

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**") raised the following five (5) queries on 16 August 2019 in relation to: (i) the three (3) months second quarter ended 30 June 2019 ("**2Q 2019**") results, and (ii) the six (6) months first half ("**1H 2019**") ended 30 June 2019, of the Company and its subsidiaries (the "**Group**"):

a) **SGX Query (a)**

Please provide an explanation for the increase in Purchases of goods and consumables used, despite the decrease in turnover for Q2FY2019 as compared to Q2FY2018.

Company's Response to SGX Query (a)

We would like to highlight that SGX Query (a) needs to be dissected as follows:

- (i) the turnover referred to in the SGX Query (a) relates to the Group's "Turnover"; whereas
- (ii) the "Purchases of goods and consumables used" relates only to the aviation business unit.

The Group's announcement of results dated 13 August 2019 ("**Results Announcement**"), had disclosed on page 11, that the Group was "engaged in two areas of businesses, aviation and logistics". Accordingly, our Group's "Turnover" was related to the two areas of businesses.

It was also disclosed on page 13 of our Results Announcement, under the section entitled "**2nd Qtr 2019 vs 2nd Qtr 2018**" that: "The aviation business contributed to 5% our "Turnover" in 2Q 2019. The remaining 95.0% of "Turnover" was generated from our logistics business".

	Group	
	Second quarter ended	
	30 Jun	30 Jun
	2019	2018
	US\$'000	US\$'000
Turnover	47,815	51,608

Aviation Turnover	2,387⁽¹⁾	1,240⁽²⁾
Changes in inventories ⁽³⁾	441	-
Purchases of goods and consumables used ⁽³⁾	(2,363)	(845)
Aviation Gross Profit	465	395

Notes:

(1) As disclosed on pages 12 and 13 of our Results Announcement.

(2) Disclosed for the purpose of addressing SGX Query (a)

(3) As disclosed on page 1 of our Results Announcement.

The tables above show that:

- (i) The Group's "Turnover" declined to US\$47.815 million in 2Q 2019, from US\$51.608 million in 2Q 2018;
- (ii) In contrast, our aviation "Turnover" increased to US\$2.387 million in 2Q 2019, from US\$1.240 million in 2Q 2018; and
- (iii) Hence, despite a decrease in Group's "Turnover" in 2Q 2019, the "Purchases of goods and consumables used" increased US\$1.518 million to US\$2.363 million in 2Q 2019 compared to US\$0.845 million in 2Q 2018. The increase in "Purchases of goods and consumables used" in 2Q 2019 was therefore in line with the higher (US\$1.147 million) aviation "Turnover" to US\$2.387 million in 2Q 2019 compared to US\$1.240 million in 2Q 2018.

b) **SGX Query (b)**

Please provide the breakdown of *Other operating expenses* for the comparative periods. Please provide an explanation for the material variances in each of the line items included in the breakdown.

Company's Response to SGX Query (b)

An extract of our Results Announcement is as follows:

	Group			Group		
	Second quarter ended		Change	First half year ended		Change
	30 Jun	30 Jun		30 Jun	30 Jun	
	2019	2018	2019	2018		
US\$'000	US\$'000	%	US\$'000	US\$'000	%	
Other operating expenses	(907)	(1,629)	(44.3)	(1,803)	(3,089)	(41.6)
Total costs and expenses	(47,811)	(52,556)	(9.0)	(101,800)	(101,803)	0.7

Our "Other operating expenses" as a percentage of our "Total costs and expenses" was not material for each comparative period as shown in the table below:

Percentage of "Other operating expenses" to "Total costs and expenses"	1.90%	3.10%	1.77%	3.03%
	<hr/>	<hr/>	<hr/>	<hr/>

As requested by SGX, however, a breakdown of our "Other operating expenses" for the comparative periods are tabulated below:

	Group		Group	
	Second quarter ended		First half ended	
	30 Jun 2019	30 Jun 2018	30 Jun 2019	30 Jun 2018
	US\$'000	US\$'000	US\$'000	US\$'000
Rental expenses	(103)	(341)	(180)	(692)
Foreign currency exchange gain/(loss)	26	(118)	178	(100)
Legal & professional fee	(115)	(218)	(250)	(437)
Communication expenses	(98)	(112)	(207)	(222)
Motor vehicle and transport expense	(158)	(157)	(322)	(304)
Travelling expenses	(67)	(119)	(132)	(197)
Entertainment expenses	(55)	(87)	(131)	(180)
Computer and related expenses	(45)	(54)	(116)	(121)
Marketing and office expense	(12)	(99)	(102)	(225)
Bank charges	(35)	(30)	(75)	(65)
Repair and maintenance	(32)	(38)	(63)	(71)
Insurance	(25)	(33)	(50)	(53)
Auditors' remuneration	(57)	(51)	(91)	(89)
Utilities	(27)	(36)	(59)	(75)
Other individual immaterial expenses ⁽¹⁾	(104)	(136)	(203)	(258)
Total operating expenses	(907)	(1,629)	(1,803)	(3,089)

Note:

(1) Each individual item of "Other individual immaterial expenses" is less than 3% of our "Other operating expenses"; and less than 0.05% of our "Total Costs and Expenses" in each comparative period.

