SINGAPORE POST LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 199201623M)

UPDATE ON REVIEW OF ACQUISITION OF TRADEGLOBAL HOLDINGS, INC

Background

The Board of Directors (the "**Board**") of Singapore Post Limited ("**SingPost**" or the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's announcement released on 12 May 2017 concerning the impairment of TradeGlobal Holdings, Inc ("**TradeGlobal**") and the review of the circumstances surrounding the Company's consideration and approval of the acquisition of TradeGlobal (the "**Review**").

The decision to conduct the Review was made following the announcement of the risk of significant impairment to TradeGlobal's carrying value in the Company's announcement, released on 10 February 2017, of its unaudited financial statements for the third quarter and nine months ended 31 December 2016. A committee comprising Mrs Fang Ai Lian, Ms Elizabeth Kong and Mr Bob Tan, all of whom are independent directors who were appointed to the Board after the acquisition of TradeGlobal (the "**Committee**"), was formed to conduct the Review.

The Committee engaged WongPartnership LLP ("**WongPartnership**") as legal counsel to assist and advise it on the Review. The Committee also engaged FTI Consulting Pte Ltd, an independent global business advisory firm, to assess the adequacy of the financial and commercial due diligence performed in relation to the transaction.

Update on the Review

As part of its scope of work, WongPartnership reviewed the relevant documents including internal SingPost documents pertaining to the TradeGlobal acquisition, the due diligence reports and due diligence documents, and relevant correspondence. WongPartnership also conducted interviews with directors and key management (both present and former) who were involved in the TradeGlobal acquisition, and reviewed documents from some of those persons.

As at the date of this Announcement, the Review is at an advanced stage of completion. In the interim, WongPartnership has issued a summary report ("**Summary Report**") setting out its observations concerning the processes in the acquisition of TradeGlobal together with certain recommendations. The Summary Report is attached at Annex A to this Announcement. The Board accepts the recommendations of WongPartnership set out in the Summary Report.

A full report of the Review is being finalised and the Board accepts the recommendation of WongPartnership that SingPost provides a copy of the full report, when issued, to the relevant regulatory authorities for their review.

The scope of the Review does not cover the post-acquisition phase of TradeGlobal. As previously announced, there were operational and structural challenges faced after the acquisition of TradeGlobal. The successive departure of key management personnel from the SingPost Group after completion of the acquisition impacted on the integration efforts of TradeGlobal into the SingPost Group. In addition, TradeGlobal faced and continues to face headwinds posed by the sustained cost pressures arising from labour shortage in the Cincinnati area and the disruption in the US fashion retail industry which adversely affects key customers. TradeGlobal faced further setbacks in, amongst others, the loss of two large customers which accounted for a significant portion of its revenue.

Shareholders are accordingly advised to view the Review and the corresponding Summary Report in their proper context.

Future plans for TradeGlobal

The acquisition was in line with the strategy of the Company and represented an expansion of SingPost's eCommerce and eCommerce logistics business, and enabled the SingPost Group to offer an integrated US and Asia eCommerce logistics solution for both the Group's and TradeGlobal's customers.

The Company is executing a turnaround plan for TradeGlobal to recover as much value as possible for shareholders and to focus on extracting post-acquisition synergies from the networks and capabilities of SingPost's eCommerce units.

Issued by Singapore Post Limited on 17 July 2017.

ANNEX A

SUMMARY REPORT
- REVIEW OF PROCESSES IN THE ACQUISITION OF TRADEGLOBAL HOLDINGS, INC BY SINGAPORE POST LIMITED

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A. Chronology of the acquisition of TradeGlobal Holdings, Inc (“TG Acquisition”)

1. Prior to 2015, Singapore Post Limited (“**SingPost**” or the “**Company**”) had already been taking steps to transform itself into a global eCommerce logistics provider, and SingPost had stated this publicly (for example SingPost’s Annual Report for its financial year (“**FY**”) ended 31 March 2015 stated that "*SingPost is building on its five business pillars – Mail, Digital Services, Logistics, Retail & Financial Services, and eCommerce – to become a global brand.*"). As part of this strategy, SingPost was exploring potential acquisition targets in the United States of America (“**US**”).

