YUUZOO CORPORATION LIMITED
(Company Registration No:36658)
(Incorporated in Bermuda)
(the "Company")

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Company refers to the announcement released on 28 February 2017, in relation to the unaudited financial results for the financial year ended 31 December 2016. In response to the following queries from the Singapore Exchange Securities Trading Limited, the Company provides the information set out below:

Query 1: *The Company announced revenue of SGD104.8 million and profit before tax of SGD34.6 million for the full year ended 31 December 2016. On 5 May 2016, the Company issued a press release ("2016 Press Release") on its first quarter financial results for the period ended 31 March 2016. In the 2016 Press Release, the Company announced that "As a result of the very strong Q1 numbers, YuuZoo is giving a full year forecast of revenue of SGD 202.8 million and EBIT of SGD 48.1 million". It was disclosed in the footnote of the 2016 Press Release that "Revenue and EBITDA forecasts are based on current transaction levels of e-commerce and payments business, contracted network sales agreements that have been or will be completed in the current calendar year, and franchise sales that have been completed in the first quarter of the year together with those further franchise sales that the Company is confident will be consummated before financial year end."*

(a) Please provide a detailed explanation on the reasons for the significant variance in revenue and profit before tax between the forecasted results and the announced results. If the variance is due to a change in the revenue recognition basis, please provide details and breakdown.

(b) Explain whether the Company could have issued a profit update earlier.

Response to 1(a): YuuZoo's Revenue Recognition Policy is based on advice from a Big Four accounting firm. In December 2013, the Big Four firm produced a report for YuuZoo called "Accounting Advice on Franchise Agreement and Celebrity-Branded Network". YuuZoo opines the accounting advice from the Big Four firm is sound and in accordance with FRS. Beginning with its FY2014 accounts, YuuZoo has therefore followed this accounting advice given by the Big Four accounting firm.

The accounting advice includes advice on recognizing as revenue the payment in shares received from YuuZoo's franchisees as payment for the provided franchise licenses and platforms. YuuZoo switched from a cash-based payment to a share-based payment in FY2015. In order to confirm the values for the shares received as payment, YuuZoo in 2015 engaged another Big Four accounting firm, which in April 2015 produced a report called "Valuation Report on the Fair Value of YuuZoo's Interests in the Franchisees". In 2016, the Company also engaged a US-based valuation firm to provide an additional valuation report on the same subject. This valuation gave the Company further confidence in the correctness of the valuation of the shares received as payment.

Following the Revenue Recognition Policy advised by the Big Four accounting firm and used by YuuZoo since 2015, and using the valuation methodology of the US-based valuation firm, YuuZoo in 2016 sold franchise licenses for a total amount of SGD 43.5 million. Including that full valuation amount, YuuZoo's EBIT in 2016 would have been SGD 50.1 million, i.e. above the forecast of SGD 48.1 million given on 5th May 2016.

The current auditors of YuuZoo had not finished their audit on the 2016 numbers by the time the 2016 results announcement had to be made. They had in the YuuZoo AC meeting held on the day of the announcement on 28th February 2017, informed YuuZoo's AC that they had not yet formed a definitive opinion on YuuZoo's Revenue Recognition Policy.

In view of the YuuZoo's current auditors not having a definitive opinion on February 28th 2017, and in view of some earlier public criticism of YuuZoo's accounting policies (see e.g. Business Times Hock Lock Siew on 18th August 2016 "YuuZoo's accounting may be too aggressive") which resulted in negative sentiments to YuuZoo's share price (see e.g. "4 things to know about YuuZoo Corp – Why Not Invest" on 26th October 2016), the board of YuuZoo decided on 28th February 2017 to make the following changes in order to adopt more prudent and conservative revenue recognition and accounting policies:

1. Instead of relying on the valuation report to determine the value of the franchise license sold and the revenue to be recognized, the Company would delink the valuation report from the value of the sale of the franchise license and recognize, as it did when the franchise licenses were sold in cash during 2011-2013, only a one-time license fee. The license fee is set by the company and is as in 2011-13 based on the addressable market (Internet market) for each franchisee, and the combined historical ARPU (Average Revenue Per User) from the three main revenue sources of YuuZoo's social commerce platforms, i.e. e-commerce, advertising and games in that market.

