A-SONIC AEROSPACE LIMITED
Regn. No. 200301838G

RESPONSE TO SGX QUERIES

The Board of Directors of A-Sonic Aerospace Limited (the "Company") wishes to announce that Singapore Exchange Securities Trading Limited ("SGX-ST") raised the following queries on 29 April 2021 in relation to the Company's Annual Report for the financial year ended 31 December 2020 ("FY2020"):

a) SGX Query

Listing Rule 1207 (10) provides that the Board must comment on the adequacy and effectiveness of the issuer's internal controls (including financial, operational, compliance, and information technology controls) and risk management systems. A statement on whether the audit committee concurs with the board's comment must also be provided. Where material weaknesses are identified by the board or audit committee, they must be disclosed together with the steps taken to address them. We note that the Company did not indicate the effectiveness of the internal controls, and also did not include risk management systems in the opinion. Please indicate the effectiveness of the internal controls as well as including risk management systems in the opinion per Listing Rule 1207 (10).

Company's response

The Company had commented on the adequacy and effectiveness of the issuer's internal control. This was disclosed as follows:

Page 20 of the Annual Report
"Periodic internal assessments in key areas of the Group's operations are conducted by Management to evaluate the adequacy and effectiveness of the risk management and internal control systems. The results of these assessments will be reported to the Board.

For the financial year ended 31 December 2020, the CEO and senior members of the Group's finance team have provided representation to the external auditors and the Board on the integrity of the financial statements and on the adequacy and effectiveness of the risk management and internal controls systems, addressing financial, operational, compliance and information technology risks of the Company."

It was further disclosed on page 21 and 22, and more specifically to the query:

Page 22 of the Annual Report
"The AC reviews the adequacy and effectiveness of the Company's internal financial controls, operational and compliance controls, the risk management policies and systems established by the Company. Having regard to the above, the Board, with the concurrence of the AC, is of the opinion that the internal controls, addressing the financial, operational, compliance and information technology risks of the Company, were adequate as at 31 December 2020, to meet the needs of the Group in its current business environment. This is based on the internal controls established and maintained by the Company; the regular reviews performed by management; and the work performed by the internal and external auditors."

b) SGX Query

Listing Rule 1207 (10C) requires an issuer's audit committee's comment on whether the internal audit function is independent, effective and adequately resourced. We note the company did not indicate a comment on whether the internal audit function is independent, effective and adequately resourced. Please state if the audit committee is satisfied with the effectiveness, independence, and that the internal audit function is adequately resourced.

Company's response

The Company had disclosed on page 22 of the Annual Report as follows:

"*The Company's internal audit function was carried out by an external independent audit firm during the financial year ended 31 December 2020. During the financial year, the internal auditor conducted an audit on one of its subsidiaries. The independent audit firm's scope of audit includes: (i) evaluating the adequacy and effectiveness of the subsidiary's risk management and internal control systems, including whether there is prompt and accurate recording of transactions and proper safeguarding of assets; and (ii) reviewing whether the subsidiary comply with laws and regulations and adhere to established policies. The detailed report on the summary of the internal audit findings was issued to the AC. The external auditors of the Company also have access to the internal audit report.*

The AC reviews the adequacy and effectiveness of the Company's internal financial controls, operational and compliance controls, the risk management policies and systems established by the Company. Having regard to the above, the Board, with the concurrence of the AC, is of the opinion that the internal controls, addressing the financial, operational, compliance and information technology risks of the Company, were adequate as at 31 December 2020, to meet the needs of the Group in its current business environment. This is based on the internal controls established and maintained by the Company; the regular reviews performed by management; and the work performed by the internal and external auditors.

The internal audit and the internal controls systems put in place by management provides reasonable assurance against material financial misstatements or loss, reliability, relevance and integrity of information (including financial information), completeness of records, safeguarding of assets, effectiveness and efficiency of operations and compliance with applicable policies, laws and regulations. However, the Board also notes that such assurance cannot be absolute in view of the inherent limitations of any internal audit and internal controls systems against the occurrence of human and system errors, poor judgement in decision-making, losses, fraud or other irregularities.

The AC also reviews the assurance provided by the CEO and senior members of the Group's finance team on the integrity of the financial statements and financial records and is satisfied that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances."

The Company was of the view that the internal audit function was independent, effective and adequately resourced and the Audit Committee was satisfied with the effectiveness, independence, and that the internal audit function was adequately resourced.

c) SGX Query

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. Practice Guidance 2 requires an issuer to state the Company's board diversity policy and progress made towards implementing the board diversity policy, including objectives. Please state if the Company has a formal board diversity policy and please confirm if the Company's practices are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company.