2. By June 2015, the Company had identified TradeGlobal Holdings, Inc (“**TradeGlobal**” or “**TG**”) through various eCommerce conferences attended by certain management personnel. TG was perceived as an important piece in the overall SingPost strategy to become a global eCommerce logistics provider. An external firm which had already been engaged as SingPost’s financial advisor for potential acquisitions (“**FA**”) was asked to arrange a formal introduction between SingPost and TG.

3. Representatives from the Company and FA thus began talks with Bregal Sagemount (“**Bregal**”), the private equity fund which was the ultimate majority owner of TG, regarding a potential acquisition of TG.

4. On 28 July 2015, the SingPost management personnel who were working on this project (“**Project Management Team**”) discussed with the executive committee (“**EXCO**”) of the board of directors of SingPost (“**Board**”) at an EXCO meeting (“**28 July 2015 EXCO Meeting**”) the prospect of acquiring TG. Bregal’s asking price for the proposed acquisition (the “**TG Acquisition**”, also known as “**Project Titan**”) was also discussed.

5. On 21 August 2015, the two founders of TG, Mr David Cook ("**Mr Cook**") and Mr David Eckley ("**Mr Eckley**"), came to Singapore and gave a presentation on their business to EXCO. Representatives of FA were also in attendance at this meeting.

6. On 28 August 2015, EXCO provided its in-principle approval by circulation for the Project Management Team to commence the first phase of due diligence for Project Titan. In particular, the EXCO approved the budgets for full financial and tax due diligence (to be carried out by an external accounting firm) and limited legal due diligence (to be carried out by an external law firm).

7. On 14 September 2015, an EXCO meeting was held, where the Project Management Team provided a verbal update to EXCO on the progress of the first phase of due diligence ("**14 September 2015 EXCO Meeting**"). EXCO provided its approval by circulation to commence the second phase of due diligence on 16 September 2015 and approved the budgets for legal due diligence and technology due diligence.

8. On 21 September 2015, Board members were provided with a Board paper ("**23 September 2015 Board Paper**") setting out:

    a. an executive summary of SingPost's eCommerce and eCommerce logistics strategy, TG and the due diligence being carried out;

    b. the proposed deal structure at the time;

    c. financial information, including the earnings before interest, tax, depreciation and amortisation ("**EBITDA**") and the earnings before interest and tax ("**EBIT**") projected for 3 potential scenarios (i.e. an upside case, a base case and a downside case) for TG FY (ending 31 December) 2015 and TG FY 2016, and the valuation of TG as a multiple of the projected EBITDA and EBIT for TG FY 2015 and TG FY 2016 (based on the upside and base cases); and

d. certain risks associated with the acquisition and the integration of TG with SingPost.

9. On 23 September 2015, a meeting of the Board was held ("**23 September 2015 Board Meeting**"). This was the only Board meeting at which Project Titan was discussed.

10. At the conclusion of the 23 September 2015 Board Meeting, approval was granted by the Board for the Project Management Team to proceed with the execution of Project Titan based on an acquisition of 86% interest at a total consideration of up to US$150.5 million. The Board approval was subject to satisfactory due diligence being completed. The implied valuation for 100% of TG was stated to be US$175 million ("**TG Valuation**").

11. On 12 October 2015, an EXCO meeting was held ("**12 October 2015 EXCO Meeting**") wherein an EXCO paper ("**12 October 2015 EXCO Paper**") was discussed amongst EXCO members. The 12 October 2015 EXCO Paper presented the due diligence findings and key features of Project Titan, and notably highlighted that the deal structure had changed such that SingPost was now to acquire 96.3% of TG. The TG Valuation remained at US$175 million. Approval was granted by EXCO at the 12 October 2015 EXCO Meeting for the Project Management Team to, *inter alia*, proceed to obtain the Board's approval for the TG Acquisition on the revised terms.

