



COMPANY: Best World Intl. Ltd | BB: BEST / SGX: CGN
INDUSTRY: Skin Care and Health Supplements

<u>Price</u> <u>(as of 9May2019 Lunch Break)</u>	<u>Market Cap</u>	<u>Average Daily Value Traded (30 day)</u>
S\$ 1.59	S\$ 1 billion	S\$ 10+ million

REBUTTAL TO BEST WORLD’S CLARIFICATION ANNOUNCEMENT

On April 24, 2018 we published our investment opinion (the “Report”) on Best World International Ltd. (BB: BEST __ SGX: CGN) (“Best World” or the “Company”). On May 8, 2019, two weeks later, Best World issued a clarification announcement (the “Response”).

Best World’s response is reminiscent of many companies we have identified in the past. They have chosen to hide behind their auditors for its reported financial performance and their lawyers for convoluted and misleading legal descriptions of its Chinese operations. Despite its length, Best World’s Response fails to address the key issues raised in our Report. We think its Response is littered with lies in an attempt to discredit our findings, which has only strengthened our belief that the Dora’s will not voluntarily disclose the truth.

In our Response, we present additional evidence which corroborates our findings that Best World fabricated its 2017 reported sales to Changsha Best. Considering the abundance of factual, independently verifiable evidence including testimonials from Member Reps about Best World’s Direct-Selling China sales model, the Company blatantly lied in its response that it does not conduct direct selling in China.

The Company even surmises that the sudden influx of reviews on DR’s Secret online sales channels immediately after the Singapore Business Times article was because of “simply raised awareness” of its product and its brand to consumers. Best World expects investors to believe that consumers became more aware of its DR’s Secret skin care products because the Singapore Business Times article was critical of its China operations. How does that make any sense?

The Company continues to claim that its growth in China sales were “driven by underlying demand of the skin care products.” Another lie. How can any investor trust Best World after being told so many blatant lies?

We stand by our opinion and the evidence presented in our Report that Best World is a fraud, that it fabricated its reported 2017 sales to Changsha Best, and that it currently operates a direct selling sales model in China.

We have not been contacted by anyone yet, but in the event that we are mentioned in a defamation claim, we are ready with an exhaustive list of of internal discovery document requests for Best World which we expect will only corroborate publicly available findings. We encourage investors and regulators to replicate and confirm our findings to expedite the truth-gathering process.

We remain short Best World’s stock.

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2017 SALES FABRICATION

Best World's response confirmed that we correctly identified its "one major customer" as Changsha Best.

Although the Group worked with and sold its products to a few Import Agents in China under the Export model over the years, it largely worked with one primary Import Agent in promoting its products in China, 长沙百世特威日用品贸易有限公司 (translated in the Report to "Changsha Best Commodity Trading Co., Ltd.") (the "Primary Import Agent"). The Company entered into a distribution agreement dated 1

While Best World's response focused on COGS, the actual number we used to calculate the amount of Best World's fabricated sales was the total import value of goods from PRC Import Records.

For PRC companies with import licenses, Credit Reports disclose annual total import values. PRC Credit Reports for Changsha Best disclosed its 2017 total value of imported goods was S\$ 80.5 million, (S\$ 25.3 million) less than what Best World reported as its 2017 sales to Changsha Best.

2017 Credit Report for Changsha Best

6.3. 进出口记录		Import & Export Records
近年进口情况汇总 (千, 美元)		In USD thousands
2017 年		
Top 5 Countries for Imports	进口国-TOP5	进口金额
USA	美国	42,427
Korea	韩国	14,219
France	法国	1,038
Singapore	新加坡	703
Taiwan	台湾省	582
Total Imports	进口总金额	58,969
		S\$ 80.5 million
2017 年		
Top 5 Products Imported	进口商品-TOP5	进口金额
Cosmetic Products and Skin Care Products (other than medicals)	【1】美容品或化妆品及护肤品 (药品除外...)	54,670
Electronic Equipment with Independent Function and Others	【2】本章其他税目未列名的具有独立功能...	3,152
Chemical Fiber Products	化学纤维制	1,038
Electronical Parts	【3】其他税目 85.43 项下电气设备零...	67
Household Products	家用型	15
Others	其他	27
Total Imports	进口总金额	58,969
		S\$ 80.5 million