Company's response

The Company had adopted the practices that are consistent to the intent of Principle 2 of the Code regarding our board diversity and board diversity policy. The Company had disclosed on page 14 and page 15 of our Annual Report the following:

> *"The Board comprised three (50%) executive directors and three (50%) non-executive directors. All of the three non-executive directors were independent directors. In this regard, half of the Board is considered independent. In addition, the Board has a balance of gender comprising three (50%) male members and three (50%) female members. The Company does not have nominee director.*
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> *During Board meetings, the non-executive directors participate actively in discussions on key matters pertaining to the Group. They give constructive comments and suggestions to help develop the Group's strategic and business plans. They review the performance of Management in meeting goals and objectives and evaluate their performance.*
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> *The NC is of the view that the current Board members comprise persons who have the necessary core competencies to achieve the Group's objectives. In the selection of the members of the Board, the Board takes into consideration an appropriate balance of gender, expertise, skills and attributes among the directors. This is also reflected in the diversity backgrounds and competencies of the directors, whose competencies range from banking, finance, accounting and legal to relevant industry knowledge, entrepreneurial and management experience, and familiarity with regulatory requirements and risk management. The Board will constantly examine its size with a view to determine its impact upon its effectiveness.*
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> *The Board has appointed one of its independent directors, Mr Choh Thian Chee Irving, Chairman of the NC and RC, as the lead independent director. The lead independent director acts as the leader of the independent directors at board meetings in raising queries and pursuing matters; and leads meetings of independent directors without the presence of the executive directors. After the meeting among the independent directors, the lead independent director provides verbal feedback to the Chairman and the feedback are recorded for further actions."*

d) SGX Query

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. Practice Guidance 3 requires the separation of the role of the Chairman from that of the CEO to avoid concentration of power in one individual and ensure a degree of checks and balances. We note the Company stated that "The Board is of the view that it is not necessary to separate the roles of the Chairman and the CEO given the current corporate structure and scope of the Group's operations." Please explain and confirm if the Company's practices are consistent with the intent of Principle 3 of the Code, which requires the Company to have a separation of the role of the Chairman from that of the CEO to avoid concentration of power in one individual and ensure a degree of checks and balances.

Company's response

The Company had adopted practices that were consistent with the intent of Principle 3 as follows:

> *"Pages 15 of Annual Report*
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> *Provision 3.1 of 2018 Code recommends that the Chairman and Chief Executive Officer are separate persons. However, the Company varied from this provision. The Board is of the view that it is not necessary to separate the roles of the Chairman and the CEO given the current corporate structure and scope of the Group's operations. There is also a balance of power and authority with the various committees chaired by independent directors."*

The names of the various Chairman of the various committees were disclosed on page 3 of the Annual Report and the terms of reference of the various committees were disclosed on page 15 (Nominating Committee), page 17 (Remuneration Committee), page 20 (Audit Committee) of the Annual Report.

The Company also disclosed on page 15 of the Annual Report:

> *"As the CEO and Chairman is the same person, the Board has appointed one of its independent directors, Mr Choh Thian Chee Irving, Chairman of the NC and RC, as the lead independent director. The lead independent director acts as a bridge between independent directors and the Chairman and is also available to shareholders if they have concerns relating to matters which contact through the normal channels of Chairman/CEO or executive directors has failed to resolve, or where such contact is inappropriate."*

Hence, the Company is of the view that there is clear division of responsibilities between the leadership of the Board and Management and no one individual has unfettered powers of decision making.

e) SGX Query

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. Practice Guidance 8 of the Code states that appropriate remuneration disclosures for individual directors, CEO and KMP should be made to provide sufficient transparency and information to shareholders regarding remuneration matters. The remuneration disclosures for individual directors and the CEO should specify the names, amounts and breakdown of remuneration. We note that the Company declined to disclose each individual director and CEO's exact remuneration. Instead, the Company disclosed the remunerations in bands of S$250,000. Please clarify if this disclosure provides sufficient transparency and information to shareholders and it is consistent with the intent of Principle 8 of the Code.

Company's response

The Company had adopted practices that were consistent with the intent of Principle 8 that required transparency on the Company's remuneration policies, the level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation. The practices adopted were disclosed in various pages of our Annual Report as follows:

> *"Pages 17 of Annual Report*
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> *PRINCIPLE 6 : PROCEDURES FOR DEVELOPING REMUNERATION POLICIES*
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> *The RC makes recommendation to the Board on the framework of remuneration for the directors and key executives of the Company and its subsidiaries. Separate service agreements have been established for the executive directors.*
>
> *In 2020, the RC comprised three members, all of whom were independent directors. The Chairman is Mr Choh Thian Chee Irving. Other members of the RC are Mr Yam Mow Lam and Mr Gurbachan Singh.*
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> *The terms of reference of the RC include:*
>
> *(a) to make recommendations to the Board on the framework of remuneration for the directors and key executives;*
> *(b) to review remuneration packages of group employees who are immediate family members of any of the directors or substantial shareholders of the Company;*

(c) to make recommendations to the Board on specific remuneration packages for each executive director and the CEO of the Company and its subsidiaries;
(d) to review all benefits and performance incentive schemes and compensation packages for the directors and key executives of the Company and its subsidiaries; and
(e) to review annual remuneration of Board and key management personnel to be disclosed in the Company's Annual Report.

Currently, the RC does not deem it necessary to seek expert advice on remuneration of all directors, as they are of the view that remuneration is in line with our industry peers.

On an annual basis, the RC reviews the Company's legal obligation in the event of termination of an executive director or key management personnel. Such contracts of service shall contain fair and reasonable termination clauses.

