



# **BEST WORLD INTERNATIONAL LTD**

(Company Registration: 199006030Z)

Incorporated in the Republic of Singapore

## **Annual General Meeting 2022 Substantial & Relevant questions from Securities Investors Association (Singapore)**

**Q1.** Following the publication of the annual report for the financial year ended 31 December 2021, the company provided shareholders with an update on the future plans of the company the following day.

With an improved audit opinion from the new external auditor, the company is of the view that there is clarity on the financial statements of the company. Having implemented the recommendations from the independent review and having considered the legal opinions of the Chinese counsels, the company is of the view that it can satisfactorily address the concerns raised by SGX RegCo in the 23 July 2020 Regulatory announcement<sup>1</sup>.

In view of the above developments, the company announced that it will commence to prepare a resumption proposal to be submitted to SGX RegCo.

**(i) What are the (remaining) milestones to be achieved before the company can submit its resumption proposal to SGX RegCo?**

**Company:** With reference to the Regulatory Statement of 23 July 2020, it is stated that 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.

On 9 July 2022, the Company announced that on 16 June 2022, the Company received an improved audit opinion from its independent auditor for its audited financial results for the financial year ended 31 December 2021. As a result of the improved audit opinion, the Company is of the view that there is clarity on the financial statements of the Company.

In addition, with the Company's implementation of all recommendations made by the Independent accountant in the Independent Review report, and the legal opinions and updates from Merits and Tree (Beijing) Law Office and Dentons Beijing Office highlighting that non-compliance risks of the Group's business model in China with regards to direct selling and ChuanXiao laws as being remote, the Company is of view that the concerns raised by SGX RegCo in its 23 July 2020 Regulatory Announcement, could be satisfactorily addressed.

In view of the above developments, the Company has commenced to prepare a resumption proposal to be submitted to SGX RegCo.

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<sup>1</sup> <https://links.sgx.com/FileOpen/Best%20World%20International%20-%20Regulatory%20Announcement.ashx?App=Announcement&FileID=624847>

- (ii) **Who has been put in charge of driving the operational changes in the group to satisfactorily address the concerns of SGX RegCo?**

Company: The Management, with the help of the relevant department's personnel and external professionals and experts, is responsible to drive the operational changes in the group to address the concerns of SGX.

- (iii) **What is the level of involvement of the board, especially the independent directors, in the resumption proposal application?**

Company: The Board will review and approve the resumption proposal to be submitted to SGX RegCo.

- (iv) **Has the board set management a timeline to submit the resumption proposal?**

Company: With reference to the update announcement on 9 July 2022, the Company has commenced to prepare a resumption proposal to be submitted to SGX RegCo. No specific timeline has been set but the Company is working actively to prepare the resumption proposal. The Company will make further announcements as and when there is material development.

- (v) **When is the earliest date on which the trading of the company's shares can resume?**

Company: The Company is unable to advise at the present time what is the earliest date on which trading of the Company's shares can resume but will make the necessary announcements to update shareholders when there's any material development on this.

**Q2.** Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

- (i) **China franchise business: For the benefit of shareholders, can management elaborate further on the differences between the current franchise model and the business model/practices used by the group in 2018-2019?**

Company: 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 represents the previous trade rebates) to the sales representatives of the franchisees through the third-party promotion companies, which are recorded as net against revenue.

- (ii) **Lifestyle Centres: What is the group's strategy to acquire new franchisees and expand its network of Lifestyle Centres?**

Company: We intend to continue to grow our network of Franchisees in China in a measured and strategic manner, with a view of achieving sustainable growth while maintaining consistency and quality of service for consumers of our products. Since the transition from an Export model to a Franchise model in China, it gave us direct contractual relationships with our Franchisees, allowing us to work closer with them to expand in China and with greater control over the quality and consistency of services delivered to the consumers of our products. We are looking to grow our network of Franchisees,

and we are assessing potential candidates based on their financial capability, familiarity with local regulations, values and reputation.