备注:
 [1] 全名: 美容品或化妆品及护肤品 (药品除外), 包括防晒霜或晒黑油; 指 (趾) 甲化妆品; 其他
 [2] 全名: 本章其他税目未列名的具有独立功能的电气设备装置; 其他
 [3] 全名: 其他税目 85.43 项下电气设备零件

Source: Changsha Best Credit Reports

[Panjiva](#) is an independent third party service provider of aggregated government published information that is made public by most countries, including China. Panjiva data disclosed Changsha Best's 2017 total value of goods imported as S\$ 80.5 million for 2017, corroborating what was disclosed in its PRC Credit Reports.

2017 Panjiva Data for Changsha Best

Advanced Search >

*长沙普世特威日用品

1 filter applied. [reset filters](#)

Date Range: Jan 1, 2017 - Dec 31, 2017

Shipment Origin: France (3), Singapore (3), South Korea (30), Taiwan (8), United States (13)

Shipper Country: [Show filter options](#)

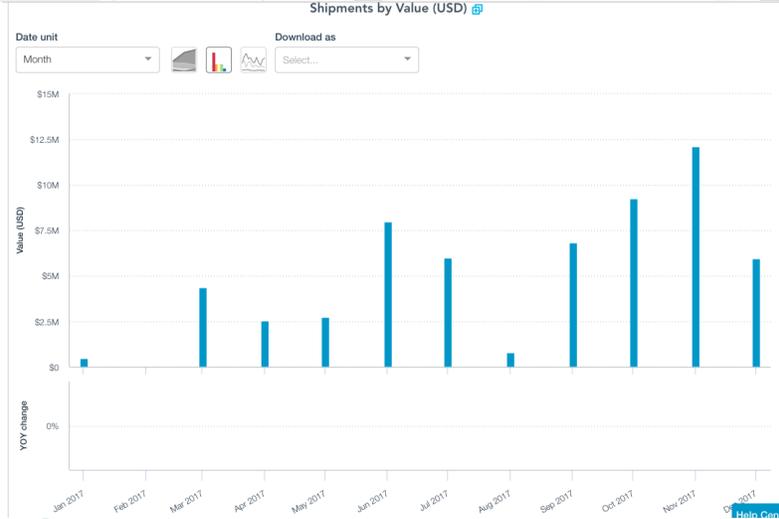
Shipper State/Region: [Show filter options](#)

Transport Method: [Show filter options](#)

Shipments Report: SHIPMENTS: 57, VALUE (USD): \$59M, **S\$ 80.5 million**

Shipper: Origin Country

- South Korea: 30 shipments (52.6%)
- United States: 13 shipments (22.8%)
- Taiwan: 8 shipments (13.5%)
- France: 3 shipments (5.3%)
- Singapore: 3 shipments (5.3%)



Date	Consignee	Shipper	HS Code	Goods Shipped	Weight (KG)	Value (USD)
2017-12	Best Commodity Trade Co., Ltd. Changsha Intervet Hunan, China		8543.70			\$58,968,717
2017-12	Best Commodity Trade Co., Ltd. Changsha Intervet Hunan, China		8544.49			\$7,063.00
2017-12	Best Commodity Trade Co., Ltd. Changsha Intervet Hunan, China		3304.99			\$3,609,839.00
2017-12	Best Commodity Trade Co., Ltd. Changsha Intervet Hunan, China		3304.99			\$93,784.00
2017-12	Best Commodity Trade Co., Ltd. Changsha Intervet Hunan, China		3304.99			\$1,625,322.00
2017-11	Best Commodity Trade Co., Ltd. Changsha Intervet Hunan, China		6302.93			\$41,620.00

