

29 January 2016

Letter To The Editor

Dear Sirs

We refer to two articles and a letter published in The Business Times on 21 January 2016:

- “Auditor choice raises more doubts” by Ms Melissa Tan;
- “Keith Tay should take leave of absence” by Mr David Gerald; and
- Prof Mak Yuen Teen’s letter, “SingPost should not have picked PwC as special auditor”.

We also refer to the commentary by Prof Mak Yuen Teen and Mr Chew Yi Hong, “SingPost saga: Untenable for PwC to stay on as special auditor” published in the Business Times on 28 January 2016.

We would like to respond to them and also to clarify some misconceptions that the public may have about our Company.

The Special Audit

As mentioned in our SGXNet announcement of 23 December 2015, the Board decided to appoint Special Auditors to review the issues that were raised about the Company in two articles published on 23 December 2015 in The Business Times.

These issues concerned Mr Keith Tay Ah Kee’s interest relating to the Group’s acquisitions of stakes in Famous Holdings Pte Ltd, FS Mackenzie Limited and Famous Pacific Shipping (NZ) Limited (the “**Acquisitions**”). In the Acquisitions, Stirling Coleman Capital Limited (“**SCCL**”) acted for the respective sellers as arranger or financial adviser, and Mr Tay is the Non-Executive Chairman and shareholder of SCCL. In essence, the issues raised were whether Mr Tay had disclosed his interest to the Board, whether he had abstained from voting, and whether he had recused himself from discussions, in relation to the Acquisitions, as well as the Company’s omission to disclose

his interest in its announcements of the latter two transactions. The scope of the Special Audit requires PwC to conduct a fact finding review of the circumstances surrounding the aforementioned disclosures of interests by Mr Tay, and can be distinguished from other "special audits" which typically involve investigations into alleged accounting irregularities, fraud and error on the accounts of the companies in question.

The detailed terms of reference of the Special Auditors were crystallised in the Company's SGXNet announcement of 19 January 2016. The terms of reference were drawn up to ensure that all the above issues that had been raised by The Business Times articles would be the subject of review by the Special Auditors.

The Special Auditors were appointed voluntarily because the Board takes the issues that have been raised very seriously, and not because the Board knew of more serious corporate governance lapses that warranted the appointment, as suggested by Mr Gerald in his article in The Business Times. There are no other reasons for the appointment of the Special Auditors apart from what the Company has communicated in its SGXNet announcements; all material information concerning the appointment of the Special Auditors has been disclosed by the Company, and no false market has been created.

The Special Auditors will be in a position to provide an independent objective review of the matters detailed in the Company's SGXNet announcement of 19 January 2016, and their findings will be communicated to the Company, the SGX and the public.

Appointment of PricewaterhouseCoopers LLP ("PwC") as Special Auditors

The fact that PwC are the Company's external auditors has been disclosed in the Company's annual reports which are available on SGXNet as well as on the Company's website, and is already known to the market. The specific scope that was set by the Board for the Special Audit does not in any way conflict with PwC's role as the Company's external auditors. In respect of acquisitions, an external audit will focus on appropriateness of management's accounting, and disclosure thereof, of material acquisitions in the financial statements. Accordingly, based on the scope of the Special Audit as detailed in the Company's SGXNet announcement of 19 January 2016, the performance of the Special Audit will not result in a self-review which would impact the external audit of SingPost.

As noted by Prof Mak in his commentary on 28 January 2016, PwC is also the external auditor of Famous Holdings Pte Ltd. However, the Company highlights that PwC was not the external auditor of Famous Holdings Pte Ltd at the time when it was acquired by the Company. PwC was appointed as the external auditor of Famous Holdings Pte Ltd only post-acquisition when it became part of the SingPost Group, in accordance with Rule 715 of the SGX listing rules which, save for provisions in Rule 716, requires a listed company to appoint the same auditing firm to audit its Singapore-incorporated subsidiaries and significant associated companies.

Before coming to the decision to appoint PwC as the Special Auditors, the Audit Committee and the Board exhaustively evaluated various options. After lengthy consideration, it was felt that, given the seriousness of the issues that had been raised, and the potential impact on the Company's reputation internationally as well as locally, a Big Four accounting firm with global name recognition should be appointed as the Special Auditors. With its larger headcount pool, it would also have the necessary resources available to it to undertake the Special Audit expeditiously.