- (iii) **China consumers: What was the impact on the group's operations due to the lockdown(s)? What is the sentiment on the ground in China (including consumer sentiment) given the country's zero-covid policies? Was the group's supply chain affected, especially during the lockdowns?**

Company: As disclosed in Section 4 of Other Information the Unaudited Condensed Interim Financial Statements dated 11 May 2022, our key markets of China maintaining a "Zero Covid" policy was affected by rates of Omicron infections which have negatively impacted our Group's 1Q2022 revenue.

Management foresees continued disruptions of marketing events and activities in these markets or more for the next 12 months, the logistics disarray and elevated freight charges may result in loss of revenue due to inventory shortages caused by delays in shipments and higher cost of goods for the Group.

Thus, Management observed a weaker sentiment given China's "Zero Covid" policy and kept the FY2022 outlook a cautious one.

- (iv) **Revenue recognition: Revenue recognition is also a key audit matter (KAM) highlighted by the independent auditor in the report on the audit of financial statements (pages 100-101). What are the internal controls that had been put in place to ensure that the group recognise 100% of the sales to the Chinese franchisees?**

Company: 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. This control measure in place will ensure that revenue recorded was based on actual delivery of the goods to recipients.

With effect from 1 July 2019, franchisees in China paid 100% of the recommended retail price of products based on tax invoices issued. Sales proceeds received in the bank are also checked against the sales invoices issued before inventory is being delivered to the customers.

- (v) **Tuas: How will the group's supply chain and business model evolve once the Tuas manufacturing facility is fully operational? What are the cost efficiencies, if any? How much more working capital is required to run the Tuas facility at full capacity?**

**Company:** There will be no change to the business model, but the overall supply chain efficiency will be improved once the Tuas manufacturing facility is fully operational as the lead time for production will be reduced as compared to working with contract manufacturers. The facility will reduce our reliance on contract manufacturers and ensure an uninterrupted supply of products to our subsidiaries.

The facility will be offering a fully automated and integrated one-stop solution from blending all the way to palletising, enhancing production efficiency as well as eliminating overproduction and transportation waste in manufacturing. The inventory management and ordering processes will also be automated and data-based to ensure customer demand is met efficiently.

Instead of paying contract manufacturers to make the products for us, the Group will tap into the revenue stream of producing the products ourselves. In addition, some of our subsidiaries will be able to leverage on the Free Trade Agreements between Singapore and the countries they operate in to enjoy duty-free imports.

While the Company does not expect the manufacturing facility to be running at full capacity in the short to medium term, approximately additional \$23.3 million per year of working capital is estimated, with the assumption of operating at close to full capacity when compared to the estimated working capital required to run the manufacturing facility for 2022.

- (vi) **Hangzhou factory: Can management confirm that it has already obtained the Food Product license (or the Good Manufacturing Practice (GMP) certificate- equivalent) for the Hangzhou factory? What are the main supplements and food products made in Hangzhou?**

**Company:** Bureau Veritas has certified our management system standards and issued the ISO 22000 certificate.

The main supplements are powders (Albumen power, Collagen powder), tablets (Glucosamine, Melatonin, etc.), and soft capsules (New aloe, Vitamin E and calcium Vitamin D, etc.).

**Q3.** The company carried out two off-market purchase of shares in January 2022 and April 2022 under the Equal Access offer, buying back a total of 54.4 million shares and 49.0 million shares in the respective periods. The offer price was \$1.36 for each share and all the shares that were bought back were cancelled.

In the November 2021 update, the company stated that the suspension of the trading of the company's shares will continue until the company is able to make progress on its transition to a direct selling model in China. It further added that given the circumstances in China, the board has come to the view that it might be appropriate to consider a delisting while concurrently exploring options to provide shareholder with certain liquidity for their shares as the trading has been suspended on the SGX-ST.

In the latest annual report, and after the completion of the two equal access offers, the company disclosed the following in the annual report:

*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.*

Based on the Chinese counsels' interpretation of Article 36, it would appear that the board and management had clarity on the risks and prospects of the group's operations in China, especially after passing the two-year limit, i.e., 31 December 2021.

- (i) **When was the board first made known of Article 36 which in essence states that the group's non-compliance risk would be eliminated/significantly reduced after 31 December 2021, i.e., two years after the commission of any non-compliance acts, unless it involves citizens' life and health security or financial security?**

Company: Since the 2021 M&T Legal Opinion, as disclosed in FY2020 Annual Report, [page 108](#), it is a known fact to the Group that 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.