S\$ 80.5 million

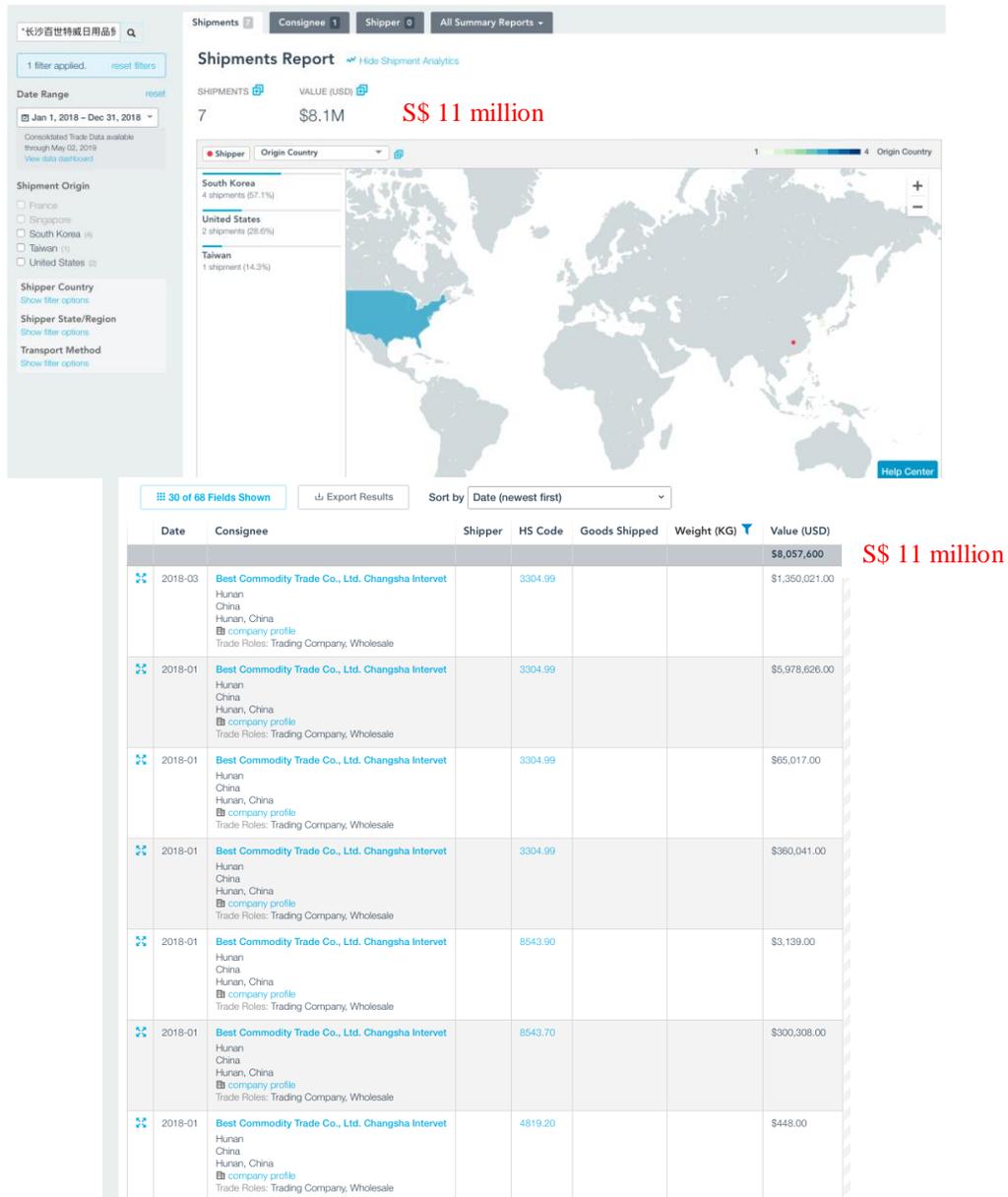
Source: Excerpt of Panjiva Data
<https://panjiva.com/>

No matter how Best World tries to deflect attention from its fabricated 2017 sales, the facts show that Changsha Best’s 2017 total value of goods imported was S\$ 80.5 million.

