

# YuuZoo: A company like no other

Its results and deal announcements seem to contain incredulous numbers and information gaps. **BY MAK YUEN TEEN**

**S**INCE July 5, 2017, I have written several articles relating to corporate governance, disclosure and accounting issues at YuuZoo Corporation. Among the numerous concerns I have raised are highly positive announcements about business deals and other developments with little supporting information, only for them to fall through, be written off or never to be heard of again.

For example, when YuuZoo announced the deal to buy Relativity Holdings LLC on Oct 30, 2016, it said that the transaction has a “tremendous fit where 1 plus 1 does truly equal 10”. The math was wrong as the deal was not only cancelled, but an amount of US\$2.5 million already paid has not yet been recovered.

Another example was the deal announced on Feb 16, 2015 to buy IAH. It said then that it was issuing 50 million shares at an issue price of S\$1 each, and based on the 680 million issued shares at the time, YuuZoo was valued at S\$680 million – even though the last traded price then was 36 cents per share, which implied a market capitalisation of about S\$245 million. Such a valuation method certainly did not come from Warren Buffett. In fact, the deal was value destroying as YuuZoo wrote off S\$7.49 million on its IAH investment and receivables in its 2016 financial statements.

The issues that I and others have raised are still subject to an independent review by Ernst & Young that was announced on Oct 19, 2017. Yet, YuuZoo has continued to make highly questionable disclosures.

For example, on Oct 30, 2017, YuuZoo announced that a mobile game it is marketing, *Unstoppable Rex*, has an average revenue per paying user (ARPPU) of US\$23 and more than 186,000 downloads. A report on *pocket-gamer.biz* in September 2016 said that the *Pokemon GO* game was getting an average revenue per user (ARPU) of US\$1 after surpassing US\$500 million in revenue. An investor who is not careful may have inferred that *Unstoppable Rex* was outrunning *Pokemon GO* in terms of revenue per user.

YuuZoo did not mention the number of paying users or how many paying users the ARPPU was calculated from. Further, as it is only marketing the game, it is unclear how much of the revenue would go to YuuZoo. What can we make of the US\$23 and the 186,000 downloads? Actually, nothing at all.

On March 7, 2018, the Securities Investors Association (Singapore) (SIAS) hosted a dialogue session between the management of YuuZoo Corporation and its shareholders. YuuZoo chairman Thomas Zilliacus addressed shareholders at the session.

The following day, the company issued a press statement on SGX which said: “During the dialogue session, the Company informed investors about a new organisational structure with a focus on 5 geographical regions run from 5 geographical regional head offices, and revealed a strong pipeline of new projects with a strong earnings potential.”

It went on to say that a real estate project that it is embarking in Harbin, China, with its Chinese joint venture partner could have a market value exceeding S\$4 billion when fully completed. And just like that, a small social media and e-commerce company would transform into a company with a multi-billion dollar real estate property.

It also said that its joint venture in the logistics business in France – or in its words “end-to-end digilogistics” – could bring the

revenue of YuuZoo’s French operations to more than S\$600 million annually, from the current entertainment products alone. At this rate, some company on the *Straits Times Index* may soon have to make way for YuuZoo.

## BRIEF HOPE

A long-time investor in the company who attended the session was clearly impressed as he was quoted in a business newspaper as saying “We thought that our investments were all gone. But at least, you give us hope.”

As it turned out, hope briefly fluttered as between March 7 and 9, YuuZoo’s share price rose from 3.8 Singapore cents to 4.2 cents, or just over 10 per cent. This reversed a recent downward trend, including a 17 per cent fall on March 5 and 6, following a list of queries and notice of compliance issued by SGX relating to its Q4 2017 and FY 2017 results.

It therefore appears that the information disclosed at the dialogue session and the press release could have led to an increase in share price. On March 9, I posted an article on my website (*governanceforstakeholders.com*) raising questions about the company’s results announcement and briefly questioning the Harbin project and the French operations. By March 14, the share price had fallen back again to 3.9 cents but I plead not guilty to destroying shareholder value.

Let’s consider these facts. As mentioned, YuuZoo has a market capitalisation of about S\$30 million. Based on its latest unaudited results, it has a cash balance of S\$3.2 million, and cash flows from operating activities for Q4 2017 of S\$519,000 and negative S\$4.7 million for the full year. YuuZoo is incorporated in Bermuda which requires all shares to have a par value and which does not allow shares to be issued at a discount. Given that its par value is US\$0.10, it would appear that it would not be able to issue any new shares at its current market price, unless it obtains shareholders’ approval to reduce its par value.