12. This approval was granted by the Board on 14 October 2015 through a Directors' Resolution in Writing, Resolution No. 22/2015 ("**14 October 2015 Directors' Resolution**"). It was stated in the 14 October 2015 Directors' Resolution that on 12 October 2015, EXCO noted that due diligence performed on the commercial, financial, technology, tax and legal / regulatory aspects of Project Titan had been assessed to be satisfactory and EXCO accordingly recommended that valid binding agreements be entered into, subject to endorsement by the Board. Apart from this, the 14 October 2015 Directors' Resolution did not state any other material information concerning

risks identified in the course of due diligence and valuation, or the mitigation measures considered in respect to those risks. No Board call or meeting was arranged to further discuss the 14 October 2015 Directors' Resolution before it was passed.

13. In summary, prior to the 14 October 2015 Directors' Resolution, there was a total of 3 EXCO meetings and 1 Board meeting held to discuss Project Titan, namely:

    a. the 28 July 2015 EXCO Meeting;

    b. the 14 September 2015 EXCO Meeting;

    c. the 23 September 2015 Board Meeting (which was the only meeting wherein the Board was provided with detailed information on Project Titan); and

    d. the 12 October 2015 EXCO Meeting.

14. On 15 October 2015, the following agreements were entered into to give effect to the TG Acquisition (pursuant to which an announcement was made (the "**15 October 2015 Announcement**")):

    a. Stock Purchase Agreement ("**SPA**") – entered into by and amongst TG Acquisition Corporation ("**SP TG Co**") (as buyer), TradeGlobal Parent LLC (as seller), the rollover equity holders (i.e. Mr Cook and Mr Eckley) and the indirect equity holders.

    b. Distribution Agreement – entered into by and amongst TradeGlobal Parent LLC, Bregal, Goldman Sachs & Co., Custom Quest Inc., Mr Cook and Mr Eckley.

    c. Rollover Agreement – entered into by and amongst SP TG Co, Mr Cook and Mr Eckley.

15. The TG Acquisition was completed and announced on 16 November 2015. On completion, SingPost paid a total consideration of US$169,002,140 (subject to adjustment in accordance with the agreed formula as set out in the SPA) for an effective equity interest of 96.4% in TG while Mr Cook and Mr Eckley rolled over their equity in the remaining 3.6%. On 14 January 2016, a further announcement was made, noting that following final working capital adjustments, it had been determined that the aggregate consideration paid by SingPost was US$168.5 million.

B. Background to the TG Review

16. On 10 February 2017, in SingPost's announcement of its Unaudited Results for the Third Quarter and Nine Months ended 31 December 2016, SingPost stated that due to the underperformance of TG, the Board was of the view that there was a risk of significant impairment to TG's carrying value and that it would be conducting a review of all of SingPost's investments.

17. On 10 February 2017, the Board formed an Independent Committee ("**IC**") consisting of Mrs Fang Ai Lian, Ms Elizabeth Kong and Mr Bob Tan, all of whom are independent directors who were appointed to the Board after the TG Acquisition, to conduct a thorough review of the circumstances surrounding SingPost's consideration and approval of the TG Acquisition ("**TG Review**").

18. To that end, on 14 February 2017, the IC met with and engaged WongPartnership LLP ("**WP**") to assist and advise the IC on the TG Review. WP's engagement was formalised on 2 March 2017, and the scope of WP's work was focused on, *inter alia*, obtaining an understanding of the circumstances surrounding SingPost's consideration and approval of the TG Acquisition, assessing whether SingPost's policies and procedures had been adhered to, and whether corporate governance practices and/or Board processes were duly observed in the course of the TG Acquisition.

19. On 22 March 2017, the IC also formally engaged FTI Consulting (Singapore) Pte Ltd ("**FTI**"), an independent global business advisory firm with expertise in valuation and transactional due diligence, to assess the adequacy of the financial and commercial due diligence performed in relation to the TG Acquisition.

20. On 12 May 2017, SingPost announced in its Unaudited Results for the Fourth Quarter and FY ended 31 March 2017 ("**SingPost FY 2017**") announcement that it had recorded impairment charges of S$185 million for TG. SingPost also stated that this was due principally to the fact that

TG had significantly underperformed the business case which supported the investment. This impairment was recorded after SingPost conducted a review of TG's performance for SingPost FY 2017. Instead of a projected profit of S$9.4 million for SingPost FY 2017, TG incurred a significant loss of S$25.8 million (as stated in SingPost's Annual Report for SingPost FY 2017).

