



Corporate Governance

In line with the London Stock Exchange's recent changes to the AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, the Board has adopted the Quoted Companies Alliance Corporate Governance Code (QCA Code). Details of how we comply with the QCA Code principles in broad terms can be found below in our Statement of Compliance with the QCA Code. The information contained in this Statement of Compliance was updated on 27 September 2018. This information will be reviewed and updated annually.

Statement of Compliance with the QCA Corporate Governance Code

Introduction

The Board is responsible for ensuring that good standards of corporate governance are embraced throughout by Frontier Smart Technologies Group Ltd (the "Group" or "Company"). The Board also sets clear expectations concerning the group's culture, values and behaviours.

The Directors recognise the importance of good corporate governance and are using the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code') as a framework to improve corporate governance at the Group.

Given the London Stock Exchange's recent changes to the AIM Rules requiring AIM-listed companies to adopt and comply with a recognised corporate governance code, we have chosen the QCA Code as a practical, outcome-oriented approach tailored for small and mid-size quoted companies in the UK.

Set out below is a summary, which demonstrates how the Company addresses the key governance principles defined in the QCA Code. Further information on compliance with the QCA Code will be provided in our next annual report and we will provide updates on our compliance with the QCA Code annually.

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

Frontier is a pioneer in technologies for digital audio and smart IoT devices. The company has three strands to its strategy:

- Maintain its leadership in Digital Radio
- Build its existing presence in Smart Audio
- Develop a position in Smart IoT

Group

Frontier's goal is to deliver shareholder value by maximising the cashflows from its mature Digital Radio business and using these funds to invest in the higher growth opportunities provided by Smart Audio and Smart IoT. The company aims to ensure that its R&D expenditure is sufficient to establish a credible position in its emerging markets, whilst continuing to deliver a positive and growing EBITDA at the Group level.

Digital Radio

Frontier is the established leader in technology solutions for digital radios. The company has a market share of approximately 80% in consumer DAB devices and this business line is significantly cash generative. Frontier's strategy for Digital Radio is to maximise cashflows by tightly managing its R&D expenditure and maintaining its margins and market leadership. The positive cashflows from Digital Radio underpin the development of the company's position in Smart Audio and Smart IoT.

Smart Audio

In Smart Audio, the Group's focus is on enabling third party brands to develop devices incorporating the proprietary streaming and voice recognition technology platforms of the major ecosystem players (Google, Amazon and Apple). Frontier is currently the only system integrator whose platform supports all three ecosystems. To date, the company has focused on turnkey solutions, but it is now broadening its business model to offer software licensing and services, which are designed to appeal to larger brands and ODMs. This business line is currently lossmaking, but the major investment phase of developing the company's multi-ecosystem platform has now been completed and the losses are being significantly reduced.

Smart IoT

The third leg of Frontier's strategy is Smart IoT. The technologies developed for Smart Audio, in the areas of connectivity, cloud services and voice recognition, are wholly transferable to other, non-audio, Smart IoT categories. When coupled with the Company's relationships with major ecosystem players and its strong relationships with many China-based ODMs, Frontier is well placed to address the opportunities in this market. The company is working closely with Google, Amazon and leading semiconductor provider, NXP, to address these opportunities. Initial engagements with potential customers in sectors such as smart security, appliances and home automation are under way. First revenues for this business line are expected in 2019.

Principle 2: Seek to understand and meet shareholder needs and expectations

The Group values the views of its shareholders and recognises their interest in the Group's strategy and performance. Regular dialogues are held with shareholders, including holding briefings with analysts and other investors and staff shareholders. The company also uses the Annual General Meeting as an opportunity to communicate with its shareholders. All directors are expected to attend the Annual General Meeting with the Chairmen of the Audit and Remuneration Committees being available to answer shareholders' questions. The Chairman of the Board and the Non-Executive Directors are the primary points of contact for all shareholders. Private shareholder events are held by the Executive Directors. To request a meeting please contact Jonathan Apps, Chief Financial Officer at: jonathan.apps@frontiersmart.com.

