



PAN-UNITED CORPORATION LTD

(Incorporated in the Republic of Singapore)
(Company Registration No: 199106524G)

RESPONSES TO QUESTIONS RECEIVED FROM SHAREHOLDERS AND THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) PRIOR TO THE COMPANY'S ANNUAL GENERAL MEETING

The Board of Directors of Pan-United Corporation Ltd (the "Company", and together with its subsidiaries, the "Group") wishes to provide the following information in response to questions received from shareholders of the Company and the Securities Investors Association (Singapore) ("SIAS") prior to the upcoming annual general meeting for its financial year ended 31 December 2022 to be held on Thursday, 20 April 2023 at 10.00 am at Suntec Singapore Convention & Exhibition Centre, Meeting Room 325-326, Level 3, 1 Raffles Boulevard, Suntec City, Singapore 039593.

Questions from shareholders

- 1. Pan-United is largely in the business of ready-made concrete (RMC) with a ~40% market share in Singapore. In the last few years, BCA is pushing for construction productivity improvements via Design for Manufacturing and Assembly (DfMA). There are various incentive schemes, for example the inclusion of DfMA adoption in government construction tenders. A portion of DfMA efforts is moving towards pre-cast concrete, for example Advanced Precast Concrete System (APCS) and Prefabricated Prefinished Volumetric Construction (PPVC). There are pros and cons when we compare pre-cast concrete and RMC. How does Management see the opportunities and threats towards this move by BCA towards pre-cast concrete?**

The DfMA method of construction is encouraged as it increases productivity. Notwithstanding, it does not reduce concrete consumption. Being the largest RMC supplier in Singapore, Pan-United will continue to supply our concrete and cement, including to pre-casters and PPVC operators. In addition, the PPVC construction method is presently only being used for building construction projects.

These construction methods will also allow Pan-United to introduce low-carbon concrete technologies to reduce embodied carbon in the built environment, while leveraging on their efficiency.

- 2. Please comment on the trend in average selling prices (ASPs) of RMC in the first three months of the year, as well as the outlook for ASPs going forward.**

The ASPs for the different geographies would differ as the market profiles and conditions vary. For Singapore, according to the latest figures reported by the Building and Construction Authority (BCA) published in March 2023, the selling price of RMC over the three months between December 2022 to February 2023 was about S\$118.00 per cubic metre (m³).

We do not provide guidance on ASPs. However, we do think that ASPs would continue to be affected by the challenging macroeconomic trends, such as the high energy costs, manpower cost, the volatility in the commodity prices and potential supply chain disruptions.

3. Does the company have a healthy order book for the year ahead?

According to BCA, the construction demand and RMC volume is expected to remain stable in 2023 and we have a healthy order book for 2023.

4. Is the disposal of PT. Pacific Granitama expected to improve Pan-United's profitability going forward?

The disposal of PT. Pacific Granitama has minimum impact to our profitability.

Questions from SIAS

1. As shown in the corporate profile, the group is a leading global innovator in low-carbon concrete technology. As one of Asia's largest producers of low-carbon concrete, the company is committed to promoting sustainability and reducing carbon emissions in the concrete industry. The group has invested heavily in research and development as well as digital technologies to offer high-performance solutions that help decarbonise the environment.

The group has committed to specific sustainability targets, including supplying only low-carbon concrete by 2030, offering carbon-neutral concrete products by 2040 and becoming a carbon-neutral RMC company by 2050.

For the financial year ended 31 December 2022, revenue increased by 20% to S\$703.3 million as the level of activities picked up after the easing of COVID measures. Profit attributable to equity holders of the company from continuing operations was S\$27.5 million, an increase of 42%.

i. According to BCA statistics, the volume of RMC used in Singapore reached 11.6 million m³ in 2022 and is estimated to reach between 11.5 million m³ and 12.5 million m³ in 2023. Can management help shareholders understand if it had increased its market share during the pandemic?

We have maintained our market share at about 40% over the years. We remain as Singapore's largest supplier of RMC and will work hard to continue preserving our market leadership in the industry.

ii. How is the group managing supply chain disruptions and manpower constraints?

We persist in our efforts to reduce costs and improve productivity. To manage supply chain disruptions, we adopt diversification policy and supply chain resilience. As for manpower constraints – job design, adoption of technology and process re-engineering are some of the strategies that we adopted.

iii. Can management provide more information on the priorities for the company's operations in Malaysia and Vietnam?

At present, we believe the economic outlook for Malaysia and Vietnam is still uncertain. We will adopt a more conservative approach in our business in these two countries.

- iv. **What has been the uptake of AiR Digital since its launch on the SAP Store in 2022, and what are some common user feedback?**

There have been active enquiries regarding our AiR Digital platform, and most of the potential customers can appreciate the value that our AiR Digital platform can bring to their operations. As our product is the first in the market, there is no benchmark for comparison in terms of value and pricing. We are in active discussions with a few potential customers from the region.

The group supplied 360,000 m³ of CO₂ mineralised concrete for the construction of the Phase One container berth project at Tuas Port in Singapore, which is the biggest volume for a single project in Singapore to date.