21. As further explained in its announcement issued on 19 May 2017, SingPost had proposed the impairment provision based on the business plan base case scenario prepared by Mr Paul Demirdjian (Interim Chief Executive Officer, US Businesses) for TG. We understand that the plan was prepared in consultation with the staff of TG, and applying a "bottom-up" approach. The impairment provision was agreed by SingPost's auditors, PricewaterhouseCoopers LLP, and approved by the Board. FTI had also verified that the impairment provision was properly calculated following an appropriate review process and that the assumptions adopted were reasonable.

22. SingPost's press release on 12 May 2017 stated that TG was experiencing operational and structural challenges that included the following:

a. a surge in TG's labour costs during the end of year peak season;

b. delays in warehouse automation which impacted productivity;

c. management changes;

d. disruption in the US fashion retail industry which was adversely affecting key customers;

e. loss of two large customers which accounted for 30% to 40% of TG's revenue; and

f. sustained cost pressures arising from labour shortage in the Cincinnati area.

d., e. and f. above are key structural challenges that will impact the business moving forward.

23. It was within this context that the TG Review was conducted.

C. Methodology

24. We have reviewed relevant documents pertaining to the TG Acquisition including but not limited to: (a) internal SingPost documents (including Board and EXCO papers and meeting minutes); (b) the due diligence reports and due diligence documents; and (c) relevant correspondence.

25. We have also conducted interviews with relevant individuals involved in the TG Acquisition, comprising:

    a. former and current Board members; and

    b. former and current management.

26. In the course of or pursuant to these interviews, we had also received and have reviewed documents from some of the persons interviewed.

D. Key observations

27. At the outset, it should be noted that the TG Acquisition was viewed by SingPost at the time as a key step in SingPost's strategy to become a global eCommerce logistics provider. In the course of our interviews, it had been highlighted to us by persons involved in the TG Acquisition (including former directors and former management) that the TG Acquisition must be viewed in that context. This was premised on the belief shared by the Board and management that there was a need to transform SingPost from a traditional postal business (which was viewed as a "burning platform", faced with decreasing profitability and declining business) into a global eCommerce logistics player. This strategy had been put forward by management and endorsed by the Board. The view was expressed that while the move to acquire TradeGlobal was not without its risk, not seizing the opportunity would equally not be a wise move.

28. The decision to proceed with the TG Acquisition therefore needs also to be considered against this backdrop of SingPost's global eCommerce logistics strategy.

29. A full report of the said TG Review is being completed. In the meantime, we have prepared this summary report to set out our observations concerning the processes in the TG Acquisition together with certain recommendations. The observations are made in these areas:

    a. corporate governance;

    b. due diligence;

    c. valuation; and

    d. the consideration of mitigation measures to address risks identified in the due diligence and valuation process.

30. FTI's views on due diligence, valuation and the consideration of mitigation measures have also been incorporated into the observations set out below.

Corporate governance

Observation 1: No clear leader / clear structure within the Project Management Team

31. First, the project team handling a merger and acquisition ("**M&A**") should have a clear team structure, with clearly identified roles and responsibilities for each team member and clearly identified project leader(s). This would ensure a suitable and sufficient allocation of responsibilities, prevent unnecessary overlap and gaps, facilitate the sharing of information within the team (especially amongst the various persons carrying out the due diligence, valuation and negotiations) and promote a system of accountability with clear reporting lines.

32. This does not appear to have been fully deployed for Project Titan. Such a lack of clarity in the team structure was evidenced by the fact that there are varying accounts as to who was actually leading the Project Management Team. This led to a certain lack of ownership and accountability in respect of the TG Acquisition, and may have contributed to the informational flow issues set out below.

Observation 2: Over-stepping of directorial stewardship role

33. Second, to provide an effective check on management, non-executive directors should not impinge on the role of management. This is not their role, and doing so might potentially negate the two-tiered system of checks and balances between the non-executive directors and management, as well as compromise management's duties, responsibilities and effectiveness.

