RESPONSE TO APPOINTMENT OF INDEPENDENT THIRD PARTY AT YUUZOO

Note: This article is lengthy as it is intended to refute everything that YuuZoo has said about what I have written and to highlight what I think the independent third party to be appointed at YuuZoo needs to look into. Due to its length, I have decided to just publish on my website. Readers are welcome to circulate it.

I have been a keen observer of corporate governance in Singapore and internationally for almost twenty years but I have never seen a company quite like YuuZoo Corporation (YuuZoo).

After I published two commentaries in the Business Times raising questions about its corporate governance, disclosures and accounting, YuuZoo responded with three announcements on the Singapore Exchange (SGX). In its third response, it said my articles contain "erroneous statements and poses misleading questions".

I had originally intended to publish only one commentary on YuuZoo. In the end, I struggled to fit what I wanted to say into two commentaries. I was going to stop at two. However, I wrote the third commentary after the company issued responses and the executive chairman made statements in its AGM that contradicted its announcements and annual reports. Now I have to write a fourth because of the company's continuing assertions that I have made inaccurate or misleading statements, including when it announced that it was appointing an independent third party to investigate claims and statements made by me and other Business Times articles and allegations by the former financial controller.

Let me summarise what I have raised in my three commentaries and why my comments and questions are neither inaccurate or misleading.

References: YuuZoo Corporation – a governance nightmare, Business Times, July 5, 2017; YuuZoo riddled with contradictions, Business Times, July 11, 2017

1. In my first commentary, I mentioned that there have been at least 15 departures of directors and key officers, including 5 CFOs and 2 audit committee chairmen at the time of the publication of the article. I also mentioned that the company had advertised for yet another CFO and that another independent director was on the way out. Both have now gone.

   In its second response, YuuZoo said that the reasons for the numerous departures had been disclosed and that they generally had to do with staff and directors not meeting targets and KPIs.

   This is what the company said in its second response: "The Board of YuuZoo has not been satisfied with the performance of the Company since the listing. Each key office holder is given exact targets and KPI's. The Board believes it is in the best interest of the shareholders to terminate any staff who do not perform his or her duties to the highest standard, or fails to deliver what has been agreed on. While some resignations have been for genuine reasons, YuuZoo has in some cases for compassionate reasons asked staff to resign rather than to officially terminate them. The Company aims to continue with its policy of terminating and staff who after warnings and sufficient time to improve their

performance still do not meet the standards set by the Company or do not deliver the agreed targets. This policy also includes directors of the Board."

In my third commentary, I asked if the KPIs also applies to the executive chairman, and whether the company is saying that some of the directors who had left, including independent directors, were asked to resign. I also pointed out the under Bermuda (and Singapore) company law, directors of public companies cannot be forced to resign – they can only be removed by shareholders.

I also mentioned in my third commentary that the executive chairman had said at the AGM that the latest independent director to leave, James Strabo, was "not contributing".

Nothing about what I said – about the number of departures, about whether the KPIs also applies to the executive chairman, about directors being able to be only removed by shareholders, and about the executive chairman saying that the independent director is not contributing – is inaccurate or misleading.

2. I mentioned the first AC chair left just a little over 3 months while the second left after less than 6. The first AC chair was appointed on Aug 29, 2014 and resigned on Dec 3, 2014, and the second AC chair was appointed on Dec 3, 2014 and retired at the first AGM on on May 29, 2015.

   This is neither inaccurate nor misleading.

3. I said that after the second AC chair left, the company did not announce the appointment of any AC chair until Mar 24, 2017 when the newest ID was appointed as AC chair. These can be readily validated from the annual reports and the announcements of reconstitution of board committees.

   This is neither inaccurate nor misleading.