- v. **Could management provide additional information about the benefits of using carbon dioxide (CO₂) mineralised concrete over standard concrete, both in terms of cost and environmental impact? How mature are the carbon capture and utilisation (CCU) technologies (such as CO₂ mineralisation)?**

The process of creating our CO₂ mineralised concrete involves using CCU technology to embed waste industrial CO₂ within the concrete. While the adoption of CCU technology began as early as the 1950s, its application to concrete was relatively recent. In 2018, Pan-United became the first in Asia to utilise the CO₂ mineralisation technology for concrete production.

As part of our commitment to decarbonisation, we have invested in new technologies to produce CO₂ mineralised concrete and other low-carbon solutions to reduce embodied carbon emissions that would have otherwise been emitted during the construction of a building. We take a long-term view for such investments.

- vi. **Can management clarify whether there are any limitations or specific requirements for using CO₂ mineralised concrete in various applications, such as building height or load-bearing capacity?**

There are no limitations on the usage of CO₂ mineralised concrete. The requirements are subject to the same considerations as any other traditional or standard concrete.

In the previous annual report, the company posed a rhetorical question: "If Singapore could use entirely low-carbon concrete to supply all of its built environment needs...", highlighting the potential environmental impact of switching to low-carbon concrete. It was estimated that such a shift would reduce the country's CO₂ emissions by 6%, equivalent to planting 51 million trees.

- vii. **Could management elaborate on the main barriers preventing the company from achieving this goal, particularly in terms of cost? Are there any supply chain constraints, and if so, how can the group overcome them and capitalise on this opportunity?**

We believe that higher cost and lower awareness among stakeholders are the main barriers for the adoption of low-carbon concrete in Singapore. In terms of cost, we are actively innovating our products and usage of raw materials, as well as improving our process efficiency to reduce the cost of production. As the adoption of low-carbon concrete increases in the industry, we hope to leverage economies of scale to lower the cost for our customers in the future.

viii. How close is the group to achieving carbon-neutral concrete products, and what steps is it taking to reach this milestone?

Over the years, we have invested in extensive R&D to lay the foundation for Pan-United to be at the forefront of concrete technologies. Today, Pan-United has over 300 specialised concrete products, over half of which are low-carbon solutions. The Group aims to offer only low-carbon concrete by 2030 and we are on track to achieve our target.

2. Working capital increased by S\$31.1 million, mostly due to “trade and other receivables” and “other assets” increasing from S\$122.3 million to S\$149.5 million and from S\$2.9 million to S\$8.3 million respectively.

Details of the group’s trade and other receivables are shown in Note 18 (page 84; Trade and other receivables) and reproduced below:

18. Trade and other receivables

	Group		Company	
	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000
Current				
Trade receivables	149,456	122,264	–	–
Amounts due from subsidiaries	–	–	47,147	43,183
Refundable deposits	3,185	2,888	–	1
Sundry receivables	357	322	–	–
	152,998	125,474	47,147	43,184
Non-current				
Refundable deposits	144	151	–	–
Total trade and other receivables	153,142	125,625	47,147	43,184
Add: Cash and cash equivalents (Note 20)	64,646	64,149	40,226	39,594
Total financial assets carried at amortised cost	217,788	189,774	87,373	82,778

(Source: company annual report; emphasis added)

The impairment assessment of trade receivables is also a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 December 2022, gross trade receivables of the group and allowance for expected credit losses (ECL) amounted to S\$151.6 million and S\$2.2 million (2021: S\$124.2 million and S\$2.0 million) respectively. Trade receivables were significant to the group as they represented 35% of the group’s total assets (2021: 31%). The collectability of these trade receivables was a key element of the group’s working capital management and was managed on an ongoing basis by the management (page 47).

The company's annual report provides a provision matrix based on geography and aging for the group's trade receivables in Note 35(c) under Financial risk management objectives and policies: Credit risk (page 97).

Summarised below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix, grouped by geographical region:

	Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	More than 120 days past due	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2022							
Singapore							
Gross carrying amount	73,705	42,207	11,291	544	208	659	128,614
Allowance for impairment	–	(10)	(8)	–	(169)	(658)	(845)
Net carrying amount	73,705	42,197	11,283	544	39	1	127,769
Other geographical areas							
Gross carrying amount	12,998	4,280	2,363	1,009	320	2,022	22,992
Allowance for impairment	–	(11)	(22)	(14)	(2)	(1,256)	(1,305)
Net carrying amount	12,998	4,269	2,341	995	318	766	21,687
31 December 2021							
Singapore							
Gross carrying amount	62,568	34,088	10,547	728	24	569	108,524
Allowance for impairment	–	(2)	(6)	–	–	(541)	(549)
Net carrying amount	62,568	34,086	10,541	728	24	28	107,975
Other geographical areas							
Gross carrying amount	10,161	1,482	359	428	818	2,465	15,713
Allowance for impairment	–	–	–	(1)	(1)	(1,422)	(1,424)
Net carrying amount	10,161	1,482	359	427	817	1,043	14,289

(Source: company annual report)

- Has the management encountered delays in collecting trade receivables?
- What are the profiles of the customers with outstanding trade receivables that are past due by up to 60 days?
- What actions has management taken to recover these outstanding debts?

