



PAN-UNITED CORPORATION LTD
(Incorporated in the Republic of Singapore)
(Company Registration No: 199106524G)

RESPONSE TO SGX QUERIES REGARDING THE COMPANY'S FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors of Pan-United Corporation Ltd (the "Company" and together with its subsidiaries, collectively the "Group") refers to the following queries raised by the Singapore Exchange Securities Trading Limited ("SGX-ST") on 16 February 2021 and would like to provide additional information in relation to the Company's financial statements for the financial year ended 31 December 2020 (the "Financial Statements"), as follows:

SGX-ST's Query:

- (a) Please explain the material variances in the following line items on page 1 of the Financial Statements:- (i) other income; (ii) raw materials, subcontract cost and other direct costs; (iii) other expenses; (iv) finance costs; and (v) share of results of associate.

Company's response:

- (i) The increase in other income is mainly due to the government grants received under the Covid-19 government support schemes, primarily arising from the Job Support Scheme and foreign worker levy rebates totaling to \$3.4 million.
- (ii) The lower raw materials, subcontract cost and other direct costs is due to a decrease in revenue of 47% and 41% in FY2020 and 2H 2020 respectively, as a result of the impact from the Covid-19 pandemic.
- (iii) Other expenses include utilities, maintenance, marketing and administrative expenses. The decrease in other expenses is mainly due to a decrease in business activities, as reflected in the decrease in revenue for both FY2020 and 2H 2020.
- (iv) The decrease in finance costs is mainly due to the decrease in interest expense from bank loans as a result of net repayment of bank borrowings of \$19.8 million in FY2020 (2H 2020: \$6.2 million) and lower interest rates.
- (v) The decrease in the share of results of associate is due to lower profit after tax of the associate, PT. Lanna Harita Indonesia, whose principal activity is in coal mining.

SGX-ST's Query:

- (b) Please explain the nature and basis for the impairment loss of intangible assets disclosed on page 2 of the Financial Statements.

Company's response:

The impairment loss on intangible assets relates to the impairment loss on goodwill, arising from the acquisition of equity interests in PT. Pacific Granitama in 2010. The recoverable amount of the cash generating unit to which goodwill had been allocated is determined using value-in-use calculations based on a discounted cash flow model. Based on the value-in-use calculations, an impairment loss of \$220,000 on the goodwill is recognised for the financial year ended 31 December 2020.

SGX-ST's Query:

- (c) Please explain the reason for the reversal of impairment on trade receivables disclosed on page 2 of the Financial Statements. In this regard, please also let us have the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade receivables, and the bases for their opinion.

Company's response:

The reversal of impairment on trade receivables is mainly due to an improvement in the collection of trade receivables which were impaired in prior years. The Group provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance with the ageing of receivables by grouping of customers based on geographical region. The Board has opined that the above methodology is reasonable in determining the expected credit losses to be provided on the trade receivables.

SGX-ST's Query:

- (d) Please explain the material variances in the following line items on page 3 of the Financial Statements: (i) other assets; (ii) cash and cash equivalents; (iii) lease liabilities (both current and non-current); (iv) deferred income; (v) provisions; and (vi) derivatives.

Company's response:

- (i) Other assets relate to import quota as a right to import construction materials from traditional sources which is regulated by the Building and Construction Authority (BCA). BCA has an Importers' Licensing Scheme which applies to any person in the business of importing sand and granite. Under this scheme, the Group is required to import a certain prescribed percentage of construction materials from non-traditional sources before it is allowed to import the remaining from traditional sources.

The decrease in other assets is due to the utilisation of import quota during the year.

- (ii) The increase in cash and cash equivalents is due to the net cash flows generated from operating activities of \$59.6 million, arising mainly from the decrease in trade and other receivables. This is partially offset by the cash used in capital expenditure, net repayment of bank borrowings, repayment of lease liabilities as well as dividends paid to shareholders and non-controlling interests.
- (iii) The decrease in lease liabilities (both current and non-current) is due to the repayment of lease liabilities during the year.
- (iv) The increase in deferred income is due to the recognition of government grants under the Job Support Scheme that is receivable in March and June 2021.
- (v) Provisions relate to the provisions for reinstatement costs on leasehold land. The decrease in provisions is due to the utilisation of these provisions during the year.
- (vi) The increase in derivatives is due to the fair value loss recognised on forward currency contracts as at year end.

SGX-ST's Query:

- (e) With regard to the line item "inventories" on page 3 of the Financial Statements, please provide information on the Group's inventory turnover days.

Company's response:

The Group's inventory turnover days has increased from 21 days in FY2019 to 35 days in FY2020, as a result of the decrease in business activities due to the Covid-19 pandemic.

By Order of the Board

Kevin Cho
Company Secretary
18 February 2021