The Company produces year end and interim announcements as well as a Full Annual Report all of which are available on the Investors' section of the Company's website: <https://www.frontiersmart.com/downloads/results#.W6y6YGhKhdg>. Hard copies of the annual report are distributed to those shareholders who have requested to continue to receive them. The Company's website (www.frontiersmart.com) contains information on the Group, matters reserved for the Board, the Company's articles of association, the Committee terms of references, copies of all documents sent to shareholders and all market and regulatory announcements.

There is a separate section on the website, 'Investor News', which lists documents, such as notices of Annual General Meetings, Proxy Voting details, circulars sent to shareholders and any other information sent to shareholders during the period. Details can be found here: <https://www.frontiersmart.com/news/investor-news#.W6nygGhKhdg>

Institutional shareholders

The Directors actively seek to build a relationship with institutional shareholders. The Chief Executive Officer and Chief Financial Officer make presentations to institutional shareholders and analysts each year immediately following the release of the full-year and half-year results.

The Board is kept informed of the views and concerns of major shareholders by briefings from the CEO, CFO and the Group's Nomads. Any significant investment reports from analysts are also circulated to the Board. The Chairman and Non-Executive Directors are available to meet with major shareholders if required to discuss issues of importance to them.

Private shareholders

The Annual General Meeting is a key forum for communication with private investors. The Directors are available to answer questions and shareholders are encouraged to participate in proceedings.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The Group's stakeholders include shareholders, members of staff, customers, suppliers, regulators, partners, industry bodies and creditors. The principal ways in which their feedback on the group is gathered is via meetings and conversations. In 2017, the Company instituted an annual staff survey to gather feedback on range of issues such as job satisfaction, terms & conditions, training & development, clarity of role and motivation. Following this survey, management implemented several measures to respond to issues raised (for example, increasing the holiday allowance of long serving staff). The company has very regular communications with customers (over 100 consumer audio brands and ODMs), suppliers (e.g. component suppliers, contract electronic manufacturers and silicon foundries) and ecosystem players (e.g. Google, Amazon and Apple) – through regular meetings, phone calls and emails plus participation in industry events in Europe, North America and Asia. The Group participates actively with regulators (e.g. Ofcom and other media regulators across Europe) and industry associations – for example, WorldDAB (the current President is a Group employee) and techUK. Members of the Senior Management Team have a regular dialogue with suppliers / creditors.

The Group's approach to Corporate Social Responsibility is outlined in the Citizenship section of the company's website: <https://www.frontiersmart.com/citizenship#.W6uybWhKhdg>.

Specific policies included in this section include:

- [Equal Opportunities, Bullying and Harassment](#)
- [Anti-Bribery Policy](#)
- [Whistleblowing Policy and Procedure](#)
- [Frontier's Quality Policy](#)
- [Family Friendly Policy](#)
- [Statement relating to the Modern Slavery Act](#)

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board is responsible for ensuring the Group has effective and sound systems of internal controls, which are designed to manage, but not eliminate, the risk of failure to achieve business objectives and provide reasonable, but not absolute, assurance against material misstatements and loss. The day-to-day management and monitoring of the Group's systems of internal control is delegated to the Chief Financial Officer.

The Chief Financial Officer ensures that the Group's risk management framework and control culture are embedded within the business, the Executive Directors provide assurance to the Board, through

the audit committee, that risks are monitored, appropriately escalated and managed within the risk appetite of the Board.

The key risks affecting the Group are set out on pages 13 to 15 of the 2017 Annual Report: https://www.frontiersmart.com/sites/default/files/Final_FST_AR17.pdf and will be reviewed and reported on in the Group's 2018 Annual Report expected to be published in March 2019. The systems of internal control are designed to cover all business, financial, reputational and legal risks of the Group and are embedded within the day to day operations of the Group.

The financial reporting controls in place are designed to maintain proper accounting records and provide reasonable assurance concerning the accuracy and integrity of financial information reported both internally and externally. The financial reporting controls are monitored monthly and are reported regularly to the audit committee.