Prior to its 2Q’2018 transition from its Export Model to Franchise Model, Best World disclosed its 2018 export sales were S\$ 11 million. If Changsha Best continued to be Best World’s “one major customer” for the final months of transition away from Best World’s Export Model in 2018, we would expect to see total value of goods imported by Changsha Best to be S\$ 11 million.

S\$ 11 million (US\$ 8.1 million) is exactly what Panjiva disclosed as Changsha Best’s 2018 total value of goods imported, suggesting that timing from 2017 to 2018 is not the reason for the discrepancy between Best World’s reported sales versus what Changsha Best imported into China from Best World.

2018 Panjiva Data for Changsha Best



Source: Panjiva
<https://panjiva.com/>

Fabricated sales are not the only thing that Best World is lying about to investors.

ARRANGED VISITS TO CHANGSHA TIANXIN LIFESTYLE CENTER

In our report we highlighted that we found the Changsha Tianxin Lifestyle Center (长沙天心区生活馆) closed from March 20, 2019 to March 22, 2019 (three consecutive business days) despite its normal operating hours listed on Best World's website.

In its Response, Best World stated that PwC was at the Changsha Tianxin Lifestyle Center on March 20, 2019.

Bonitas Fieldwork

Bonitas claims that the Changsha Tianxin BWL Lifestyle Center was closed during business hours from the 20th to 22nd of March 2019.

Our Response:

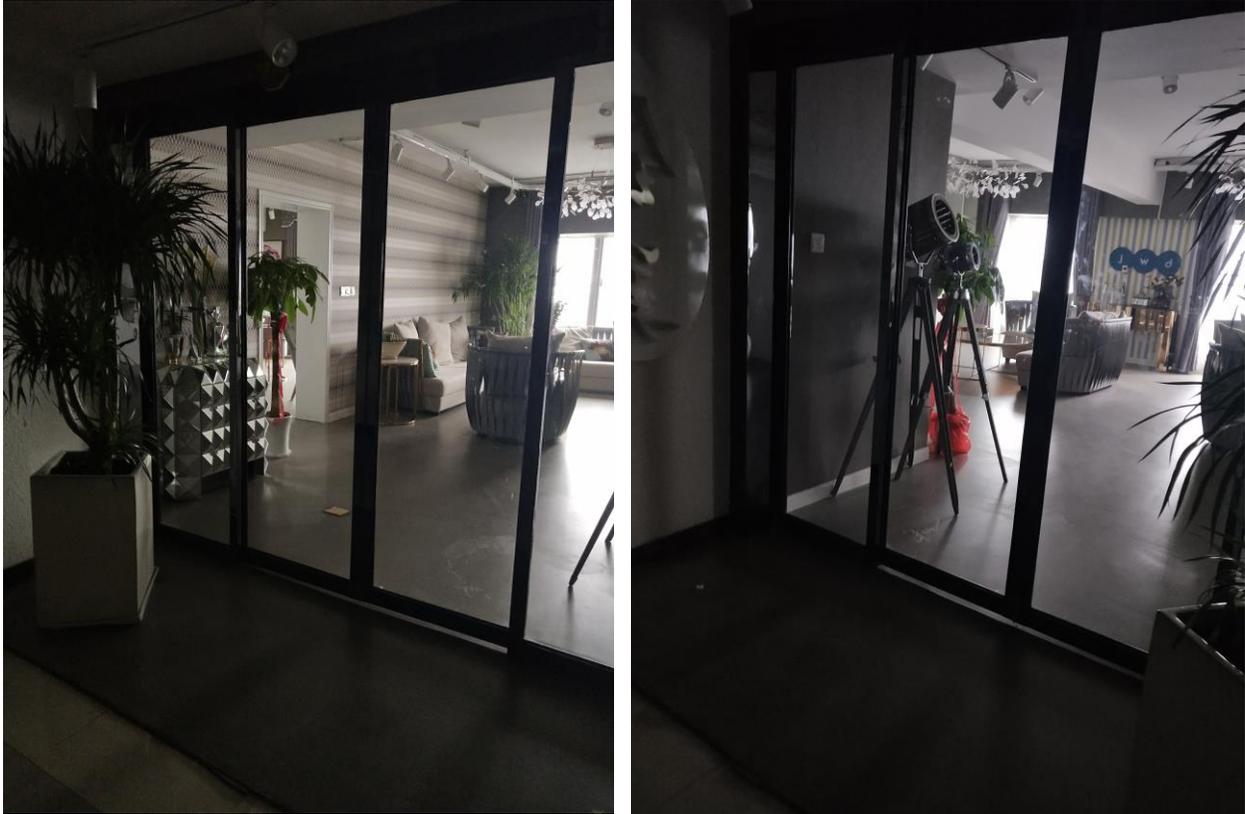
This claim is incorrect as the Changsha Tianxin BWL Lifestyle Center was open on 20 March 2019. PwC has confirmed to the Company that its employees were at the Changsha Tianxin BWL Lifestyle Center on 20 March 2019 for an arranged visit as part of the Review.