34. Guidelines 2.7 and 2.8 of the Code of Corporate Governance ("**Code**") summarise the role which should be played by non-executive directors – they are to constructively challenge and help

develop proposals on strategy, review management's performance and monitor the reporting of performance, and facilitate a more effective check on management.

35. In the Corporate Governance Review Report issued by Heidrick & Struggles Singapore on 4 July 2016 ("**CGR**"), it is stated that "*more can be done at the Board level to recognise and distinguish between the Board's stewardship role and the role of the GCEO / management in executing the strategy*".

36. We have observed instances of possible over-stepping of directorial stewardship role in Project Titan. This would have had the effect of blurring the roles between the non-executive directors and management in connection with Project Titan, and rendering the system of checks and balances between the non-executive directors and management less effective.

Observation 3: There was an asymmetrical flow of information to the Board

37. Third, there should be complete, adequate and timely flow of key information to the Board. Principle 6 of the Code stipulates that "*directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities*".

38. In Project Titan, there was an asymmetrical flow of information to the Board. Certain information was not raised (or raised with little detail or explanation) to the Board prior to or at the time of the passing of the 14 October 2015 Directors' Resolution to approve the TG Acquisition. This included information relating to certain key risks identified in the course of due diligence and the valuation of TG, and proposed mitigation measures in relation to these risks ("Relevant Information"), which would have been relevant considerations for the Board members in making their decision on the 14 October 2015 Directors' Resolution.

39. The asymmetrical flow of information occurred at 2 levels – some Relevant Information was not communicated to the entire Board, while some Relevant Information was raised to EXCO, but not to the rest of the Board.

Observation 4: EXCO meeting minutes were not circulated to the Board in a timely fashion

40. On a related note, there were also delays in the circulation of the relevant EXCO meeting minutes to the Board. The minutes of EXCO meetings relating to Project Titan were only circulated to the Board after the TG Acquisition had been approved by the Board in the 14 October 2015 Directors' Resolution. We have further identified an instance where updated documentation on Project Titan (which included information on certain key risks) was not circulated to the Board.

41. As a result of the asymmetrical flow of information, the Board was not in the position to fully consider or debate certain material risks relating to the TG Acquisition, such as the following 2 key issues:

    a. The same business which Bregal sold to SingPost was purchased by Bregal in 2013 ("**Bregal's Earlier Transaction**") at a significantly lower price ("**Earlier Transaction Price**");

    b. the earnings and revenue forecasts upon which the TG Valuation was based were aggressive and may have been over-optimistic ("**Aggressive Forecast Risk**").

Observation 5: Approval to conduct due diligence was obtained from the incorrect approving body

42. Finally, the relevant approvals at each stage of the acquisition process should be obtained from the approval body authorised to give such approvals.

43. SingPost's internal M&A process applicable at the time (as summarised in the Special Audit Report issued by Drew & Napier LLC and PricewaterhouseCoopers LLP on 3 May 2016) ("**M&A Process**") prescribed that for acquisitions valued over S$50 million, in-principle approval to conduct due diligence should be sought and received from the Board. However, the Project Management Team sought this approval from EXCO instead.

44. This error does not appear to have been deliberate or intended to circumvent the Board. The Board would, at the 23 September 2015 Board Meeting, have been aware that the Board's in-principle approval had not been sought, and proceeded to provide its approval for the TG Acquisition, subject to satisfactory due diligence being completed. Therefore, the approval from EXCO may be said to have been ratified by the Board at the 23 September 2015 Board Meeting.

45. In any event, any such non-compliance with the M&A Process did not appear to have had any material impact on the decision of the Board to approve the TG Acquisition.

<u>Due Diligence</u>

Observation 6: The commercial due diligence was not fully documented

46. The purpose of due diligence (in the context of a potential acquisition) is to obtain information on the target and specifically the risks related to acquiring the target, so as to enable the Board or relevant decision makers to make informed decisions relating to the acquisition (including whether to proceed with the acquisition and, if so, at what deal structure and price).

47. As a matter of transparency and accountability, the due diligence to be conducted by each person or entity responsible for particular aspects of the due diligence should be fully and properly documented, as should the report of each such person or entity.

