

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 4 May 2020 in relation to the Company's Annual Report for the financial year ended 31 December 2019 ("FY2019"):

a) SGX Query

The Exchange requested for the disclosure of the external independent audit firms which carried out the internal audit function of the Company during the financial year ended 31 December 2019.

Please clarify the reason as to why multiple external independent audit firms were required to carry out the internal audit function of the Company.

Company's response

We wish to clarify that the internal audit of one of our subsidiaries during FY 2019 was carried out by an external independent audit firm.

b) SGX Query

The Exchange referred to page 13 of the Annual Report that "The NC adopts the 2012 Code of Corporate Governance ("2012 Code") definition of what constitutes an independent director in its review."

In this regard, please confirm as to whether Listing Rule 210 (5) (d) has been complied with in assessing the independence of the non-executive directors.

Company's response

We confirm that we have complied with the listing Rule 210 (5) (d) as explained in the next paragraph below. Listing Rule 210 (5)(d) stated that:

"A director will not be independent under any of the following circumstances:

- (i) if he is employed or has been employed by the issuer or any of its related corporations in the current or any of the past three financial years;*
- (ii) if he has an immediate family member who is employed or has been employed by the issuer or any of its related corporations in the current or any of the past three financial years, and whose remuneration is or was determined by the remuneration committee of the issuer."*

Our non-executive directors of the Company are (1) Mr Yam Mow Lam; (2) Mr Choh Thian Chee Irving; and (3) Mr Gurbachan Singh. They are independent as (i) none of them is employed or has been employed by the Company or any of its related corporations in the current or any past three financial years and (ii) none of them has any immediate family member who is employed or has been employed by the Company or any of its related corporations in the current or any past three

financial years. Hence, the Company confirmed that Listing Rule 210 (5)(d) has been complied with in assessing the independence of the non-executive directors.

c) SGX Query

The Exchange noted that Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “Code”), the provision from which it had varied, an explanation for the reason for variation, and an explanation on how the practices it had adopted are consistent with the intent of the relevant principle.

- i) The Exchange noted that the Company had not complied with Provision 2.4 of the Code as you have not disclosed your board diversity policy and progress made towards implementing the board diversity policy, including objectives, and there were no explanations provided for in your FY2019 annual report on how it is consistent with the intent of Principle 2 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.
- ii) The Exchange noted that the Company had not complied with Provision 8.1 and 8.2 of the Code with regards to (1) amounts and breakdown of remuneration of each individual director and the CEO; and (2) with regards to the disclosure for the names and remuneration of employees who are substantial shareholders of the company and whose remuneration exceeded S\$100,000 respectively, and there were no explanations provided for in your FY2019 annual report on how it is consistent with the intent of Principle 8 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company’s remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

Company’s response

- i) *The Company has adopted the practices that are consistent to the intent of Principle 2 of the Code in compliance with Provision 2.4 of the Code, regarding our board diversity and board diversity policy. The Company had disclosed on page 13 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.

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.

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.

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.”

- ii) On the SGX’s second query, we 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 16 and 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.

In 2019, 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.

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 17 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 2019 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 18 of the Annual Report on the deviation from Provision 8.1 and 8.2 of the Code as follows:

"The Company has not fully disclosed the remuneration of each individual director and the CEO nor the upper limit for the highest remuneration band 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, there is disclosure on the level and mix of remuneration in percentage terms. This information together with the information disclosed on pages 16 to 18 of the Annual Report would have enhanced shareholders' understanding of the Company on its remuneration framework and policies.

ISSUED BY ORDER OF THE BOARD

Loo Keat Choon
Joint Company Secretary
6 May 2020