- (ii) **Did the independent directors consider this information pertinent and make the appropriate disclosure to shareholders on SGXNet as part of its continuing disclosure obligations, especially when the company offered to repurchase shares under the equal access offers in January 2022 and April 2022?**

Company: As mentioned above (3(i)), the disclosure had been made in the FY2020 Annual Report, prior to the Equal Access Offer.

- (iii) **How was the offer price of \$1.36 per share determined?**

Company: The offer price of \$1.36 was made in reference to the last traded price dated 9 May 2019 prior to the suspension.

In addition, the former auditor had pointed out the following as bases for their disclaimer of opinion for the financial year ended 31 December 2020:

- a. Business model in China
- b. Relationship with the group's import agents and marketing agent
- c. Classification of payments to promotional companies

Nexia, the newly appointed independent auditor, has issued a qualified opinion in their audit of the financial statements for the financial year ended 31 December 2021. Nexia 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.

Details of the relationship with the group's import agents and marketing agents and the classification of payments to promotional companies can be found in Note 2.1(b) and Note 2.1(c) (pages 114 & 115).

- (iv) **Can the audit committee (AC) help shareholders better understand their efforts to resolve the issues highlighted by the former independent auditor?**

Company: With reference to the Annual Report 2020, [pages 78-80](#), the Audit Committee spent a significant amount of time with great care taken to assess the issues, analyse the points of view from various legal and accounting professionals and review the scope of work carried out by the professionals, their work done and findings, consider the implications of the findings and deliberate with management on possible solutions and be in constant communication with all relevant stakeholders.



- (v) **With the new auditor issuing an “improved” audit opinion (a qualified opinion), will the AC continue to follow up on the two outstanding matters, namely the relationship with the group’s import agents and marketing agent and the classification of payments to get clarity on the appropriateness of the practices before 2019?**

Company: With regards to the Group’s former import agents and marketing agent, the Audit Committee notes that management had explained the relationship in response to the findings of the Independent Review by PwC and in the 2019 Annual Report ([pages 93-94](#)) and that the entities have ceased to operate.

The Audit Committee accepted the explanation and directed BDO to develop a test to determine whether any of the Group’s personnel were involved in the management of any other entities which were not part of the Group. Based on BDO’s work done, there were no significant exceptions noted.

The Audit Committee agrees with management’s response that the issue regarding these past relationships is historical and is satisfied that sufficient initiatives have been implemented to improve corporate governance and safeguard against potential conflict of interests. With no indications of wrongdoing, the Audit Committee is of the opinion that spending more time and costs on this issue has no benefit to shareholders.

The classification of payments was mainly due to differences in the interpretation of the revenue standard by different professionals and does not affect the net profit and loss of the Group.

Lastly, with the trading of the company’s shares still suspended, the executive directors, Dora Hoan Beng Mui and Doreen Tan Nee Moi, each received \$12.75 million to \$13.0 million in total remuneration while Huang Ban Chin received \$7.75 million to \$8.0 million.

- (vi) **Can the board/remuneration committee (RC) help shareholders better understand the key performance indicators used to assess the directors’ performance?**

Company: The executive directors’ remuneration is based on fixed salary and incentives which are directly linked to the Group’s profitability (i.e., profit before tax excluding any exceptional items) in accordance with their service contracts.

(vii) **Did the RC benchmark the remuneration to comparable companies on SGX- ST and other exchanges?**

Company: At the initiative of the RC, a benchmarking exercise was conducted in year 2019. The competitive study was undertaken based on a peer group of 22 SGX-listed companies of the same size where the executive directors were also controlling shareholders.

From the study, the current pay for the three executive directors were comparable to the benchmarks.

(viii) **Did the RC, when reviewing the remuneration of key executives, consider the issues raised by SGX RegCo in its Regulatory announcement and the trading suspension of the company's shares by SGX RegCo since 9 May 2019?**

Company: The last revision of the Directors' base salary was in 2016 and since then, the base salaries had not been adjusted.