4. I said that the company had BDO LLP as its external auditor at the time of listing and that it issued a clean opinion for its FY2014 financial statements and then decided not to seek reappointment at its first post-listing AGM. The replacement auditor, Moore Stephens LLP, issued a disclaimer of opinion for the FY2015 financial statements and did not seek reappointment. Its latest auditor RT LLP has issued an unmodified opinion with two emphasis-of-matter items and will be seeking re-appointment.

   This is neither inaccurate nor misleading.

5. I said that the first compliance adviser, Macquarie Capital, was appointed for a two-year term and was replaced well before its two year-term ended, when RHT Capital was appointed as a new compliance adviser on Oct 23, 2015. The special general meeting to approve the RTO was scheduled for July 23, 2014. The date of appointment of the initial directors and key officers was Aug 29, 2014 and the company commenced trading on Sep 16, 2014. Whatever date is used, Macquarie was replaced well before 2 years.

   In its second announcement, the company said that SGX directed the company to appoint Macquarie as compliance adviser, Macquarie was replaced because they wanted to charge a US$1 million fee for 2 years, and Macquarie admitted that they were not up to the job.

In my third commentary, I asked why the fee was not agreed before Macquarie was confirmed as compliance adviser and why SGX directed the company to appoint a compliance adviser that was not up to the job.

This is neither inaccurate nor misleading.

6. I said that the company bundled the announcement of the cessation of the company secretary, the appointment of the new company secretary and the appointment of the new share transfer agent into one "general" announcement and that this, in my view, is contrary to rule 704(7) of the SGX Rulebook. The company did bundle the announcements. Company secretaries I spoke to agree that that announcements and cessations of company secretaries should be separate announcements under "appointment" or "cessation" and it is common practice to issue separate announcements.

   This is neither inaccurate nor misleading.

7. I said that the company stated in its RTO circular that it will endeavor to appoint an internal auditor and has not done it since, even though it repeatedly says that it will do in its annual report. I also said that the annual reports say that the AC reviews the effectiveness of the internal audit function when none exists. These are factual statements based on the RTO circular and the annual reports.

   This is neither inaccurate nor misleading.

8. In its second response, the company said that no internal auditor was appointed because it is the AC's responsibility to recommend one and the AC did not do so. In my third commentary, I retorted that this may because two AC chairs left very quickly and the company did not appoint an AC chair for nearly two years. I also said that the failure of the AC to recommend an internal auditor cannot be used as an excuse especially when the company said it would do so in its RTO circular.

   This is neither inaccurate nor misleading.

9. I said that the company had never held its AGM on time. Its first AGM was held on May 29, 2015, its second AGM on May 27, 2016 and its third AGM on July 7, 2017. Its AGM is due on April 30 each year.

   This is neither inaccurate nor misleading.

10. I said that the company had issued responses to at least 8 queries and several other clarifications, that it has at least 2 trade-with-caution warnings on its stock, and that it received a letter in June 2015 from SGX about a positive research report and a reprimand on this same matter in July 2016. All these can be easily verified through the announcements on SGX.

    This is neither inaccurate nor misleading.

11. I said that the company, the executive chairman and several others have a lawsuit filed against them in the US District Court of NY with allegations of federal securities fraud,

common law fraud, negligent misrepresentation and breach of contract. I also said that no announcement had been made even though SGX Rulebook requires disclosure of "significant litigation". The case is Hecklerco LLC et al v. Wells Fargo Advisors, LLC et al. I have obtained a copy of the 52-page court document filed on July 22, 2015.

This is neither inaccurate nor misleading.

12. In its second response, the company said that the board discussed the lawsuit in July 2015 and decided that there was no need to disclose. It then informed SGX in December 2016. It also said there is no truth to the allegations that it would have failed to list on NASDAQ because of accounting irregularities.