As disclosed on page 13 of our Results Announcement, under the section “Total Costs and Expenses”, “**1H 2019 vs 1H 2018**”, the lower (US\$1.286 million) “Other operating expenses” to US\$1.803 million in 1H 2019 from US\$3.089 million in 1H 2018, was mainly due to: (a) lower rental expenses (US\$0.512 million) resulted from the application of SFRS(I) 16 Leases; (b) foreign exchange gain of US\$0.178 million, compared to a loss of US\$0.100 million in 1H 2018; and (c) reduction of office expenses including travelling and entertainment expenses in North Asia.

c) **SGX Query (c)**

Please provide a breakdown of the Group’s Trade and other receivables for the comparative periods and provide an explanation for the material variances in each of the line items included in the breakdown.

Company’s Response to SGX Query (c)

A breakdown of the Group’s Trade and other receivables for the comparative periods as at 30 June 2019 and 31 December 2018 are tabulated below:

	Group	
	As at 30 June 2019 US\$’000	As at 31 December 2018 US\$’000
Trade receivables	26,056	33,812
Payment of custom duties & freights recoverable from customers	959	924
Advance payment to suppliers	574	964
Deposits	2,712	2,606
Prepayments	406	460
GST/VAT receivables	98	94
Others receivables	591	676
Total Trade and other receivables	31,396	39,536

As disclosed on page 15 of our Results Announcement, under the section entitled “Current assets”, we had stated that: “(i) a decrease of US\$8.140 million in “Trade and other receivables” to US\$31.396 million as at 30 June 2019, compared to US\$39.536 million as at the end of FY 2018. The reduction in “Trade and other receivables” as at 30 June 2019, was largely due to lower “Turnover” in 2Q 2019, compared to 4Q 2018”.

Of the decline of US\$8.140 million in “Trade and Other Receivables” to US\$31.396 million as at 30 June 2019 compared to 31 December 2018, approximately 95.3% (US\$7.756 million) was due to the reduction in “Trade receivables”. As earlier announced, the decline in “Trade receivables” as at 30 June 2019 compared to 31 December 2018 was largely due to the lower Group’s “Turnover” in 2Q 2019, compared to 4Q 2018.

d) **SGX Query (d)**

Please provide the aging of the Group's Trade receivables and the Board's assessment on the recoverability of the Group's receivables and the bases for such an assessment.

Company's Response to SGX Query (d)

The Group's "Trade receivables" as at 30 June 2019 (as at end 1H 2019) was as follow:

<u>Aging of "Trade receivables"</u>	As at 30 June 2019 US\$'000
Not past due	14,460
Past due 0 to 2 months	11,004
Past due 2 to 4 months	780
Past due over 4 months	(188)
Trade receivables	<u>26,056</u>

In assessing the recoverability of the Group's "Trade receivables", the Group considered both quantitative and qualitative information that was reasonable and supportable, including historical experience and forward-looking information, such as future economic and industry outlook that was available without undue cost or effort.

In particular, the Group considered the following information in assessing whether the credit risk of each customer had increased: (i) financial condition of each customer; (ii) the credit rating of each customer if available; (iii) payment history; (iv) existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; (v) actual or expected significant deterioration in the operating results/key financial performance ratios of the debtors; (vi) an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in a customer's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Based on the above criteria, the Board is of the view that the Group's "Trade receivables" as at 30 June 2019 would be recoverable.

e) **SGX Query (e)**

Please provide a breakdown of Trade and other payables for the comparative periods and provide an explanation for the material variances in each of the line items included in the breakdown.

Company's Response to SGX Query (e)

A breakdown of the Group's "Trade and other payables" for the comparative periods as at 30 June 2019 ("**end 1H 2019**") and 31 December 2018 ("**end FY 2018**") are tabulated below:

	Group	
	As at 30 June 2019 US\$'000	As at 31 December 2018 US\$'000
Trade payables	15,537	22,121
Other payables	459	2,944
Accrued operating expenses	3,089	3,675
Custom duties and freight received in advance from customers	11,203	13,623
Advance from a director/shareholder of a subsidiary	984	1,057
Total "Trade and other payables"	31,272	43,420

"Trade and other payables" declined US\$12.148 million to US\$31.272 million as at end 1H 2019, compared to US\$43.420 million as at end FY 2018 primarily due to:

- (i) Lower (US\$6.584 million) "Trade payables" to US\$15.537 million as at end 1H 2019, compared to US\$22.121 million for two main reasons:
 - (a) Firstly, the decline is in line with the reduction in "Trade receivables" which were collected and used to repay "Trade payables"; and
 - (b) Secondly, "Trade payables" declined after the peak season of the fourth quarter as at end FY 2018. The lower "Trade payables" as at 2Q 2019 compared to 4Q 2018, was in line with lower monthly average sales in 2Q 2019 compared to 4Q 2018. The lower sales activity in 2Q 2019 was due to lower business volume after Thanksgiving, Christmas and New Year, that occurred in the 4Q 2018;
- (ii) Other payables decreased US\$2.485 million to US\$0.459 million was due to:-
 - (a) the reclassification of "Other payables" amounting to US\$0.250 million to "Contract liabilities" as at 30 June 2019; and
 - (b) we have recognized an amount of US\$2.010 million which was previously received as deposit from an aviation customer in FY2018 as aviation's "Turnover" after our aviation business unit completed the delivery of an aircraft engines;
- (iii) The decrease of US\$2.420 million in "Custom duties and freight received in advance from customers" from US\$13.623 million as at 31 December 2018 to US\$11.203 million as at 30 June 2019, was largely due to lower sales activity in 2Q 2019.

The above three (3) sub-paragraphs accounted for 94.6% of the reduction in Total “Trade and other payables” as at end 1H 2019, compared to end FY 2018.

ISSUED BY ORDER OF THE BOARD

Loo Keat Choon
Joint Company Secretary
20 August 2019