2. As YuuZoo continues to believe that the shares of its franchisees have the potential to increase significantly in value over time and that the Company by selling the shares at the right point in time can deliver better returns to YuuZoo shareholders, YuuZoo still prefers to take payment for the license in shares. In each case the value of the shares received as payment is, based on the valuations performed, significantly higher than the license fee charged and booked as revenue.

3. A direct result of the above is that the EBIT for 2016 is reduced, in this case from SGD 50.1 million to SGD 34.6 million.

Response to 1(b): As explained above, the Decision to change the revenue recognition policy was taken on the day of the announcement itself. As such, Yuuzoo could not have made a profit warning announcement before the results were released.

Query 2: *The Company announced that "the Group restated the financial statements for FY 2015 due to write off of SGD 16.8 million of trade receivables. Therefore, net profit for FY2015 is restated from SGD32.8 million to SGD 15.9 million."*

Please explain the reasons for writing off SGD 16.8 million of trade receivables. In your response, please provide the following:

(a) Detailed breakdown of the receivables by customer name, nature of the sales and date on which the receivables were recorded in the Company's books.

(b) Circumstances that justify the writing off of the receivables in 2016. This should include what efforts were taken by the Company to recover these debts and the outcome.

(c) If the debts have been long outstanding, explain whether any previous provisions were made in the accounts and provide the Board's justifications if no provision has been made.

(d) Reasons for restatement of the 2015 financial results.

(e) Whether any of the debtors (whose debts amounting to SGD 16.8 million have been written off) have any connection or have any relationship, directly or indirectly, with the Company's directors or controlling shareholders.

Response to 2(a): The receivables are from network sales of SGD 16.8 million to YZ Australia, YZ International and related parties ("YZ Group") in Australia and the USA between 2011 to 2013.

Response to 2(b): YZ Group paid in cash to YuuZoo all of their invoices on the dates that they were due. In 2015, after some invoices remained unpaid past due date, YuuZoo agreed with YZ Group that YZ Group would settle the debt remaining by transferring to YuuZoo its Mexico franchise, for which YuuZoo had a valuation done by an independent valuer. The valuation confirmed that the Mexico franchise was worth more than what was owed to YuuZoo by YZ Group.

YuuZoo's decision in 2017 to delink the valuation of the franchisees from the franchise license fee and to take a more conservative approach and book a lower revenue in the form of the lower license fee has a direct impact also on the book value of the Mexico franchise. The decision to book a lower franchise fee means the book value of the Mexico franchise no longer covers the YZ Group debt. Accordingly, the Company decided to write off the YZ Group debt.

Response to 2(c): YZ Group paid, on the dates agreed, what it owed YuuZoo, and confirmed it would be able to continue paying when invoices were due.

There was therefore no reason to make any provisions earlier.

Response to 2(d): Please refer to the response to 2(b).

Response to 2(e): YZ Group does not have any connection or relationship, directly or indirectly, with the Company's directors or controlling shareholders.

Query 3: *It was disclosed in the press release issued on 28 February 2017 that "In reporting its 2016 numbers, YuuZoo has decided to no longer recognize revenue based on the valuation of the shares it has received in payment for its franchise licences. The company instead sets a price on each licence it sells based on the size of the addressable market and the combined ARPU (Average Revenue Per User) of e-commerce, advertising and games".*

(a) Please explain the reasons for and circumstances that led to the change in revenue recognition method.

(b) What are the fundamental differences between the new revenue recognition method adopted in 2016 and that previously adopted?

(c) In reporting the 2016 financial results and the 2015 comparative figures, is the new revenue recognition method applied to all pre-existing licensing agreements entered into by the Company with its clients whose value is reported under "assets available for sale" in the balance sheet?

(d) Will there be further restatement of the 2016 and 2015 numbers?

Response to 3(a):	Please refer to the response to 1(a) above.
Response to 3(b):	Please refer to the response to 1(a) above.
Response to 3(c):	The 2015 franchise sales are, with the exception of Mexico (see 2b above) still recorded in accordance with the old revenue recognition policy. The Company is in discussions with its auditors about restating the 2015 franchise revenue, following the same principle as explained in answer 1(a) above.
Response to 3(d):	For FY 2015, please see reply 3(c) above. The Company has for FY 2016 used a big 4 Accounting firm to advise it on the revenue recognition, and has reported its results in accordance with FRS. The audit for FY 2016 is still ongoing.

BY ORDER OF THE BOARD

Thomas Zilliacus
Executive Chairman

29 March 2017