

YUUZOO NETWORKS GROUP CORPORATION
(formerly known as YuuZoo Corporation Limited)
(BVI Company No: 1988576)
(Incorporated by way of continuation in the British Virgin Islands)

RESPONSES TO SIAS'S QUERIES

The Board of Directors of YuuZoo Networks Group Corporation (the “**Company**” or “**YuuZoo**”, and together with its subsidiaries, the “**Group**”) refers to the questions received from the Securities Investors Association (Singapore) (“**SIAS**”) ahead of the Company’s Annual General Meeting to be held on 26 October 2018 at 9.30 a.m. at 87 Science Park Drive, Oasis, Level 1 Palm Room, Science Park 1, Singapore 118260. The Company wishes to provide its response to queries below:

Q1. On 19 March 2018, the Singapore Exchange Regulation Pte Ltd (RegCo) suspended the trading in the shares of the company, then known as YuuZoo Corporation Limited.

This follows a Notice of Compliance (NOC) issued to the company by the Singapore Exchange Regulation Pte Ltd on 5 March 2018 requiring the company to make specific disclosures by 19 March 2018 of the opinion of its statutory auditors on the veracity and reasonableness of the following items in its consolidated financial statements:

- **Other income of S\$8.0 million due to the purchase of assets related to the formation of YuuLog France for the financial year ended 31 December 2017 (FY2017);**
- **Balance of assets available for sale of S\$54.2 million as at 31 December 2017 and corresponding revenue of S\$38.4 million from network development and franchise sales for FY2017.**

The suspension of the trading in the shares of the company was made, pursuant to Listing Rule 1303(5), in the interest of maintaining a fair, orderly and transparent market.

- (i) **Would the board, especially the independent directors, help shareholders understand the ongoing efforts by the board and the company to make the specific disclosure relating to the veracity and reasonableness of the two items in its consolidated financial statements?**

Company’s Response

The Board of Directors, including the independent directors, would like to assure its shareholders that it will continue to provide updates and specific disclosures to keep them informed on the financial statements of the Company.

According to RT LLP (YuuZoo’s statutory auditors) in an email reply dated 23 October 2018, the amount of Other Income of S\$8.0 million that was reported in the Company’s SGX announcement dated 1 March 2018 was no longer included in the FY2017 audited financial statements. As the amount was not accounted or reported in the financial statements, it has become a non-issue and cannot be opined on or reviewed by the auditors.

The balance of assets available for sale (“AFS”) of S\$54.2 million that was reported in the Company’s announcement dated 1 March 2018 was no longer included in the FY2017 audited financial statements. The brought forward AFS (which was audited) from 2016 was fully impaired and additions in 2017 were not recognized in the financial statements. In addition, the Group did not recognize revenue related to the Network Development and Franchise Sales in the FY2017 audited financial statements. As these amounts were not accounted or reported in the financial statements it has become a non-issue, and cannot be opined on or reviewed by the auditors.

The Company understands from its auditors that the work to ascertain veracity and reasonableness would have only been possible if transactions or amounts were reported for the said accounts.

- (ii) Following a second Notice of Compliance issued by the exchange on 2 April, what are the directors' efforts to help the company to resume the trading of the shares on SGX-ST?

Company's Response

Following the completion of YuuZoo's audited accounts of FY2017, the Board worked with SGX to address its concerns towards resumption of trading of its shares on the SGX-ST. Meanwhile, the Board is sourcing for capable candidates to strengthen and compliment the capability and knowledge of the management and working team to enhance the level of expertise and governance in the Company.

The Board is giving its full support to its Chief Executive Officer, Mohandas to expand and compliment the capability of the management team in the Company, particularly the Finance, Legal and Compliance team so that the business units in the Company will be better supported. Meanwhile, Mohandas and the management and working team are doing their utmost to generate revenue for the Group and sustain growth in the near future.

We are committed to keep SGX and shareholders apprised on the developments in the Company and we believe we would be able to regain the confidence of SGX and the public in the near future when trading of Yuuzoo shares resumes.

- (iii) On 19 October 2017, the company announced that it had appointed Ernst & Young (EY) to carry out an independent review. Can the audit and governance committee (AGC) disclose the scope of the independent review? Has the AGC reviewed the access given to EY? Who is overseeing the independent review?

Company's Response

The Company is working with Ernst & Young towards an expeditious completion of the review. Upon its conclusion, the AGC will seek to disclose the scope of the independent review as well as a summary of its findings, appropriately, based on legal and compliance advice provided by its lawyers.

- (iv) In addition, the board has overall responsibility for corporate governance, strategic direction, policy formulation and overseeing of the investment and operations of the group. How effective has the board been in leading and controlling the group when there have been frequent changes to the board composition and membership?

Company's Response

One of the key challenges when a company is facing headwinds like YuuZoo is to ensure that the company continues to attract capable and experienced talents to the Board of Directors and the management team.

Despite the changes in the Board of Directors, the Company has ensured that there is continuity and stability in the Board. The Board has also been strengthened with the inclusion of a Singapore practicing lawyer, Joseph Lee from LVM Chambers. The Board is concurrently reviewing the eligibility of several candidates and it will announce suitable new directors in due course.

Q2. Would the board/management provide shareholders with better clarity on the following matters?

- (i) **New ventures: Does the company have a structured and formal framework for its deal sourcing? What is the level of due diligence carried out by management prior to any new investment? Specifically, please state the level of commercial due diligence carried out prior to its joint venture with the management of Cinram France and in the Harbin projects?**

Company's Response

YuuZoo follows normal commercial procedures in sourcing new businesses. Proper due diligence has been carried out for each new venture. For instance, due diligence was carried out in:-(i) the offer for the assets of Cinram France, together with the former senior management members of Cinram France; and (ii) in the formation of the joint venture in relation to the two framework agreements in Harbin, which were executed to date.

