

Issuer: Heatec Jietong Holdings Ltd.

Security: Heatec Jietong Holdings Ltd.

Meeting details:

Date: 17 April 2017

Time: 10:00H

Venue: 10 Tuas South Street 15, Singapore 637076

Company Description

Heatec Jietong Holdings Ltd., an investment holding company, provides piping and heat exchanger services to marine, and oil and gas industries in Singapore. It operates through Piping, Heat Exchanger, and Chemical Cleaning segments. The Piping segment is involved in the fabrication, installation, and restoration of pipes and systems, such as marine piping; and provision of turnkey project management services, including procurement, construction, fabrication, commissioning, and project management, as well as in process piping for floating, production, storage, and offloading conversions. The Heat Exchanger segment offers a range of heat exchanger services comprising engineering consultancy and on-site inspection services; fabrication and restoration of heat transfer devices; heaters; condensers; engine charged air coolers; and fresh water generators. This segment also provides heat exchangers and related services to the offshore marine, oil and gas, and shipping industries; and land-based heat exchanger services to the process and chemical plants. The Chemical Cleaning segment engages in stainless steel passivation, tank cleaning, and chemical sales activities; hot oil flushing for oils/pipelines; and pigging for pipelines or hoses. This segment also provides chemical cleaning services for heat exchangers, pipelines engine, parts, pressure vessels, etc.; and hydro-jetting machines, as well as rents portable steam boilers/borescopes/particle counters. The company also repairs ships, tankers, and other ocean-going vessels; manufactures and repairs air coolers, evaporators, and related auxiliary products, as well as oil rigs, other oilfield and gas field machineries and equipment. In addition, it is involved in maintaining, distributing, marketing, and trading activities. Heatec Jietong Holdings Ltd. was incorporated in 2007 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5OR)

Q1. The group's new 51% owned subsidiary, Heatec Guangzhou Co., Ltd, is formed with two other strategic local partners – GB Marine Engineering Services Co., Ltd and SafeOcean Governor Guangzhou Co., Ltd..

- a) **Can management elaborate further on the strategic plans for the group's new overseas venture?**
- b) **What is the potential of the Chinese market?**
- c) The CEO in his statement (page 6 – CEO's statement) talked about the group's overseas expansion. **Is the group targeting to expand to other cities in China and/or other countries?**
- d) In FY2016, the group's revenue was S\$30.2 million and trade and other receivables amounted to S\$18.2 million as at 31 December 2016. **Does the group have sufficient working capital and the balance sheet strength to support the group's growth plans?**

Q2. One of the key audit matters (page 39) relates to the recoverability of trade receivables. The independent auditors have noted the following:

The Group's customers historically have been slow paymasters. There is a risk that the Group's aged trade receivables which are past due but not impaired may not be recoverable and allowance for doubtful receivables may not be adequate or reasonable. ... Inappropriate judgement and estimates made in the impairment assessment would result in a significant impact on the carrying amount of the trade receivables.

The audit committee has reviewed the key audit matters brought up by the independent auditors and they have noted that the "group's key customers are mainly Temasek-linked companies or multinational companies".

As at 31 December 2016, out of the total trade receivables (net) amount of S\$12.8 million, the group has trade receivables past due but not impaired of \$3.35 million and has impaired receivables of \$0.8 million (before provision).

- a) Trade receivables past due but not impaired for more than 12 months amounted to \$0.57 million. **Can management disclose the upper limit of the aging? What is the profile of the debtor(s) with long overdue trade receivables? What is the current business relationship with the debtor(s)?**
- b) The group increased the allowance for doubtful debts of \$0.322 million to \$0.509 million as at 31 December 2016. The history of the group's allowance for doubtful debt and write-offs since FY2011 is shown in the table below. **Can management elaborate further on the group's credit risk management policy? Is the current credit risk management policy adequate given the current economic conditions? Should the credit risk management policy be reviewed and strengthened given that the group has started its overseas expansion?**
- c) **Also, can management elaborate further on its "sales discount" policy? As seen in the table below, there has been disproportionately large movements in the group's allowance for sales discount on a year-to-year basis compared to the change in revenue.**

	FY2016	FY2015	FY2014	FY2013	FY2012	FY2011
Revenue	30,160,819	33,308,599	29,858,826	34,103,240	35,154,341	37,133,998
Allowance for doubtful debts - outside parties	(509,264)	(199,833)	(338,966)	(350,041)	(470,841)	(70,236)
Amounts written off during the year	(8,426)	(125,000)	(37,625)	-	-	(79,800)
Amounts recovered during the year	-	(60,570)	(42,592)	(121,500)	-	-
Allowance for sales discount - outside parties	(734,654)	(732,804)	(2,612,850)	(626,811)	(4,333,136)	(4,877,942)

(Source: Heatec Jietong Holdings Ltd Annual Reports)

Q3. In the Corporate Governance Report (page 21 – Board Performance), the company has disclosed that:

The NC has decided that the Directors will not be evaluated individually. In assessing Directors' contribution and performance of the Board, the NC takes into consideration the Directors' attendance, preparedness, participation and candour at the meetings.

Guideline 5.3 of the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore states that:

Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and board committees, and any other duties). The Chairman should act on the results of the performance evaluation, and, in consultation with the NC, propose, where appropriate, new members to be appointed to the Board or seek the resignation of directors.

- a) **Can the nominating committee (NC) explain its decision not to evaluate directors individually?**
- b) **Would the NC re-consider how it evaluates the effectiveness of the Board, especially on the contribution by each director to the effectiveness of the Board?**