The Audit Committee then considered whether to call for a Request-for Proposals ("**RFP**") from the Big Four accounting firms, and made its recommendation to the Board. After prolonged deliberation, the conclusion was reached that, in this exceptional situation, no RFP need be called, and that among the Big Four accounting firms, PwC would be the most appropriate choice. Our reasons are as set out below.

As mentioned in Mr Gerald's article, one of the other Big Four accounting firms is the existing external auditor of SCCL. Mr Tay's relationship with SCCL is the subject of the review by the Special Auditors. Another of the Big Four accounting firms was involved in due diligence on the two Acquisitions whose announcements are the subject of the Special Audit. The third Big Four accounting firm has been providing and continues to provide a range of consultancy services including internal audit/corporate governance to the Company, and the Audit Committee considered that it would be difficult for it to be considered for appointment as the independent Special Auditor in the circumstances given its role in advising Management in the course of such services.

While we acknowledge that the Special Auditors should be perceived to be independent by the market, the Audit Committee and Board are of the view that ensuring actual independence is, equally if not more, critical.

The Audit Committee and Board concluded that they were satisfied that PwC would be able to act as independent Special Auditors to the Company, after taking into consideration the steps, described below, that have been undertaken to ensure that there is no conflict of interest notwithstanding PwC's role as the external auditors of the Company.

The audit team at PwC and the team performing the Special Audit for the Company are entirely separate, and the lead partner and all members of the team performing the Special Audit have had no prior or existing professional relationship with the Company.

The Audit Committee annually reviews the non-audit services provided by the external auditors and assesses their independence, and the Company makes the relevant disclosures in its annual report as required by the listing rules and Code of Corporate Governance. Indeed, in this instance, prior to appointment, the Audit Committee evaluated the non-audit fees paid and payable to PwC and concluded that the appointment of PwC as Special Auditors would not affect the independence of PwC as the Company's external auditors. The Audit Committee also evaluated the fee proposal of PwC for the Special Audit and is satisfied that the fees were reasonable.

On its part, PwC is bound by very strict conflict management rules imposed across the firm globally, as well as by the Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities in the Fourth Schedule of the Accountants (Public Accountants) (Amendment) Rules 2015 ("**Code**"). The Company is satisfied that PwC cleared conflicts based on the rigorous standards imposed on them, and PwC has confirmed that they uphold strict compliance to the independence rules and are in compliance with the PwC Global Independence Policy (based on The Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants) and the Code (as defined above).

We would like to stress that we have the utmost respect for the capabilities of the smaller accounting firms, and have no hesitation in considering them for other appointments. Our reasons for selecting a Big Four accounting firm to undertake the Special Audit have already been set out above.

Indeed, as the Board announced on 19 January 2016, a committee of the Board (the "**CG Review Committee**") has been appointed to lead and accelerate a broader, more comprehensive Corporate Governance Review of the Company which is already underway. The CG Review Committee will be inviting a range of firms with the requisite expertise, not limited to the Big Four accounting firms, to participate in a Request-for-Proposals (RFP) exercise.

Mr Keith Tay Ah Kee's recusal, and management of conflicts of interest

Mr Keith Tay Ah Kee was not present at the Board meeting that deliberated on and appointed PwC as the Special Auditors. The Special Auditors will report to the Board and the Audit Committee, and Mr Tay will recuse himself completely in relation to all proceedings of the Audit Committee and the Board in connection with the Special Audit (as was stated in our 23 December 2015 announcement).

Senior management of the Company will not be involved in the Special Audit other than to make themselves available for interviews by the Special Auditors if required.

In relation to the Corporate Governance Review, as stated in the Company's announcement of 19 January 2016, all Directors on the CG Review Committee will recuse themselves from and will not participate in any CG Review Committee discussions in any instance where they may have an actual or perceived conflict of interest. Needless to say, they will also not vote on any such matters. All the members of the CG Review Committee bar one are Non-Executive Independent Directors of the Company. The Chairman of the Board is not on the CG Review Committee.