In the years leading to the current board of directors and management team, the visionary and driving force of the Group had been its controlling shareholder and co-founder, Mr Thomas Zilliacus. The business envisaged by Mr Zilliacus was a new, dynamic and high-growth business which is currently still evolving and developing in the world. However, with this came the business risk too. Nimbleness in taking calculated business risks was key to YuuZoo achieving initial success in its ventures. YuuZoo's peers in the industry (in more developed capital markets in the world) have been trading at significantly higher valuations than YuuZoo. Most of these peers companies are loss-making notwithstanding the fact that their businesses are expanding globally. Due diligence had been performed on all the Company's acquisitions, with the prime consideration that the acquisitions will add to the total value of YuuZoo. This method of acquisition has been well documented by other companies in this business, and every acquisition adds synergistic value to the company as a whole.

Following the resignation of Mr Zilliacus and with the Company's current cash position, the board of directors and its management will continue to perform due diligence prior to any of its investments, albeit with a lower risk threshold from now on.

- (ii) **Approval: What is the board approval process for the group's new investment? What is the threshold that would require prior board approval?**

Company's Response

The board will review all potential investments (subject to the following financial exposure threshold) conducted by the company based on information provided by the management team and the due diligence conducted on the potential investments. The financial exposure threshold for investments to be reviewed and approved by the Board is given below:

Transactions which will subject or commit the Company to financial liability, obligations or commitment including giving of guarantee, sureties, indemnity, loan or advance which exceeds the sum of SGD1,000,000 in aggregate per transaction (excluding employment matters).

- (iii) **Internal controls and risk management:** Has the board evaluated the adequacy and integrity of the group's internal controls and risk management system? With operations spanning several countries, including China, France, Thailand, South Korea, India and Nigeria, and in diverse industries such as logistics, social commerce, property development, e-payment, what is the depth of its management team and of the board to maintain provide oversight and control of all the businesses?

Company's Response

The Board has constantly reviewed and assessed the adequacy and integrity of the Company's internal controls and risk management system. With the expansion of the Company's businesses, the Board will be supported by MRI Moores Rowland LLP (its appointed internal auditor) in ensuring that the internal controls and oversight are adequate.

Q3. On 26 September 2018, the company announced that there are material variances between the unaudited results (first announced by the company on 1 March 2018) and the audited financial statements for FY2018 after the finalisation of audit.

Some of the changes in the financial statements included:

- Decrease of total income by \$(52.1) million
- Profit after tax decreasing by \$(103.0) million and turning into a loss of \$(100.7) million
- Equity attributable to owner of the company decreasing by \$(100.6) million and turning into a deficit equity position of \$(6.5) million

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Financial Reporting Standards (FRSs) in Singapore and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, where due to fraud or error. Following the cessation of Mr. Thomas Zilliacus as executive director, the company has identified Mohandas as the only key management personnel.

- (i) **Can management help shareholders understand the current depth of its management team?**

Company's Response

YuuZoo is an investment holding company. The investment holding structure and how it is to be operated has been further defined and made clearer in 2018. Each business is run by an independent management team, led by an independent CEO and will be supported by a separate board for each subsidiary that oversees the operations of that subsidiary. This brings to each subsidiary the required expertise and depth to run each business.

On the investment holding company level, the management team is focused on the management of each holding. The holding company's board has also been strengthened by the addition of a strong Singaporean lawyer, and there is a proposal to also add a strong Singaporean finance expert who is the CFO of a SGX-ST listed company.

- (ii) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the FRSs?**

Company's Response

All YuuZoo's accounts have been prepared and audited in accordance with FRSs and the same has always been adopted and confirmed by YuuZoo's auditors. The Company has always prepared its financial accounts to the best of its ability and the Company will continue to ensure that its financial statements are free from any misstatement whether due to any unintentional error or otherwise.

- (iii) Has the AGC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

Company's Response

The AGC has maintained strategic oversight to ensure the Company has sufficient staffing, either in-house or outsourced, to ensure integrity of financial statements. Periodic interactions have been ongoing and maintained to establish the quality of the resources.

- (iv) Does the AGC review and evaluate the critical accounting judgements and the assumptions used in the preparation of the financial statements with management?

Company's Response

Several AGC meetings were conducted with the key management team to review the accounting judgments and assumptions used. Several meetings were also held to follow through the audit processes with the statutory auditors as well.

- (v) As the directors have responsibilities to oversee the group's financial reporting process, can the directors, especially the directors in the AGC, help shareholders understand their individual and collective efforts in the preparation of the group's financial statements so as to give a true and fair view in accordance with the FRSs?

Company's Response

Besides AGC meetings and Audit meetings, the AGC also had discussions with the management team and CFO to understand and guide where necessary on maintaining the integrity of the Group's financial statements.

- (vi) Please provide shareholders with a detailed plan of the improvements to be made to the group's financial reporting processes.

Company's Response

As part of the Company's continuing efforts to enhance the financial reporting and governance process, the Board and its management intend to focus on the following key tasks:

- a) To recruit a more experienced financial professional with particular experience on financial governance in Singapore public listed company for purpose of complementing the existing Board.
- b) To recruit an experienced financial professional as the Chief Financial Officer to lead the financial management and reporting team in YuuZoo.
- c) To expand the team of the Finance Department in order to better supports the existing finance team in Yuuzoo.
- d) To follow up with MRI Moores Rowland LLP, our outsourced internal audit service provider to support the Board in providing oversight of financial reporting process.

BY ORDER OF THE BOARD

Mohandas
Chief Executive Officer and Executive Director
25 October 2018