In accordance with the QCA Code and best practice guidance for Directors on internal controls issued by the Financial Reporting Council, the Board, with the advice of the Audit Committee, has reviewed the effectiveness of the systems of internal control for the year to 31 December 2017. As part of this review, the Board received assurances from the Chief Executive Officer and the Chief Financial Officer of Frontier Smart Technologies Group plc that the Directors' Responsibilities Statement on page 23 of the 2017 Annual Report is founded on a sound system of risk management and internal controls and that the systems of internal controls are operating effectively in all material respects in relation to reporting financial risks and the mitigation of material business risks.

Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair

The Group supports the concept of an effective Board leading and controlling the Group. The Board normally consists of a Non-Executive Chairperson, who was independent on appointment, two executive Directors, who hold the key operational positions in the Group, and up to three Non-Executive Directors, who bring a breadth of experience and knowledge. The composition and experience of the Board is shown on the Company's website: <https://www.frontiersmart.com/board-and-management#.W6tbU2hKhdg>.

In 2018, two new Non-Executive Directors joined the Board. In March 2018, Sir Hossein Yassaie joined as an independent Non-Executive Director. Sir Hossein is a recognised figure on the world technology stage with directorship and strategic advisory roles in several disruptive global technology companies. Formerly he was CEO of Imagination Technologies Group plc. He brings proven technology expertise and vision, extensive market knowledge and industry relationships, which are of significant benefit to the Group. On 30 May 2019, Sir Hossein transitioned from Non-Executive Director to Chairman.

In July 2018, Paul Taylor was appointed an independent Non-Executive Director. Paul is an experienced Director having worked for over 20 years in the public markets in both Executive and Non-Executive positions. He has been involved in several public listings, fund raises, company acquisitions and sales. He has supported high growth and transformational businesses, including business redefinitions and management restructures.

The Directors possess skill sets, capabilities and experience gained from diverse backgrounds, thereby enhancing the Board by bringing a wide spectrum of knowledge and expertise.

The Board is responsible for approving Group policy and strategy. It meets on a regular basis, at least six times a year in person, supplemented by ad hoc conference calls as required. The Board has a schedule of matters specifically reserved to it for decision making – available here: [Matters Reserved for the Board](#). Committee Terms of Reference are available at: <https://www.frontiersmart.com/corporate-governance#.W6u222hKhdg>.

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investments and the Group's assets and for reviewing its effectiveness. The Group has established three Committees to support it in this regard: an Audit Committee, a Remuneration Committee and a Nominations Committee.

The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. An Audit Committee has been established and comprises three Non-Executive Directors, Paul Taylor (Chair), Martin Harriman and Sir Hossein Yassaie. The Committee meets at least half yearly and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, as well as meeting the auditor and reviewing any reports from the auditor regarding accounts and internal control systems. The Audit Committee also reviews and monitors the Company's whistle-blowing procedures and policy. Terms of reference for the Audit Committee have been reviewed and approved by the Board. The Board has considered the need for an internal audit function but has decided that the size of the Group does not justify it at present. However, it will keep the decision under annual review.

The Remuneration Committee has three members - Sir Hossein Yassaie (Chair), Martin Harriman and Paul Taylor. The committee meets twice a year. Its Terms of Reference are published here: https://www.frontiersmart.com/sites/default/files/Remuneration%20Committee_1.pdf

The Board delegates specific responsibilities to senior management. Management supplies the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Group's expense.

Directors' conflict of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of software and technology, asset management, international trading, business transformation, capital markets, mergers and acquisitions, change management and governance.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting.

One third of Directors retire at the Annual General Meeting each year in accordance with the Company's Articles of Association.

All new Directors appointed to the Board receive a comprehensive induction. The Company's Nomads are invited to attend a Board meeting at least once a year to update the Board on their general and statutory duties and current best practice governance issues.

The Company understands the importance and benefits of Board diversity, including gender balance. These factors are fully considered when new Directors are appointed.