Given the resources available to YuuZoo, how does it propose to finance its investment in these joint ventures that promise to deliver such incredible results?

Rule 703(4) of the SGX Rulebook requires issuers to comply with the Corporate Disclosure Policy in Appendix 7.1. Appendix 7.1 states that the content of a press release or other public announcement must be “balanced and fair”, and should avoid the “presentation of favourable possibilities as certain, or as more probable than is actually the case” and “presentation of projections without sufficient qualification or without sufficient factual basis”. Back in July 15, 2016, SGX had reprimanded YuuZoo on a May 2015 announcement regarding a positive research report.

Section 199 of the Securities and Futures Act makes it an offence to issue false or misleading statements. Section 200 prohibits the making or publishing of any statement, promise or forecast that is misleading, false or deceptive to induce or attempt to induce another person to deal in securities.

Let me now turn to the company’s results announcements for 2017 Q4 and 2017 FY, which have already attracted queries and a notice of compliance from SGX, which also asked it to correct errors in these results.

The notice of compliance relates to two items. First, “other income” increased from S\$159,000 in Q4 2016 to S\$8 million in Q4 2017. YuuZoo had recognised a gain of nearly S\$8 million from the “bargain purchase of as-

sets” for YuuLog France. During Q4 2016, it had paid S\$135,000 to purchase property, plant and equipment. Aside from questions about accounting treatment, one may question why YuuZoo is able to pull off such a bargain purchase. Is it a case of a “smart buyer” or a “dumb seller”?

Second, while impairment of assets available for sale (AFS) has increased from S\$4.46 million to S\$17.53 million between Q4 2016 and Q4 2017 (and between FY 2016 and FY2017), AFS on the balance sheet for the full year has increased from S\$33.25 million to S\$54.24 million. AFS are shares issued by franchisees for network sales. If there is such a large increase in impairment of AFS this quarter and FY, the question arises as to whether additions to AFS on the balance sheet are overstated and will also be impaired in future. I am therefore pleased that SGX is asking the auditors to review these by March 19.

If we compare the unaudited Q4 2016 results which the company has shown as comparatives in its latest results announcement with the Q4 2016 results the company announced last year, the numbers are totally different. The unaudited full-year numbers announced by the company last year are also very different from the audited numbers that eventually appeared in the annual report. This suggests that the company’s unaudited results cannot be relied upon and also raises questions about its internal controls over financial reporting and the competency of its finance function.

## BINARY OPTIONS

There are other issues raised by the Q4 2017 and FY 2017 results.

For the first time ever, the company’s financial statements show income tax expenses, with the amounts being S\$774,000 and S\$818,000 respectively for Q4 2017 and FY 2017. Why were there no tax expenses shown in previous years? Is the company liable for any unpaid taxes for prior years’ income?

The notes to the financial statements also show the issuance of shares relating to YuuZoo’s drawdown arrangement with GEM Global Yield Fund (GEM). On Oct 26, 2017, YuuZoo had announced the issue of 10 million shares to GEM at S\$0.058 but this is not reflected in the changes in capital. The issue price was below its par value of US\$0.10. As mentioned earlier, the issue of shares below par value is not permitted under the Bermuda Companies Act. If they were not issued, why was there no subsequent announcement about the share issuance being cancelled? Prior to this, YuuZoo had also issued shares below its par value to GEM. Are these past issuances void given that they apparently do not comply with the Bermuda Companies Act?

The segmental breakdown for 2017 shows that e-commerce revenue was S\$3.85 million, compared to S\$51.83 million in the audited FY2016 results. The company first said that this huge drop was due to the suspension of certain payment-related services during the year.

When queried by SGX, it said: “In 2017, the Company decided to suspend the bulk of its core payment business channel for its YuuPay subsidiary, which primarily transacted in the Binary Options and Forex Industry. This was due to the rise in poorly regulated merchants over the last two years in the Binary Options and Forex Industry, and the subsequent decision by the Company to withdraw from a business space it found increasingly unethical.”

This sounds really noble. Did the company require and obtain any licence to transact in binary options and forex in the first place?

As we await the outcome of the independent review, YuuZoo continues to explore new frontiers, going where no company has gone before.

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■ This commentary was written before the suspension of YuuZoo’s shares on Monday evening