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Regulatory Announcement

15 July 2016

SGX reprimands YuuZoo Corporation Limited on a May 2015 announcement regarding a research report

Public reprimand: breach of Listing Rules

1. Singapore Exchange (SGX) refers to the letter dated 3 June 2015 issued by SGX to YuuZoo Corporation Limited ("**YuuZoo**") on the misuse of SGXNet (the "**Letter**"). Further to the Letter, SGX reprimands YuuZoo for breach of Listing Rule 703(4), read with Paragraph 25(c) of Appendix 7.1, which requires a company's announcement to be balanced and fair, and to avoid among other things:-
 - (a) presentation of favourable possibilities as certain, or as more probable than is actually the case; and
 - (b) presentation of projections without sufficient qualification or without sufficient factual basis.

Background of events leading to public reprimand

2. The company made an SGXNet announcement after the market closed on 21 May 2015 entitled, "*New Edison Investment Research report on YuuZoo sees significant upside on share price*". The announcement contained two attachments, namely a copy of the research report produced by Edison Investment Research Limited ("**Edison**") and a news release from YuuZoo. The news release carried the headline, "*New Edison Investment Research report on YuuZoo sees significant upside on share price, puts fair value at up to 1.83S\$ in view of new signed agreements.*" YuuZoo's share price was trading in the range of 21.5 cents to 23.5 cents on 21 May 2015, the period immediately before the release of the SGXNet announcement.
3. The description on the SGXNet announcement page and the title of YuuZoo's news release highlighted that Edison had put a fair value of up to S\$1.83 on YuuZoo's share price. S\$1.83 was the most optimistic valuation from a range of fair values contained in the Edison report.
4. The news release presented 4 discounted cashflow (DCF) scenarios supporting a fair value for YuuZoo's share at 35 cents in the slow growth scenario, 81 cents in the mid-case scenario, and S\$1.25 in the rapid growth scenario based on a WACC (weighted average cost of capital) assumption of 12.5%, and at S\$1.83 in the rapid growth scenario based on a lower WACC of 10%.
5. The company did not consult Macquarie Capital (Singapore) Pte. Limited, its then compliance adviser, on the release of the SGXNet announcement.
6. The Edison report contained earnings and cashflow projections, and the share price valuations were derived from these projections. The report stated that given that the company was in the

early stage of its B2C initiatives with a focus on emerging markets, a WACC of 12.5% was assumed for the scenario analysis. Edison expected the WACC to come down as YuuZoo's business matured. A table of DCF scenarios for share price valuations under different cost of equity at 10%, 11%, 12.5% and 15% was presented in the Edison report as follows:-

DCF scenarios flexed for cost of equity (SGD per share)			
WACC	Slow evolution	Mid-case	Faster evolution
10.0%	51	118	183
11.0%	44	101	156
12.5%	35	81	125
15.0%	26	60	92

7. On 1 June 2015, the company announced that the content, projections and statements in the Edison report solely reflected the views of Edison, and the company had not shared any information with Edison that the company had not previously shared with the public.
8. Following the 21 May SGXNet announcement and news release, YuuZoo's share price rose on the two consecutive trading days following the release of the SGXNet announcement to close at 29.5 cents on 22 May 2015 and 33.5 cents on 25 May 2015 with heavy volumes traded. On 21 May 2015, prior to the announcement and news release, YuuZoo shares traded in a 21.5 cent to 23.5 cent range.

Basis for reprimand

9. The company explained to SGX that its SGXNet announcement and news release stated that Edison saw fair value at "up to S\$1.83", not that Edison saw fair value as being S\$1.83. In addition, YuuZoo said the news release merely represented a snapshot of the key parts of the Edison report, and that the news release should be read together with the full Edison report that was provided to all readers of the news release. YuuZoo stated that it had not added any opinion of its own to the news release, and that the news release merely summarised key findings of Edison's report.
10. While information presented in the YuuZoo news release was extracted from the Edison report, which was attached in full, the selection of specific information and the way such information was presented in the SGXNet announcement and news release, including in their title and description, were inappropriate.
11. SGX is of the view that YuuZoo's SGXNet announcement and news release were not balanced and fair as the company presented the most optimistic scenario of a fair value of up to S\$1.83 without sufficient qualification or explanation. Edison's report showed a range of valuation from 26 cents to S\$1.83 based on a WACC of 10%, 11%, 12.5% and 15% and under various scenarios of slow evolution, mid-case and faster evolution. The report qualified that the value of S\$1.83 is based on a WACC of 10% which would only be appropriate when YuuZoo's business matured. Edison had recommended that a WACC of 12.5% be assumed, given the early stage and emerging market focus of YuuZoo's B2C initiatives. At a WACC of 12.5%, Edison put a fair value of between 35 cents and S\$1.25 on YuuZoo's share price. The company failed to highlight Edison's recommendation to use a WACC of 12.5% which translates to a highest price of only S\$1.25. The company provided the most optimistic price of up to S\$1.83 without any qualification about Edison's view that the use of a 10% WACC was not appropriate.

12. The presentation of the most favourable outcome without providing sufficient details for a proper understanding of the information could lead to the investing public not making informed investment decisions.
13. There was also no explicit disclosure in the 21 May 2015 news release that Edison's projections were not endorsed by the company.
14. The company explained to SGX that the Edison report was an independent report on the company, and reflected only the views of the analyst who wrote the report. This was made clear in the report, which was part of the announcement and was to be read together with the announcement. The company said that it could not verify projections by an independent research company.
15. SGX is of the view that there was insufficient clarity in the SGXNet announcement or news release that Edison's projections were not endorsed by the company's board. A statement in fine print under the "Disclaimer" of Edison's report states that "All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication".
16. Therefore, there was a risk that Edison's projections and valuations could have been relied on by investors as if they were made by the company.

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Headquartered in AAA-rated Singapore, SGX has over 700 employees including offices in Beijing, Hong Kong, London, Mumbai, Shanghai and Tokyo. For more information, please visit www.sgx.com.

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