48. The commercial due diligence carried out in Project Titan was not fully documented. In particular:

a. there was no document which clearly set out the aspects to be addressed in the commercial due diligence or demarcated the exact scope of due diligence which the Project Management Team and the external advisor involved were to undertake respectively; and

b. no finalised commercial due diligence report was issued.

49. Further, there was little or no contemporaneous documentation in certain areas of commercial due diligence conducted.

Observation 7: Commercial due diligence was not fully carried out in relation to certain information pertinent to the valuation of TG

50. Since the purpose of due diligence is to obtain information to enable risks to be evaluated and decisions to be made on the proposed acquisition, including in relation to acquisition price, relevant information that would affect the valuation of the target company should be sought, reviewed and analysed in the due diligence process.

51. As explained further below, this would include information relating to comparable transactions. While information on several comparable transactions was obtained, sufficient commercial due diligence may not have been carried out in respect of one particularly pertinent comparable transaction.

52. Bregal's Earlier Transaction would likely have been the transaction most comparable to the TG Acquisition. Information relating to this should therefore have received substantial attention and analysis. This was in fact listed as a comparable transaction in an appendix to the 23 September 2015 Board Paper submitted in respect of Project Titan. However, the figures for this transaction were all stated as "N.A.".

53. A copy of the purchase and sale agreement setting out the Earlier Transaction Price was subsequently sent to SingPost on 8 October 2015, a week before the SPA was signed on 15 October 2015. However, it appears that no further due diligence inquiries were made in respect of the Earlier Transaction Price.

54. The significant difference between the Earlier Transaction Price and the TG Valuation of US$175 million on which the acquisition price was based would prompt an analysis:

    a. to understand the changes made to TG's business since the acquisition in 2013, and to assess whether those changes might justify the higher TG Valuation, even if their effects were not currently observable in TG's financial performance; and

    b. to review TG's performance over the 2 years following the acquisition in 2013 to assess whether improved performance might justify the increase in value.

55. A more detailed review of TG's performance in TG FY 2013 and TG FY 2014 against its forecasts for those years may have revealed that TG's main operating subsidiary had significantly underperformed its forecasts in those years.

56. From the review of the documents and the interviews conducted, no material shortcomings in the tax, financial, legal or technology due diligence that was conducted were identified.

<u>Valuation</u>

Observation 8: The valuation performed did not fully accord with best practices

57. In considering the reasonableness of SingPost's valuation, FTI carried out preliminary valuations of TG using both:

a. comparable EBITDA multiples analyses (i.e., relying on EBITDA multiples of comparable transactions (namely: (i) the prices at which companies comparable to TG have traded on stock exchanges; and (ii) the prices at which companies comparable to TG have been acquired, which would include the Earlier Transaction Price)); and

b. a discounted cash flow ("**DCF**") analysis.

58. In carrying out these valuations, FTI relied on:

a. information on TG's historical performance: (i) as adjusted by TG's management; and (ii) as adjusted in the course of the financial due diligence conducted by SingPost's external advisor; and

b. forecasts of TG's performance: (i) prepared by TG's management; and (ii) as adjusted by the FA / SingPost:

59. FTI indicated that the results of each of their valuation approaches should be treated with caution.

a. The comparable multiples analyses were based on small samples of comparable transactions and may be distorted by factors specific to those companies and/or transactions. These valuations were further heavily dependent on TG's forecasted performance for TG FY 2015 and TG FY 2016.

b. The DCF analysis was limited by the significant variations between the available forecasts of TG's expected performance and the limited data available in respect of each forecast.

60. Against the backdrop of these limitations, FTI has 'triangulated' between the different estimates of TG's value derived using the various valuation approaches and expressed a view that the price

paid by SingPost fell within a range of reasonable implied valuation for TG, albeit at the higher end, subject to the caveats below.

a. Caveat 1: A price towards the lower end of the valuation range might have been more appropriate as due diligence had identified that the forecasts on which SingPost's valuation was premised were aggressive.

b. Caveat 2: The valuations of TG based solely on historical data were significantly lower than the specified range so the price paid by SingPost could likely only be justified by very significant increases in profitability.

c. Caveat 3: The available forecasts of TG's performance were potentially over-optimistic, in which case SingPost's acquisition price for TG might exceed the reasonable range of valuation.

