

# YuuZoo riddled with contradictions

The company's response to questions raised about its business dealings contradicts its own statements and reports. **BY MAK YUEN TEEN**

**O**n July 6 and 7, YuuZoo Corporation issued three announcements responding to my two commentaries published in *The Business Times* on issues relating to its corporate governance, disclosure and accounting (*YuuZoo Corporation: A Governance Nightmare* on July 5 and *YuuZoo: More Troubling Issues* on July 6).

Its first announcement addressed my comments on the appointment and cessation of the company secretary, and the possible self-review threat and conflict of interest in having the company secretary and the compliance adviser from affiliated firms.

While I do not agree with YuuZoo's responses, my views on these issues have more to do with the spirit of the listing rules and best market practices, as opposed to mere compliance with the letter of the listing rules, which was the approach taken by YuuZoo.

The former compliance adviser – it has ceased being YuuZoo's compliance adviser since last October – has responded privately to me with its views on these matters. I appreciate the openness and and consider the matter closed with regard to those issues.

Let me now respond to YuuZoo's second announcement. In my first commentary, I highlighted the departures of at least 15 directors and other key officers since it commenced trading on the Singapore Exchange in September 2014, and flagging the apparent or impending departure of yet another chief financial officer and independent director.

YuuZoo said that many of these departures were due to the board's dissatisfaction with the company's performance and the inability of key office holders to meet its "exact targets and KPIs". But do these also apply to the executive chairman?

It further said that this policy extends to directors of the board. Is YuuZoo suggesting that some of the directors, including independent directors, left the company because they were asked to resign?

At YuuZoo's annual general meeting on July 7, which I attended as a proxy, YuuZoo's executive chairman Thomas Zilliacus told shareholders that James Strabo, the independent director who decided not to seek re-election after joining the board only in February this year, was "not contributing".

Is Mr Zilliacus suggesting that Mr Strabo was asked to leave? This comment is grossly unfair to the latter who did not have the chance to be heard. It should be noted that under the Companies Act of Bermuda, where YuuZoo is incorporated, the removal of directors is subject to the bye-laws of the

company and generally require the approval of a special general meeting of shareholders and the director has a right to be heard.

## LACK OF EXPERIENCE

On my comments about the departure of compliance adviser Macquarie Capital well before the end of its two-year term, YuuZoo explained that it was directed by SGX to appoint Macquarie at the time of the reverse takeover. It said that immediately after listing, it sought SGX's approval to replace Macquarie with another compliance adviser because Macquarie was proposing to charge a US\$1 million fee for the two years and that it did not have the experience of acting as a compliance adviser in Singapore.

It is surprising that the fee was not agreed before the company disclosed the appointment of Macquarie for a two-year term in its reverse takeover circular. It is even more surprising that SGX apparently directed YuuZoo to appoint Macquarie as compliance adviser when Macquarie did not have the necessary experience, according to YuuZoo's explanation.

In YuuZoo's circular, it said it would endeavour to appoint an internal auditor. It explained that it failed to do so after nearly three years because the internal auditor is appointed by the board on the recommendation of the



Mr Zilliacus (above) told shareholders that independent director James Strabo was "not contributing". PHOTO: BLOOMBERG

audit committee and that the committee had not made any recommendation to the board.

Perhaps this has something to do with the two audit committee chairs leaving after six months or less, and YuuZoo failing to appoint a replacement chair for nearly two years. The failure of the committee in recommending an internal auditor cannot be used as an excuse, especially after the company said in its circular that it would do so.

YuuZoo said it did not disclose the lawsuit it was facing, along with Mr Zilliacus and others in the US, because it considered the claims frivolous and the amount immaterial. It added that the board had discussed the matter immediately after being notified in July 2015 and decided that disclosure was not necessary under Chapter 7 of the SGX Rulebook. It also said it notified SGX last December of the decision.

The SGX Rulebook requires immediate disclosure of material information – to avoid the establishment of a false market in the issuer's securities or materially affecting the price or value of its securities. "Significant litigation" is specifically mentioned as requiring immediate disclosure.