In my first commentary, I made it clear that accounting irregularies were allegation made in the lawsuit – I did not say that it was a fact. In my third commentary, I explained that "significant litigation" requires immediate disclosure under the SGX rulebook. Whether the claims have merit have yet to be determined, and there is the possibility of punitive damages if the court finds in favour of the plaintiffs. I also said it's puzzling that the company took 18 months to inform SGX (lawsuit was filed in July 2015 and SGX was informed in December 2016 according to the company), and asked why SGX did not direct the company to disclose immediately when it was informed. The SGX rules are clear – disclosure is required to avoid establishment of a false market and if the information is likely to materially affect the price or value of a company's securities. It states that "significant litigation" should be disclosed. It only exempts disclosure if it's against the law to disclose, or if the information is confidential, or a reasonable person would not expect the information to be disclosed, or it has to do with an incomplete proposal, etc. There is also the general dictum that when in doubt, disclose.

This is neither inaccurate nor misleading.

I am really troubled by the company's assertion that it told SGX about the litigation and SGX did not direct it to disclose immediately. If this is true, SGX has set a bad precedent for other companies, who can now use YuuZoo to justify non-disclosure of litigation and possibly other price-sensitive information.

References: YuuZoo: more troubling issues, Business Times, July 6, 2017; YuuZoo riddled with contradictions, Business Times, July 11, 2017

13. In my second commentary, I discussed the company's $2.9 million investment in Infocomm Asia Holdings (IAH), a company which is loss-making, had net tangible liabilities and owed YuuZoo about $6.5 million. YuuZoo impaired the investment and receivables for IAH to the tune of about $7.5 million in its latest AR. These are all based on the company's announcements and AR.

This is neither inaccurate nor misleading.

Surely, it is fair question to ask when a company makes an investment in a financially troubled company which owes it money in February 2015, and write off the investment and receivables in 2016.

Note that the company did not address this issue at all in any of its 3 responses.

14. I mentioned that the company in its announcement of Feb 16, 2015, said that the group was valued at $680 million when it had about 680 million shares and the share price then was about 36 cents. The market value would be about $244.8 million, not $680 million.

    My statement is not inaccurate or misleading. In fact, it is the company's statement that is misleading.

15. I said that the company announced its US$50-US$150 million investment into Relativity Holdings and that the deal was cancelled after the company had said it had closed it. I also quoted from the company's announcement claiming that some market observers had compared the deal with the Time Warner-AT&T deal that was worth US$85 billion and that the company implied that the comparison did not do its deal justice.

    Here are excerpts from the company's announcement on Oct 31, 2016:

    "This transaction has a tremendous fit where 1 plus 1 does truly equal 10," said Thomas Zilliacus, Executive Chairman of YuuZoo. … Some market observers have already compared the Relativity – YuuZoo deal to the recently announced acquisition of TimeWarner by AT&T….While the comparison between the two transactions is accurate, the YuuZoo – Relativity deal targets and reaches a much bigger global audience that includes the main focus of AT&T, i.e. USA and Latin America, but also Asia, Africa and Europe. YuuZoo with its partners and franchisees today covers 69 countries with more than 4.3 billion consumers. AT&T focuses on the US and Latin America, a market with some 940 million consumers."

    I really did google to find which market observers have actually compared the two deals. I found none. I only thing I found was a report in the Hollywood Reporter which said this: "In announcing that Singapore web giant YuuZoo has bought a 33 percent stake in Relativity Media, a bizarrely worded press release proclaimed: 'Some market observers have already compared the Relativity-YuuZoo deal to the recently announced acquisition of Time Warner by AT&T. Well, not quite."

    I said that questions should be asked as to why the deal was cancelled and the recoverability of the amount.

    My statements are not inaccurate or misleading. The independent third party undertaking the review should ascertain which market observers the company was referring to.

    In the company's third response, it said there was no need to ask why the deal was cancelled because it was already disclosed. The company had only said that the conditions were not met – and after it had said the deal was closed. Surely shareholders should be given more information after the YuuZoo had made such a song and dance about the deal and got shareholders all excited.

    It now said that deal was cancelled because Relativity had misrepresented its business. The independent third party should confirm that this is the reason for the deal cancellation.