The first image below was taken by our investigator in the afternoon on March 20, 2019. The lights were on, but no one answered the door. It is entirely possible someone left the lights on from a PwC arranged visit earlier that day.



Source: Changsha Tianxin BWL Lifestyle Center – Afternoon of March 20, 2019

On March 21 and March 22, we went back to the Changsha Tianxin location and found the lights were out and no one answered the door.



Source: Changsha Tianxin BWL Lifestyle Center – March 21, 2019

This is alarming. When PwC is there, the lights are on and the shop is open. When PwC is not there, the lights are off and no one is home. What kind of an arranged show is Best World presenting to PwC on its scheduled visits? Is PwC making any non-arranged visits to any locations? What good is an independent investigation if the investigator is only seeing what the Company wants them to see?

< 笔记详情

入会员需要购买2000积分大约4000元左右产品或者购买靓丽套组，提交身份证号码入公司系统，就可以成为会员，享受会员价，代理的话需要一次性购买满10000积分产品，就是每个产品后面都有积分，您可以任意搭配，差不多折算人民币就20000多点左右

入代理后，拿货价也是按会员价，但会员没有积分，代理有积分可以返现，每个月按你拿货积分的15%到25%返现给你，2000以内15%，2000到4999积分按20%，5000以上25%那你后续如果有自己的代理，你可以抽自己底下代理7代抽成，在接着你还甚至还可以另外可以抽体系奖金3%，等等，一级一级

To become a VIP customer and enjoy VIP discount prices, one must purchase products worth 2,000 internal credits, equivalent to approximately RMB4,000, or a products set, and submit her ID to the company's system; to become a Member Rep, one must purchase products worth of 10,000 internal credits, equivalent to over RMB20,000.