61. While it is unclear whether the available forecasts of TG's performance were in fact over-optimistic, areas of possible deviations from best practices (in respect of SingPost's valuation of TG and how TG's acquisition price was justified to the Board) have been identified. In the paragraphs to follow, we elaborate on these possible deficiencies, juxtaposed against what FTI considers to be best practices in the valuation of a target company.

62. First, mirroring the point at [50]-[52] above, information relating to the recent transaction price(s) of a target should be factored into the valuation of the target company.

63. The justification of TG's acquisition price in Project Titan did not appear to have considered:

a. the significantly lower Earlier Transaction Price; and

b. the significant underperformance of TG's main operating subsidiary in the years immediately prior to the TG Acquisition (which may have been uncovered if further analysis had been carried out in relation to the Earlier Transaction Price during the commercial due diligence).

64. The significant underperformance in the years immediately prior to the TG Acquisition, in view of the Aggressive Forecast Risk, warranted greater scepticism as to the achievability of the forecasts, and a more conservative valuation of TG may have been arrived at following an examination in greater detail of previous and current forecasts.

65. Second, where forecasts of a target company's performance are potentially aggressive, it would have been best practice to explicitly consider the implication of historical multiples on the valuation of TG.

66. Despite the Aggressive Forecast Risk, the valuations presented to the Board were based only on forecasts, and no valuations based on historical multiples were presented.

67. Third, the information relating to valuation could have been presented to the Board in a more comprehensive, fair and balanced manner, where both positive and negative information were highlighted.

68. The 23 September 2015 Board Paper, and the presentation made to the Board at the 23 September 2015 Board Meeting, highlighted positive information but did not highlight certain negative information in relation to the TG Acquisition as compared to comparable transactions (though it should be noted that such information could in fact be found in or derived from the 23 September 2015 Board Paper and/or the presentation made).

a. The valuation of TG was presented to the Board in the 23 September 2015 Board Paper as multiples of the EBITDA forecasts for TG for TG FY 2015 and TG FY 2016. However, it was not highlighted in the 23 September 2015 Board Paper that the TG's EBITDA multiples for TG FY 2015 were significantly above the mean of the trading EBITDA multiples for comparable companies in TG FY 2015.

b. The fact that the TG FY 2015 and TG FY 2016 multiples in relation to the downside case would be significantly above the mean of the trading EBITDA multiples for comparable companies in TG FY 2015 and TG FY 2016 was also not highlighted to the Board.

69. Finally, where there was limited information on comparable transactions, it would have been best practice to cross reference the comparable multiples analysis to a DCF analysis.

70. In Project Titan, only a small pool of comparable companies was considered (2 were identified in the 23 September 2015 Board Paper). Although DCF analyses were prepared, these were not presented to the Board. A review of the DCF analyses prepared would have informed the Board that the TG Valuation was at the higher end of the range of DCF valuations.

<u>Consideration of mitigation measures</u>

Observation 9: Mitigation measures adopted may not have been sufficient

71. In respect of risks identified in the course of due diligence and valuation, appropriate mitigation measures should be considered.

72. SingPost had considered a significant number of mitigation measures in the course of Project Titan.

73. In particular, the following mitigation measures were considered:

a. possible deal structures / a discount in the acquisition price, to address the risk that TG might not be able to achieve its projected performance;

b. further automation and optimisation of manual labour, to address manpower risks;

c. factoring the risk that TG may lose specific customers into the valuation / price of TG, to address this risk and the resulting reduction in revenue and earnings if this risk materialises;

d. not substantially factoring synergies into the valuation / price of TG, to address the risk that the synergies that the TG Acquisition was expected to generate might fail to materialise;

e. a high level integration plan, to address integration risks;

f. the retention of TG's management, to address the risk that SingPost's management might lack bandwidth.

74. SingPost adopted the mitigation measure of not substantially factoring synergies into the valuation or price of TG and further addressed the Aggressive Forecast Risk by negotiating a discount to the acquisition price, although the discount negotiated may have been insufficient to offset this risk.