The Acquisitions are not Interested Person Transactions

The Board would like to clear any misconception that the Acquisitions are interested person transactions of the Company. They are not.

To clarify, the SGX listing rules define an “interested person transaction” as a transaction which is entered into with an interested person i.e. a director, chief executive officer or controlling shareholder, or the associate of such a person. An “associate”, in turn is defined in the SGX listing rules as being, in the case of a director, his immediate family, the trustees of a trust under which he and/or his immediate family benefits, or a company in which he and/or his immediate family has an interest of 30% or more.

The sellers of the stakes in Famous Holdings Pte Ltd, FS Mackenzie Limited and Famous Pacific Shipping (NZ) Limited to the Group were not interested persons of the Company under the SGX listing rules. The Acquisitions were not interested person transactions of the Company.

Compliance with Accounting Standards

The Board would like to stress that the Company’s financial statements are fully compliant with the requirements of the Singapore Financial Accounting Standards.

Process for evaluation of the Acquisitions

The Board was aware of Mr Keith Tay Ah Kee’s relationship with SCCL from the time the first Acquisition was entered into.

The Directors emphasise that Mr Tay’s interest in SCCL had no bearing or influence whatsoever on their decision to approve the Acquisitions at the price and terms agreed with the respective sellers.

Senior management and Directors evaluate potential investments based on a set of criteria and considerations and an evaluation matrix which form part of the Company’s procedures and are generally applicable across all M&A transactions. They evaluate the costs and the rationale and potential benefits of each prospective transaction for the sustainable contribution it can make to the Group’s vision to be a regional leader and an international player in the eCommerce logistics and trusted communications space. The decision to approve a particular transaction is always made in the best interests of the Group and shareholders of the Company, and needless to say, this applies to the Acquisitions.

Each of the Acquisitions went through the same evaluation process applicable to other M&A transactions that are brought to the Directors for consideration and approval. For all three Acquisitions, due diligence was conducted by the Company in compliance with the Company's procedures and the due diligence results reported to the Directors for their assessment of the Acquisitions.

As stated in the Company's announcement of 19 January 2016, as part of their terms of reference, the Special Auditors will review whether the Company's procedures were followed in the evaluation and approval of the Acquisitions. As mentioned in the Company's announcement of 19 January 2016, part of the wider Corporate Governance Review will involve a review of the adequacy of various internal procedures, processes and policies of the Company, and recommendations will be sought from the independent consulting firm appointed to assist with the Corporate Governance Review on improvements that can be made to them.

Other Matters

SingPost has been on an accelerated transformation journey from a domestic postal company into an international end-to-end eCommerce logistics provider. Significant acquisitions and ventures have been strategic to this transformation, including the Acquisitions and the acquisition of TradeGlobal mentioned in Mr Gerald's article.

We would also like to thank the Securities Investors Association (Singapore) for sharing concerns of retail investors in our meeting with them on 19 January 2016. Most of these questions will be addressed by the Special Audit and the Corporate Governance Review. The findings and recommendations arising from both exercises will be announced by the Company in due course. We will reply publicly to the other concerns not covered.

The Board and Management of SingPost understand the concerns and sentiment of our shareholders. We are treating the Special Audit with complete seriousness. As stated above and in our 19 January 2016 announcement, the findings of the Special Auditors will be announced to the public. The full report of the Special Auditors will be shared with the SGX,

and the Board will ensure all key findings of the Special Auditors are highlighted to the market, and will take on board the SGX's views. The Board is fully committed to acting on any recommendations that are made by the Special Auditors to improve the Company's corporate governance processes in the interests of all shareholders.

The Board would like to reiterate its utmost commitment to do the necessary to regain public confidence in the Company and improve the Company's corporate governance. The Board recognises that institutionalising the best corporate governance practices is integral to meeting the business goals of the Company. It is precisely because of this that the Board embarked on the Corporate Governance Review exercise. The Board is unconditionally committed to ensuring that the Company upholds the highest standards of corporate governance and transparency.

Yours sincerely



Goh Yeow Tin
Executive Director
for and on behalf of
the Board of Directors
Singapore Post Limited