16. I mentioned that YuuZoo had disclosed in November 2014 about a deal with Etisalat Nigeria. At that time, there was no mention of any franchisee being involved. In January 2016, it announced a "rationalisation transaction agreement" with Mark Cramer-Roberts (MCR) to buy over Etisalat rights for US$1.96 million from YuuZoo UK Social Solutions (YuuZoo UK), controlled by MCR. I asked if the Etisalat Nigeria deal first announced by the company in November 2014 was the same deal as the one announced in January 2016, and if so, why the November 2014 did not mention YuuZoo UK.

    I also mentioned that YuuZoo UK had £1 paid-up capital, had net tangible liabilities of about £180,000 and zero revenues based on the latest financial statements. I also mentioned that MCR had petitioned for bankruptcy in Australia in 2005.

    All these are factual information. There is nothing inaccurate or misleading.

    In its third response, the company said that I should know that YuuZoo operates through a network of franchisees, essentially implying that I and shareholders should know that there was a franchisee involved when it announced the deal in November 2014. As I mentioned in my third commentary, the company does not own the franchisees, and certainly does not own YuuZoo UK, so it should not have portrayed this as a deal between the company and Etisalat Nigeria without mentioning YuuZoo UK. The company has subsidiaries, including YuuZoo Nigeria, so it is possible that the deal was through a subsidiary.

    Note that YuuZoo did not answer why the company paid US$1.96 million and then impaired the entire net book value in its latest financial statements.

    The company "corrected" my second commentary by saying that Etisalat Nigeria is not YuuZoo's "partner". By this time, I am starting to think that YuuZoo does not know what it has announced. As I mentioned in my third commentary, in its November 2014 announcement on its deal with Etisalat Nigeria, YuuZoo mentioned "partner" or "partnership" at least 6 times. Rather than my statement being inaccurate or misleading, the question ought to be whether YuuZoo's November 2014 announcement is inaccurate or misleading in repeatedly referring to "partner" or "partnership". The independent third party should review this.

    The company's third response then took issue with my statement that Etisalat Nigeria has a US$1.2 billion bond default and that this was not announced. It advised that if I had considered the parent's financials, I would have noted that the parent would have easily dealt with the bond default of its subsidiary.

    When you throw a boomerang, you need to watch that it does not come back and hit you on the head. As I mentioned in my third commentary, I had done my research and found that the parent had not guaranteed the debts of Etisalat Nigeria. So it is the company that had not done its research. Certainly, my statement about the bond default and non-dlsclosure is neither inaccurate nor misleading.

    The company then asked about the relevance of mentioning that MCR was a bankrupt in Australia in 2005 when YuuZoo was only formed in 2008. It is relevant because MCR was not only involved in the Etisalat deal and paid US$1.96 million that was then impaired; he is disclosed as a director of YuuZoo Nigeria in the company's latest annual

report; he returned franchisees worth some S$15 million in 2015 which were offset against receivables owing and did not make any repayments in 2014 for those receivables and the remaining amount owing was written off; and he is one of the defendants named in the US lawsuit.

Perhaps the company can enlighten me as to which part of what I said is inaccurate or misleading?

As I mentioned in my third commentary, at the AGM, the executive chairman said that MCR is not a director of YuuZoo Nigeria, a subsidiary of the company, even though the annual report said so in at least two places. The independent third party should confirm whether the annual report or the executive chairman's statement at the AGM is correct. They cannot both be correct. The regulators should hold the company or executive chairman accountable, depending on which is incorrect.

17. In my second commentary, I mentioned that the company announced in 2016 a franchise agreement with Media Rock in Mexico, which it called a leading Mexican digital entertainment agency, and in 2017, a deal with Telkonex, which it called a emerging telco player in Congo.

    I said that I searched the internet and could not find anything at all about Media Rock, and for Telkonex, I found an Indian company with no proper business email address, no information about its business, and which last filed financial statements and held its AGM more than 7 years ago.

