

Issuer: Heatec Jietong Holdings Ltd.

Security: Heatec Jietong Holdings Ltd.

Meeting details:

Date: 16 April 2018

Time: 10.00 a.m.

Venue: 10 Tuas South Street 15, Singapore 637076

Company Description

Heatec Jietong Holdings Ltd., an investment holding company, provides piping and heat exchanger services for the marine, petrochemical, and oil and gas industries primarily in Singapore. It operates through Piping, Heat Exchanger, and Chemical Cleaning segments. The Piping segment offers various piping services, including fabrication and installation of various types of piping; restoration and installation of various types of pipes and systems, including marine piping; and process piping services for floating, production, storage, and offloading (FPSO) conversions. Its piping works are used in offshore structures, such as FPSOs, oil rigs, restoration of ship piping systems, routine docking maintenance of ships, and other types of ship conversions and ship lengthening. The Heat Exchanger segment provides engineering consultancy and on-site inspection services, heat transfer devices fabrication and restoration, heaters, condensers, main engine charged air coolers, and fresh water generators for heat exchangers that are used on board marine and offshore vessels, as well as on pressure vessels. This segment also offers landbased 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 pipelines/oils; 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; and manufactures and repairs air coolers, evaporators, and related auxiliary products. 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)

1. In August 2017, the company announced that one of the three founders, Mr. Yong Li Vien, sold his direct and deemed interests of 32,030,678 shares in the company. The company subsequently announced that Tru-Marine Pte. Ltd. has acquired a stake of 32,030,678 shares of the company and thus held a 26.05% interest in the company.

Based on Tru-Marine's profile on their website, it is a specialist in the maintenance, repairs, overhaul and spares supply for turbochargers in marine, offshore, power plant and locomotive applications.

- (i) **Can the board help shareholders understand if the new substantial shareholder has initiated discussion with the board and the company?**
- (ii) **Has the group explored areas of collaboration with the new substantial shareholder?**
- (iii) **What are the opportunities for a strategic tie-up with Tru-Marine given the group's current strategy, management team, balance sheet and the state of the business environment?**

2. Please help shareholders understand the business segments of the group better. Specifically:

- (i) **Piping: How dependent is the piping segment on Floating, production, storage and offloading ("FPSO") conversion? Is the group the preferred subcontractor of the two shipyards for their FPSO conversion projects?**
- (ii) **Heat exchanger: Can management provide the specific reasons for the disproportionately large loss of \$(2.454) million in the segment when the segment revenue was just \$8.69 million?** In comparison, in FY2016, when the revenue was \$14.7 million, the segment reported a segment result of \$877,359.
- (iii) **Chemical cleaning: In the CEO's Statement, it was said that the segment "managed to remain stable with only a marginal decrease in results due to more competitive pricing" (page 8). Based on the information in Note 30 (page 99 – Segment information), revenue dropped by 12% to \$2.76 million while segment results slipped from a profit of \$266,336 to a loss of \$(97,756). Does management have an estimate of the market share of Chem-Grow? What was the estimated utilisation rate of Chem-Grow in FY2017?**
- (iv) **Manpower: With the ability to cross-deploy manpower across business units curtailed, is the group keeping its labour force for now and waiting for an eventual pick-up in market demand?**

3. In the Corporate Governance Report, in the Interested Person Transactions section, it was disclosed that a sum of \$357,280 was paid to the three founders for the "provision of consultancy services and allowances" (page 36).

- (i) **Can the board help shareholders understand the job scope and responsibilities of the individual consultants?**
- (ii) **What are the deliverables and how are the consultants assessed?**

The footnote to the sum of \$357,280 stated that the amount "[c]omprised fees payable to Mr Soon Yeow Kwee Johnny and Mr Yong Yeow Sin for FY2017, and Mr Yong Li Vien for the period from 1 January 2017 up to 28 August 2017 (the date which Mr Yong Li Vien ceased to be a substantial/controlling Shareholder)".

In addition, the company disclosed that "[o]n 28 August 2017, Mr Yong Li Vien ceased to be a controlling Shareholder and retired as one of the Group's Consultants on 20 January 2018."

As disclosed in the footnote, fees to Mr Yong Li Vien was stopped once he ceased to be a substantial shareholder on 28 August 2017 although he only retired as one of the group's consultants on 20 January 2018.

- (iii) **Can the board confirm that the fees paid to the founders are consultancy fees for their consultancy services?**
- (iv) **Can the board also confirm that the fees paid are not due to their status as substantial shareholders of the company?**
- (v) **If Mr Yong Li Vien retired as one of the group's consultants on 20 January 2018, but yet the fees paid to Mr Yong Li Vien was for the period up to 28 August 2017 the day he ceased to be a controlling shareholders, does it mean that Mr Yong Li Vien and the consultants were paid due to their controlling shareholding stakes?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Heatec%20JieTong%20Holdings%20Ltd>

The company's response could be found here: -----