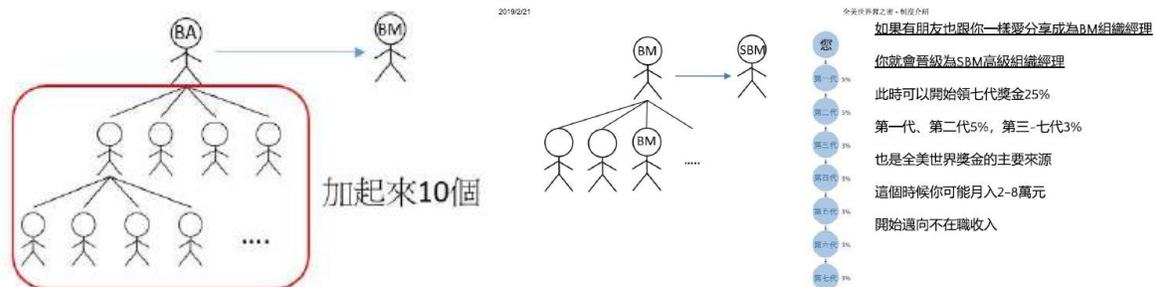
After becoming a Member Rep, one will procure the products at the same price as VIP customers, but Member Reps can accumulate credits to receive cash rebates worth 15% to 25% of her procurement amount (under 2,000 credits: 15%; 2,000-4,999 credits: 20%; above 5,000 credits: 25%). If a Member Rep has her own agents (subordinate Member Reps), she receives commission on the sales of seven generations of subordinate Member Reps and an additional system bonus of 3%, etc., level by level.

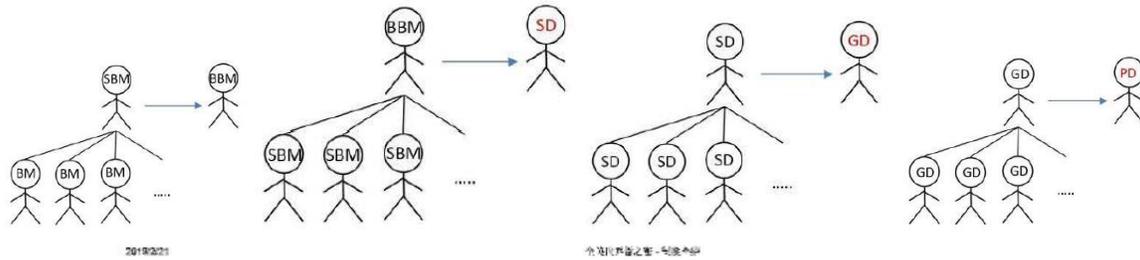
Source: China Member Rep

While every scam is unique, we could describe Best World's China operations using multiple sales model synonyms: direct selling, multi-level marketing, pyramid, export agent, franchisee... Below is a list of common characteristics we found while conducting our fieldwork.

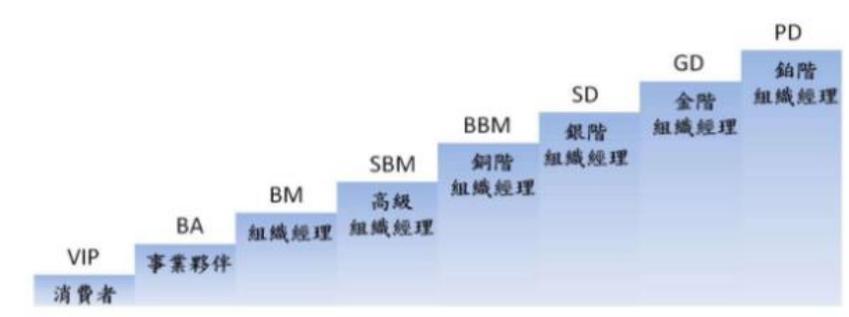
1. New Member Reps make a high minimum threshold pre-paid purchase to become a BM-Level Member Rep.
2. The entry fee to become a BM-Level Member Rep is similar in Mainland China and Taiwan. In Taiwan, the initial entry level purchase for a BM-Level Member Rep was NT120,000 (equivalent to RMB26,000). In Mainland China, the typical entry purchase was RMB20,000+.
3. There is a referral bonus scheme which allows Member Reps to get paid a portion of the fees paid from new Member Rep sign-ups.
4. Member Reps increase status levels if successful at recruiting new Member Reps. Higher levels equate to additional incentive fees.
5. Higher Level Member Reps are encouraged to build out Member rep networks with commission fees ranging from 2% to 6% of sales from seven generations of Member Reps.

