on the Exchange.

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