Page 18 of the Annual Report

PRINCIPLE 7: LEVEL AND MIX OF REMUNERATION

The RC ensures the level and structure of remuneration is aligned with the long-term interest of the Company and the Group, and is appropriate to attract, retain and motivate the directors to provide good stewardship of and to run the Company successfully. Remuneration for executive directors comprises a base salary, and performance bonus tied to the Group's and individual's performance.

The Company's remuneration framework for its key executives comprises fixed pay and short-term and long-term incentives. The Company advocates performance based remuneration system that is flexible and responsive to the market. The remuneration is linked to the country/station's and individual key executive's performance.

The Company measures the performance of executive directors and key executives based on the financial performance of each subsidiary and non-financial indicators such as quality of earning streams indicated by customer base of that subsidiary.

The RC recommends directors' fees for non-executive directors for the Board's approval. The framework for determining the non-executive directors' fees for the financial year ended 31 December 2020 remains the same as for the previous financial year.

The RC has the discretion not to award and forfeit the incentives component of the remuneration of the executive directors or key executives, in the event that any misstatement of financial statements or misconduct resulting in financial loss to the Company."

The Company has disclosed on page 19 of the Annual Report on the deviation from Provision 8.1 of the Code as follows:

"The Company has not fully disclosed the remuneration of each individual director and the CEO as the Board believes that such disclosure is not in the best interest of the Company, given the confidentiality and sensitivity nature of the remuneration matter and the highly competitive business environment the Group operates in."

The Company believes that though the remuneration is not disclosed in dollars term and upper limit, there is disclosure on the level and mix of remuneration in percentage terms. This information together with the information disclosed on pages 17 to 19 of the Annual Report would have enhanced shareholders' understanding of the Company on its remuneration framework and policies.

f) SGX Query

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. Practice Guidance 8 of the Code states that remuneration disclosures of at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S$250,000 and in aggregate the total remuneration paid to these key management personnel. We note the Company had declined to disclose the aggregate total remuneration of its top five (5) KMP, and that the upper limit of the highest remuneration band was not disclosed. Please clarify if this disclosure provides sufficient transparency and information to shareholders and it is consistent with the intent of Principle 8 of the Code.

Company's response

The Company had adopted practices that were consistent with the intent of Principle 8 that required transparency on the Company's remuneration policies, the level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation. The practices adopted were disclosed in various pages of our Annual Report as follows:

"Pages 17 of Annual Report

PRINCIPLE 6 : PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

The RC makes recommendation to the Board on the framework of remuneration for the directors and key executives of the Company and its subsidiaries. Separate service agreements have been established for the executive directors.

The terms of reference of the RC include:

(a) to make recommendations to the Board on the framework of remuneration for the directors and key executives;
(b) to review remuneration packages of group employees who are immediate family members of any of the directors or substantial shareholders of the Company;
(c) to make recommendations to the Board on specific remuneration packages for each executive director and the CEO of the Company and its subsidiaries;
(d) to review all benefits and performance incentive schemes and compensation packages for the directors and key executives of the Company and its subsidiaries; and
(e) to review annual remuneration of Board and key management personnel to be disclosed in the Company's Annual Report.

Currently, the RC does not deem it necessary to seek expert advice on remuneration of all directors, as they are of the view that remuneration is in line with our industry peers.

On an annual basis, the RC reviews the Company's legal obligation in the event of termination of an executive director or key management personnel. Such contracts of service shall contain fair and reasonable termination clauses.

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The Company's remuneration framework for its key executives comprises fixed pay and short-term and long-term incentives. The Company advocates performance based remuneration system that is flexible and responsive to the market. The remuneration is linked to the country/station's and individual key executive's performance.

The Company measures the performance of executive directors and key executives based on the financial performance of each subsidiary and non-financial indicators such as quality of earning streams indicated by customer base of that subsidiary.

The RC recommends directors' fees for non-executive directors for the Board's approval. The framework for determining the non-executive directors' fees for the financial year ended 31 December 2020 remains the same as for the previous financial year.

The RC has the discretion not to award and forfeit the incentives component of the remuneration of the executive directors or key executives, in the event that any misstatement of financial statements or misconduct resulting in financial loss to the Company."

The Company has disclosed on page 19 of the Annual Report on the deviation from Provision 8.1 of the Code as follows:

"The Company has not fully disclosed the remuneration of each executive as the Board believes that such disclosure is not in the best interest of the Company, given the confidentiality and sensitivity nature of the remuneration matter and the highly competitive business environment the Group operates in. The Board is of the view that disclosure of specific information may affect the retention of competent personnel in a competitive industry where poaching of executives is prevalent."

The Company believes that though the remuneration is not disclosed in dollars term and upper limit, there is disclosure on the level and mix of remuneration in percentage terms. This information together with the information disclosed on pages 17 to 19 of the Annual Report would have enhanced shareholders' understanding of the Company on its remuneration framework and policies.

ISSUED BY ORDER OF THE BOARD

Seoh Choon Hong
Joint Company Secretary
29 April 2021