75. We note that the decision on whether to adopt a mitigation measure and the extent to which this is to be implemented (e.g. the amount of discount to be negotiated) is often a commercial judgment call made in the circumstances, although there remains a possibility that certain commercial decisions may turn out to be questionable with the benefit of further information.

76. In any case, even where a mitigation measure had been put in place, unforeseen circumstances could affect the effectiveness of such a mitigation measure. For example, we understand that

one of TG’s two founders had to stop work due to illness, and one of TG’s largest customers filed for bankruptcy protection.

Recommendations

77. The observations related to SingPost's corporate governance summarised above have already been identified in the executive summary of the CGR and the conclusions drawn from our review are consistent with the view that these issues were systemic at the relevant time.

78. In particular, the issues of: (a) the overstepping of directorial stewardship role; (b) the asymmetrical information flow between EXCO and the rest of the Board; (c) the lack of openness and transparency between the Board and management; and (d) the fact that SingPost's M&A Process was not always followed, were expressly canvassed in the executive summary of the CGR.

79. The following recommendations, inter alia, were proposed in the executive summary of the CGR to address the above issues:

   a. reconstitute EXCO as a financial investment committee with a reduced scope;

   b. constitute a corporate governance committee;

   c. institute clear polices, practices and minimum standards for the quality and timeliness of sharing of information following Board committee and Board meetings; and

   d. establish and reinforce a clear delineation between the roles and responsibilities of the Board and management, with such roles and responsibilities being clearly documented.

80. We concur with the above recommendations.

81. We note that SingPost has taken steps set out below to implement the above recommendations in the CGR.

a. EXCO has been reconstituted into a Finance and Investment Committee ("**FIC**") with a reduced scope – the FIC is to provide the Board with advisory support on M&A, finance and investment matters for approval by the Board.

b. The Nominations Committee has had its mandate extended to include oversight, development and review of SingPost's corporate governance practices, and has been renamed the Nominations and Corporate Governance Committee.

c. A new policy has been implemented wherein all Board committee meeting minutes must be completed and circulated within 5 days from the meeting.

d. An M&A policy has been created which sets out the policies and processes on acquisitions and divestments to serve as a guide for all M&A transactions to be conducted by SingPost's M&A team ("**M&A Policy**").

e. All reserved matters which require Board approval have been documented.

f. The success profiles and roles for key Board leadership roles, including the Chairman, have been documented.

82. If the above practices had been in place at the time of the TG Acquisition, such practices would have alleviated the corporate governance issues identified.

83. We have reviewed the M&A Policy and note that this further addresses many of the other issues highlighted above.

a. The M&A Policy sets out the key roles and responsibilities of the project manager for an investment, which include:

i. preparing and updating a deal execution plan that describes the tasks required in the project and sets out the timing and responsibilities for undertaking these tasks;

ii. ensuring that the due diligence / risk assessment reviews required are properly carried out and their conclusions are clearly communicated to the relevant approving body;

iii. ensuring that progress against the detailed project plan is monitored and the relevant approving body receives, where appropriate, regular progress reports, briefings on key decisions required, updated project plans and notification as early as feasible of possible slippage or failure to meet the project's objectives; and

iv. ensuring that all due diligence / risk assessment issues identified are appropriately addressed during negotiation and reported to the relevant approving body.

b. The M&A Policy provides that investments are to be sponsored by the Group Chief Executive Officer and the Chief Executive Officer of the relevant business unit.

c. The M&A Policy includes an Execution and Closure policy that prescribes practices to be adopted in due diligence and valuation, including:

i. carrying out sufficient review and inquiry to ensure that adequate reliable information has been obtained, and that it supports the final investment decision;

ii. obtaining adequate information to allow the project team to ascertain an indicative valuation for the investment.

iii. preparing valuation benchmarks: (1) using the DCF model for the determination of a base case; and (2) by benchmarking against comparable companies / transactions;

iv. independently reviewing, examining and validating financial forecasts prepared / assumptions used in the valuation model;

v. factoring the impact of issues identified during the due diligence / risk assessment process into the valuation model (or if that is not possible, into the final valuation).

84. Finally, we would also recommend that SingPost provides a copy of the full report, when issued, to the relevant regulatory authorities for their review.

Wong Partnership

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