Independent advice

All Directors can take independent professional advice in the continuance of their duties, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Chief Financial Officer.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board considers and evaluates its own performance and effectiveness and that of the individual Directors and Board Committee members. The Company is planning to introduce formal annual performance appraisals for Executive Directors and all Senior managers and will continue to do so on an on-going basis. This process will include the setting of clear and relevant objectives which are identifiable and measurable.

Principle 8: Promote a culture that is based on ethical values and behaviours

We expect all employees and Directors to act in a way that reflects the underlying values of the Group. The Company is currently consulting with staff to develop and agree a clear set of corporate values. These are likely to focus on the following principles and behaviours: collaborative, quality-driven, innovative, passionate, customer-centric and ethical. Managers and employees are expected to act consistently in ways which are honest, trustworthy, fair and considerate.

As one element of developing this culture, the Group encourages employees to participate in charitable / fund-raising activities – on a group or individual basis. Examples of such activities can be found under the Education and Communication section of the Group's Citizenship page:

<https://www.frontiersmart.com/citizenship#.W6t2vGhKhdg>.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The role of the Board is to ensure delivery of the business strategy and long-term shareholder value. The general obligations of the Board and the roles and responsibilities of the Chairperson and the Chief Executive Officer are set out in a formal Board responsibilities statement approved by the Board. The Board fulfils its role by approving the annual strategic plan and monitoring business performance throughout the year. During the financial year to 31 December 2018, the Board held nine formal scheduled Board meetings; and, in addition, held a number of unscheduled ad-hoc meetings, typically by conference call. The schedule of matters reserved for Board approval can be found here: [Matters Reserved for the Board](#).

The Board has approved an annual Board calendar setting out the dates, location and standing agenda items for each formal scheduled Board and Committee meeting and scheduled Board calls. Board papers are circulated to Directors in advance of scheduled and unscheduled meetings, which are of an appropriate quality to enable the Directors to fulfil their obligations and adequately monitor the performance of the business. Directors who are unable to attend a meeting are expected to provide their comments to the Chairperson, the Chief Executive Officer, or the Company Secretary as appropriate. The Board also receives management information on a regular basis that sets out the performance of the business. The Chief Executive Officer and Chief Financial Officer are invited to attend the Audit and Remuneration Committee meetings, if appropriate.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Senior executives below Board level attend Board meetings where appropriate to present business updates. Board meetings throughout the year are held at the Company's various location offices giving, in particular the Non-Executive Directors, access to the different divisions to gain a greater understanding of the Group's activities.

The Executive Team consists of Anthony Sethill, Chief Executive Officer and Jonathan Apps, Chief Financial Officer with input from the Senior Management Team, which represents the key functions of the business. The Executive Team is responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document, and the effectiveness of these controls is regularly reported to the Audit Committee and the Board.

Board Committees

The Board is supported by the Audit, Remuneration and Nomination Committees. Each Committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the Committee to discharge its duties. The terms of reference of each Committee are available at <https://www.frontiersmart.com/corporate-governance#.W6u222hKhdg>.

Insider trading

The board has appropriate policies and procedures in place to guard against insider trading by employees including Directors. Appropriate clearances are required in order that trades can be made and all employees are made aware, via company-wide emails, of relevant close periods prior to financial results being announced. The full policy can be found here: <https://www.frontiersmart.com/sites/default/files/Share%20dealing%20code.pdf>.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company encourages two-way communication with both its institutional and private investors and responds quickly to all queries received.

In addition, the Company communicates with shareholders through the Annual Report, full-year and half-year announcements, the Annual General Meeting, General Meetings and one-to-one meetings with large existing or potential new shareholders.

The Investors pages on the Company's website also include annual and interim reports from 2005: <https://www.frontiersmart.com/downloads/results#.W6t7r2hKhdg>. These pages include details of all proxy votes received and the number of shares voted for and against all resolutions put to shareholders at Annual General Meetings and General Meetings held throughout the year.

July 2019