The allowance for impairment for customers outside of Singapore is disproportionately large.

- How does management assess the creditworthiness of its customers outside of Singapore?

A large part of the receivables is in Singapore, which has increased year-on-year mainly due to higher revenue. We have not encountered significant delays in collections.

Our customers are mainly contractors and we have been working hard to manage our trade receivables by only dealing with creditworthy third parties. We have put in place a customer evaluation process for the Group, including the overseas operations.

- Would the executive committee or the audit committee consider reviewing the credit criteria for foreign customers based on the group's historical credit loss experience, and potentially tightening the credit risk framework to mitigate credit risk?

We are mindful of the need to manage our financial risk, which includes credit risk, in a prudent manner. As at 31 December 2022, there was no significant concentration of credit risk. The good credit history of our customers reduces the risk to the Group to an acceptable level. The Audit Committee and Board of Directors review our risk management policies and procedures, as well as our exposure and risk profile, on an ongoing basis. We will take necessary steps to mitigate not just credit risk, but also financial risk, if and when required.

3. **As noted in the corporate governance report, the board has adopted a Board diversity policy, recognises that a diverse board is an important element which will better support the company in attaining its strategic objectives and sustainable development.**

The nominating committee (NC), in its annual review of the appropriate size and composition of the board, may make recommendations to the board for new board appointments.

The NC will take the lead in identifying, evaluating and selecting suitable candidates as new directors for the Board's consideration, based on a selection criterion which includes integrity, expertise, industry experience and financial literacy.

The NC may engage, if necessary, external search consultants or other advisers to assist in identifying and short-listing of potential candidates.

i. Can the NC elaborate further on how it identifies suitable director candidates?

The NC takes the lead in identifying and evaluating suitable candidates based on selection criteria determined in consultation with the Board.

These criteria include integrity, expertise, industry experience and financial literacy, thereby allowing the Board to select candidates with the appropriate level of expertise and experience.

The selection and nomination process involve taking into consideration the skills, expertise and attributes of the existing board members. The NC also gives due consideration to ensuring board diversity. Pan-United adopts a Board Diversity Policy that aims to increase stakeholder representation and reduce groupthink. When reviewing and assessing the composition of the Board, the NC considers all aspects of diversity, such as skillsets, experience, background, gender, age, tenure of service, amongst other personal qualities.

Lastly, the NC verifies that potential director candidates maintain a strong independent element that would not compromise their objectivity while carrying out their responsibilities. This includes assessing factors such as financial ties, past associations, business dealings, shareholder representation, financial dependence, and current or past relationship(s) with the company and/or its management.

Candidates will then be selected based on the requisite skills, expertise, independence and experience to add to the diversity of the Board and to support the Group's strategies and vision.

ii. How frequently does the company engage external search consultants to assist in identifying and shortlisting candidates for director positions?

As of the latest report, the Board is of the view that its current composition and size is appropriate for the nature and scope of the Company's operations, while facilitating effective decision making for the existing needs of the Group's businesses.

No external search consultants were engaged during the financial year in review as no new directors were being appointed.

- iii. **Does the NC consider personal networks and recommendations from current directors and management as sources for potential director candidates? If so, how does the NC ensure that the use of personal networks does not compromise the diversity and independence of the board?**

The selection of director candidates is based on selection criteria determined in consultation with the Board.

The NC verifies that potential director candidates maintain a strong independent element that would not compromise their objectivity while carrying out their responsibilities. This includes assessing factors such as financial ties, past associations, business dealings, shareholder representation, financial dependence, and current or past relationship(s) with the company and/or its management.

Candidates will then be selected based on the requisite skills, expertise, independence and experience to add to the diversity of the Board and to support the Group's strategies and vision.

To ensure independence of the Board, the NC conducts annual reviews based on the 2018 Code and the Listing Rules and is guided by the Board Diversity Policy.

On 11 January 2023, Singapore Exchange Regulation (SGX RegCo) announced that it will limit the tenure of independent directors (IDs) serving on the boards of listed issuers to nine years. This stemmed from recommendations by the Corporate Governance Advisory Committee (CGAC). There was broad market support for this change during the public consultation carried out by SGX RegCo.

Mr Tan Boon Gin, CEO of SGX RegCo, also noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

Mr Tay Siew Choon, who was first appointed as an independent director in 2005, has served beyond nine years from the date of his first appointment.

- iv. **Can the NC elaborate further on succession plan for the chairman?**

At the Company's AGM on 30 April 2021, Mr Tay Siew Choon was re-elected as an independent non-executive director of the Company via a two-tier voting process as specified in the SGX Listing Manual and he is eligible to continue as independent non-executive director of the Company until the AGM for financial year 2023 to be held in April 2024.

The NC annually reviews the succession planning of the Board and Management.

By order of the Board

Kevin Cho
Company Secretary
14 April 2023