

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 9 May 2022 in relation to the Company’s Annual Report for the financial year ended 31 December 2021 (“FY2021”):

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.

a) SGX Query

We note that the Company has not complied with Provision 2.4 of the Code as the Company has 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 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.

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 16 and page 17 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.”

b) SGX Query

We note that the Company has not complied with Provision 3.1 of the Code as the Company's Chairman and CEO position is filled by the same person, and there were no explanations provided for in your annual report on how it is consistent with the intent of Principle 3 of the Code.

Please clarify how the practices the Company had adopted are consistent with the intent of Principle 3 of the Code, which requires a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision making.

Company's response

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

Page 17 and 18 of Annual Report

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 18 (Nominating Committee), page 20 (Remuneration Committee), page 23 (Audit Committee) of the Annual Report.

The Company also disclosed on page 18 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.

c) SGX Query

We note that the Company has not complied with Provisions 8.1 and 8.2 of the Code with regards to the disclosure of remuneration of each individual director and the CEO and key management personnel. While the Company explained that this was due to confidentiality and sensitivity surrounding remuneration matters, there were no explanations provided for in your 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

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:

Page 20 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 2021, 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 20 and page 21 of 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 2021 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 21 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, there is disclosure on the level and mix of remuneration in percentage terms. This information together with the information disclosed on pages 20 to 22 of the Annual Report would have enhanced shareholders' understanding of the Company on its remuneration framework and policies.

d) SGX Query

Provision 9.2 of the Code provides that the Board requires and discloses in the company's annual report that it has received assurance from: (a) the CEO and the Chief Financial Officer that the financial statements give a true and fair view of the company's operations and finances; and (b) the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the company's risk management and internal control system.

We note that the Company has disclosed that (a) 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; and (b) 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 on the adequacy and effectiveness of the risk management and internal controls system, addressing financial, operational, compliance and information technology risks of the Company

In this regard, please identify these senior members of the Group's finance team, including, but not limited to names and designations, and provide an explanation as to why assurance was received from senior members of the Group's finance team instead of the Financial Controller.

Company's response

The senior members of the Group's finance team at the Singapore headquarter includes three (3) Finance Managers, namely Ms Hue Su Li, Ms Lew Mei Teng and Ms Chow Si Ying. They are each a qualified Chartered Accountant and a member of Institute of Singapore Chartered Accountants. They are supported by other finance team members. Each of the three (3) finance managers report directly to the two (2) Executive Directors, namely Ms Janet LC Tan and Ms Irene Tay Gek Lim.

e) SGX Query

Please clarify how the Company has complied with Rule 1207(10) of the Listing Manual which provides, inter alia that, the Board must comment on the adequacy and effectiveness on the issuer's internal controls and risk management systems; and a statement on whether the audit committee concurs with the board's comment must also be provided.

Company's response

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

Page 23 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 2021, 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 24 and 25, and more specifically to the query:

Page 25 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 2021, 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."

f) SGX Query

Please clarify how the Company has complied with Rule 1207(10C) of the Listing Manual which provides that the annual report must contain the Audit Committee's comment on whether the internal audit function is independent, effective and adequately resourced.

Company's response

The Company had disclosed on page 24 and page 25 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 2021. 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 2021, 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.

g) SGX Query

Please clarify how the Company has complied with Rule 1207(18B) of the Listing Manual

Company's response

The Company and its subsidiaries (collectively known as the "A-Sonic Group") give employees of the Group, customers, service providers, vendors, or third parties, the opportunity to speak up on improprieties, misconduct and/or wrong doings relating to its employees; or the business, financial, or corporate affairs of the A-Sonic Group.

A-Sonic Group has adopted the whistleblowing policy and procedures and complied with Rule 1207(18B) of the Listing Manual. In summary, the Group has complied with the whistleblowing policy, and has set out the following:

- (i) The purpose of A-Sonic's Whistleblowing policy;*
- (ii) The reportable malpractices, unethical, or illegal conducts;*
- (iii) A-Sonic's designated independent function to investigate whistleblowing reports made in good faith;*
- (iv) A-Sonic's policy to ensure the identity of a whistleblower(s) is kept confidential; A-Sonic's commitment to ensure protection of the whistleblower(s) against unfair treatment; and*
- (v) The responsibility of A-Sonic's independent Audit Committee to oversee and monitor the whistleblowing policy.*

To report any improprieties, misconduct and/or doing relating to the business, financial, or corporate affairs of the A-Sonic Group, you may email or mail directly to the A-Sonic independent Audit Committee Chairman at corporate@asonic-aerospace.com , or 10 Anson Road, #24-07 International Plaza, Singapore 079903, respectively.

Our whistleblowing policy is also disclosed on page 24 of the Annual Report as follows:

The AC has established procedures for the staff of the Company and its subsidiaries to raise any improprieties of any employee, or any improprieties in matters relating to financial or corporate affairs, or any other matters of the Company or its subsidiaries in good faith and confidence without fear of reprisals or concerns to the AC directly. These procedures are implemented to ensure that an independent investigation of such matters will be conducted, and that appropriate remedial action be taken. Details of the Whistle-blowing Policy can be found in the Staff Handbook.

BY ORDER OF THE BOARD

Hue Su Li
Joint Company Secretary

11 May 2022