While Best World disclosed to investors that its Taiwan business is different than its China business, we found many similarities between Best World's Taiwan and China operations. Below are images taken from a Taiwan Member Rep's online blog used to explain Best World's Taiwan Member Rep incentive payout structure to new member recruits.





七大位階



Source: <https://ken21333.weebly.com/21046242302017132057>

In addition, as pointed out by other market participants, Best World appears to be operating illegally under the guise of BWL China's direct selling license awarded in 2016 for its wholesale health and supplements business limited only to Hangzhou City.

We hope that our Report helped to alert PRC regulators that Best World appears to be operating direct selling sales practices in China without a license, a topic of multiple ongoing current investigations of other various sales model schemes, including "Quanjian Group (权健集团)"¹, "Infinitus Group (无极限集团)"² and "Hualin Group (华林集团)"³.

¹ <http://tech.qq.com/a/20190108/000761.htm>

² <https://finance.sina.com.cn/chanjing/gsnews/2019-01-19/doc-ihqfskcn8620479.shtml>

³ <http://henan.sina.com.cn/news/z/2019-01-14/detail-ihqhcis5907721.shtml>

FAKE CUSTOMER ACTIVITY AT ONLINE SALES CHANNELS

In our Report we presented evidence which suggested that since the February 18, 2019 [Singapore Business Times article](#) (the “BT Article”), online vendors on both JD.com and Taobao.com appear to have artificially inflated their online review counts and transaction history to give a false appearance of online sales activity.

In its Response, Best World surmised that this may be a results of “simply raised awareness” by consumers.

If there was in fact a sudden influx of reviews on the Group's products on Taobao.com and JD.com after the publication of the Article, it may well be that the Article simply raised awareness of the Group and its products. The Company has not taken any steps

Source: Company Response

What!?! You expect us to believe that online consumer demand increased for Dr's Secret's skin care products because the BT Article suggested opacity within your Chinese business model? How does the scale and size of your operations being questioned increase consumer usage of your product?

We believe it is no random coincidence that new online stores with fake reviews appeared as top-selling vendors on JD.com and Taobao.com within days after the BT Article was published. To us, this evidence suggests that Best World instructed its Member Reps to post fake reviews and generate fake transactions on Member Rep online stores in order to artificially inflate DR's Secret online usage and popularity.

We refer interested readers to review the evidence we presented in our Report, and encourage everyone reading our Rebuttal to do their own independent desktop research and independently verify our finding.

We are not surprised by the lack of end user consumer demand for DR's Secret skin care products in China. An analysis of comparable Chinese consumer options revealed that DR's Secret is the second-highest-priced branded skin care products, second only to the extremely successful and iconic CHANEL.⁴ We calculate that on average, DR's Secret skin care products are priced more than 100% higher than widely-available competing consumer skin care products.

BEST WORLD Skin Care vs. Popular Competing Brands

POPULAR COMPETING BRANDS	Volume	Price	Unit Price
	ml/g	RMB	RMB/ml
Estee Lauder	96	549	11.1
L'Oreal	82	260	5.1
Fancl	24	264	14.3
Clarins	97	499	8.5
Chanel	66	1683	36.6
L'Occitane	80	549	13.8
Shishedo	88	739	12.3
Kose	88	764	12.9
COMPETING BRAND AVG	77	663	14
BEST WORLD	48	570	19.1
as % of Competing Brand Avg	61.9%	85.9%	133.6%

Source: Company Websites

Competitor Product offerings varied between 7 and 12 product SKUs

Prices as of March 1, 2019

⁴ <https://www.businessoffashion.com/articles/news-analysis/louis-vuitton-chanel-are-the-most-valuable-brands-but-gucci-is-gaining>

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