While the claims may be frivolous in YuuZoo's view, that has yet to be decided by the court. And if the court does rule in the plaintiffs' favour, it may award additional punitive damages sought by the plaintiffs. YuuZoo should have promptly disclosed the litigation, stated its views, and explained the action it was taking to defend itself. It is also puzzling why YuuZoo took 18 months to inform SGX about the decision not to disclose – and why SGX did not immediately direct YuuZoo to disclose.

Let me now turn to YuuZoo's third announcement which asserted that my second commentary "contains several erroneous statements and poses misleading questions".

At the AGM, I pointed out that Mr Cramer-Roberts is a director of YuuZoo Nigeria, a subsidiary of the group. The executive chairman interjected to say that Mr Cramer-Roberts is not a director of YuuZoo Nigeria or any subsidiary of the group. This contradicts YuuZoo's 2016 annual report, which mentions his directorship in at least two places. When I pointed this out, the chairman said that the annual report, a statutory document signed off by directors, was wrong. Whether Mr Cramer-Roberts is a director can be verified through the Corporate Affairs Commission in Nigeria.

YuuZoo also said that Etisalat was not a "partner" as I had mentioned, but a "client". YuuZoo was contradicting its press release on November 26, 2014, where it called Etisalat a partner and mentioned "partner" and "partnership" at least six times.

## CONTRADICTING STATEMENTS

On my point about YuuZoo not having disclosed the US\$1.2 billion bond default of Etisalat and how it would affect the partnership with Etisalat and its foray into Nigeria, it said that if I had taken the time to consider the financials of Etisalat's parent, the Abu Dhabi-based telco giant, I would have clearly noted that the parent would have easily dealt with the bond default issue.

I did. According to an S&P report in March 2017, the parent did not guarantee the debts of Etisalat. It was also reported later that the parent aborted the attempt to stave off the takeover by the consortium of 13 creditor banks and that it was transferring its 45 per cent ownership to these banks. YuuZoo should heed its own advice and do more research and due diligence on its franchisees and partners.

YuuZoo then mentioned what it saw as recent positive developments with respect to the restructuring of Etisalat. Regardless of whether they were positive or not, a company cannot use future developments to justify lack of past disclosures. YuuZoo had agreed to pay US\$1.96 million in shares to Mr Cramer-Roberts to transfer the Etisalat rights to itself in 2016. And in its 2016 financial statements, it fully impaired the net book value of this intangible asset. If those rights are valuable, why the full impairment?

YuuZoo then made the bewildering comment that my statement on the company having three sources of revenue was incorrect because it has thousands of products for sales in its e-commerce stores. Those three sources were mentioned in YuuZoo's notes to its financial statements, so perhaps it should list the thousands of products in the notes in future.

YuuZoo also took issue with my statement that it recognised revenue from its YuuCollect platform on a gross basis because it claimed that its platform was unique and that it took on an element of credit risk. YuuZoo said it did not take on an element of credit risk but full financial risk, and that it had never mentioned that its platform was unique.

This is what YuuZoo said in note 2.11 in its latest financial statements: "The Group is of the opinion that the platform used to transfer and facilitate the movement of funds is unique for the purposes it aims to achieve. The Group is of the view that it has created an ecosystem, through its YuuCollect platform, that allows the merchant and end user to transact, without which the transaction between the two parties would not have been possible. The Group is of the view that it takes an element of credit risk for the transfer of funds. Therefore, the Group is of the view that it has a basis to account for the transaction on a gross basis."

This statement was repeated in note 3.1 under "Critical judgments" and Emphasis of Matter(i) in the auditor's report. Are these also errors in its annual report and the auditor's report?

In note 3.1, YuuZoo mentioned taking on "full financial risk". If this was true, shareholders should ask whether the commission that YuuZoo was receiving adequately compensated for taking on such risk.

YuuZoo's responses to my commentaries do not address a number of the issues I raised, including investments in poorly performing companies and transactions that resulted in relatively large and quick impairments, and lack of information about franchisees. Worse, its responses and statements by the executive chairman at the AGM seriously contradicted its own annual reports and announcements.

■ The writer is an associate professor of accounting at the NUS Business School where he teaches corporate governance.

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