    Is it not reasonable to expect a "leading digital entertainment agency" and an "emerging telco player" to have information online and to expect franchisees to have some sort of track record in order to recognise revenues from sales to them?

    How is what I said inaccurate or misleading?

    Note that the company did not address the lack of information about the above franchisees at all. Hopefully, the auditors have looked into the franchisees when conducting its audit. Certainly, the independent third party should do so.

18. The company's third response took issue with my statement in my second commentary that the company had three sources of revenues: e-commerce revenue, franchises revenue and celebrity branded networks revenue. It says the claim is incorrect.

    Note 2.11 in the 2016 annual report mentions these three sources of revenues under revenue recognition. So how is the claim incorrect?

    It then makes truly the most bewildering statement by saying this: "A simple look at YuuZoo's website or mobile app reveals tens of thousands of items for sale in YuuZoo's many ecommerce stores."

    As I suggested in my third response, admitted sarcastically, perhaps it should list all these products in the notes to the financial statements in future. However, I doubt Amazon's financial statements will show Katy Perry's latest CD in its financial statements as a source of revenue.

19. In my second commentary, I had said that YuuZoo "recognises the entire amount of cash collected from the end-user as revenue because it said that its platform is unique, that it has created an ecosystem without which the transaction would not have been possible, and that it takes an element of credit risk for the fund transfer".

    The company said that my claims are incorrect. It goes on to say that it this is the case, it would make no sense under FRS 18. As I said in my third commentary, that is taken from YuuZoo's own notes to the financial statements and this is also mentioned in the emphasis-of-matter section of the auditor's report. So is the annual report and the emphasis-of-matter paragraphs in the auditor's report wrong?

    In another note to the financial statements, it does mention taking on "full financial risk". So, does it take an element of credit risk or full financial risk?

    Surely my statements cannot be inaccurate or misleading if they are based on the company's own financial statements and the auditor's report?

    The independent third party should review whether the company's annual report is correct, or which part is correct, or whether the company's third response is correct. Note that the executive chairman at the AGM also claimed that the company takes on full financial risk. Certainly, they cannot all be correct.

20. In my second commentary, I mentioned the following: "On May 18, 2017, YuuZoo explained changes to its business model for franchise sales and revenue recognition from these sales. Prior to 2015, the company sold its franchise packages for cash. In 2015, it changed to selling its franchise packages in return for shares in the companies that operate the franchise. This new model was based on advice received from a "Big 4" accounting firm (which it named in its latest annual report as KPMG). It then used another "Big 4" accounting firm (which it has not named) and a "leading US expert" to value those shares, which it previously identified as Charfi Valuation Services LLC, "a recognised New York-based investment bank". The New York Department of State website shows that Charfi filed as a domestic limited liability company in New York on July 11, 2014. There is little information online about Charfi."

    This is based on information disclosed by YuuZoo and through a company search on the New York Department of State website. There is nothing inaccurate or misleading.

    Note that the company did not respond to my comment about Charfi. The independent third party should validate the credentials of Charfi and whether it is indeed a "leading US expert" and "a recognised New York-based investment bank" as YuuZoo had claimed in its announcements. This is important not only because the company had made these assertions in its announcements, but because it's revenue recognition policy in 2015 is based on valuations provided by Charfi. Note that the 2015 financial statements received a disclaimer of opinion from external auditor, Moore Stephens LLP.

I have now gone through my three commentaries and have not been able to figure out which statements I have made are inaccurate or misleading. On the contrary, my third commentary

and this article have raised further questions about the accuracy of the company's disclosures and also highlighted questions raised that YuuZoo have not answered.

It is important that the independent third party does a thorough review of all the facts, including what I have written in this article. The SGX needs to ensure that the review is robust it and other regulators must take enforcement actions where warranted. The credibility of our market is at stake.

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