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Issuer: Heatec Jietong Holdings Ltd.

Stock code: 50R

Meeting details:

Date: 27 Jun 2024

Time: 10.00.am.

Venue: Raffles Marina, Chartroom, 10 Tuas West Drive, Singapore 638404

Q1. On 26 March 2024, the company announced that its entry into a non-binding memorandum of understanding with a Chinese partner to explore hospitality business opportunities in Zhengzhou, PRC.

The company also recently acquired an energy trading business that was categorised as an interested person transaction under Chapter 9 of the Catalist Rules. The new trading segment contributed \$143,000 in revenue in FY2023 and a segment loss of \$(1.2) million (Note 30 Segment information; page 132 of the annual report). In Note 6, the company disclosed that for the 11 months ended 31 December 2023, Setya contributed revenue of \$204,502 and loss of \$(790,460) to the group's results.

In the core Heat Exchanger segment, revenue was higher by nearly 40% to \$16.2 million (FY2022: \$11.6 million), with a segment profit of \$1.4 million (FY2022: \$0.4 million).

- (i) **How is the group positioning itself to capitalise on the thriving buoyant Floating, Production, Storage and Offloading ("FPSO") market, especially in Brazil?**
- (ii) **How does Heatec Vietnam compare to Heatec in Singapore in terms of capacity and capability?**
- (iii) **What is management's outlook for the marine and oil and gas industries over the next 18-24 months?**

Separately, in the piping segment, the group has reported segment losses of:
\$(1,206,555) in FY2023,
\$(332,789) in FY2022,
\$(963,276) in FY2021,
\$(590,601) in FY2020,
\$(445,069) in FY2019,
\$(841,063) in FY2018, and
\$(374,438) in FY2017.

- (iv) **What are the challenges in the piping segment?**
- (v) **Can management elaborate further on the top 3-5 operational priorities aimed at restoring profitability to the piping segment?**
- (vi) **Considering the group's sustained losses over several years, would it be advisable for management to focus on its core business instead of expanding into hospitality in China, early-stage robotics technology (potentially involving interested persons), and trading of marine petroleum products? What guidance have the independent directors provided to management regarding focusing on core businesses versus venturing into new areas?**

With regard to the acquisition of Setya Energy Pte. Ltd.:

- (vii) **Could the directors, especially the independent directors, clarify the circumstances surrounding the \$502,400 in deposits paid to secure marine petroleum products that were uncollectible at the acquisition date? Were these issuers known to the independent directors and the independent valuer during the due diligence process/before the acquisition was completed?**

- (viii) **In addition, can the independent directors provide greater clarity on the \$880,000¹ impairment loss related to trade receivables that were “*long overdue without any payment*”? Similarly, were the audit and risk management committee (ARMC) and the independent valuer informed about this overdue debt during the due diligence process? Did the company or the board, especially the independent directors, discuss with the vendors the possibility of indemnifying the long overdue debts during the negotiations? If not, what were the reasons?**

¹ <https://links.sgx.com/FileOpen/Heatec%20-%20Material%20Variances%20FY23.ashx?App=Announcement&FileID=806425>

Q2. The independent auditors have included a qualified opinion in their independent auditor's report for the financial year ending 31 December 2023. The basis for qualified opinion can be found on pages 68 and 69 of the annual report.

It is noted that the company made payments for consultancy services amounting to \$220,000 (2022 - \$490,000) for purported corporate mergers and acquisitions related advisory services.

The independent auditors have noted that:

The terms and conditions of the Consultancy Agreements, including the scope of work and deliverables, appeared to be described in generic terms, lacking specifications over the monitoring of project milestones and the service deliverables to be submitted, which is inconsistent with standard market practice, especially given the substantial and fixed nature of the fees charged by the Service Provider. Furthermore, we were unable to observe any realistic and measurable milestones and deliverables to track the progress and work performed by the Service Provider. We were also unable to verify the Service Provider's requisite qualification and competency to ensure their capability to deliver the Purported Corporate M&A Services. Due to the lack of documentary evidence available to us, we were unable to ascertain the true nature of the consultancy service arrangements, and therefore, whether the payments amounting to \$220,000 (2022 - \$490,000) during the financial year ended 31 December 2023 were indeed for the purpose or services as represented by management and/or purportedly outlined in the Consultancy Agreements. Consequently, we were unable to determine whether any adjustments in the accompanying financial statements that may be necessary.

The service provider was identified by the company to be Nexis Consulting Pte Ltd². It appears that Nexis Consulting sells pens, clear file sheets, A4 paper and design services on its websites.

Details of the various agreements between the group and the service provider can be found in the footnotes of page 127 of the annual report.

- (i) **Did the board/ARMC conduct due diligence on the service provider before the company entered into contracts with them? If so, what were the findings?**
- (ii) **Did the contracts, some as high as \$45,000 per month, meet the board's approval threshold? If so, were these agreements approved by the board?**
- (iii) **What are the reasons behind the termination of the agreements in April 2023 and October 2023?**

² <https://links.sgx.com/FileOpen/Heatec%20-%20Response%20to%20queries%20on%20Qualified%20Opinion.ashx?App=Announcement&FileID=75891>
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- (iv) **What changes have been implemented by the ARMC to enhance the group's internal control processes following the inquiry by SGX RegCo in May 2023³?**

- (v) **Given that the matter has been highlighted by the two of the company's independent auditors, is the ARMC conducting a special audit to review the vendor's appointment and the contracts entered into by the company with them?**

³ <https://links.sgx.com/FileOpen/Heatec%20-%20Response%20to%20queries%20on%20Qualified%20Opinion.ashx?App=Announcement&FileID=75891>

Q3. At the annual general meeting scheduled to be held on 27 June 2024, Mr Soon Jeffrey will retire pursuant to Regulations 98 and 99 of the company's constitution and will be seeking his re-election.

Mr Soon Jeffrey is the executive director and chief executive officer. Mr Soon Jeffrey was appointed to the board on 1 January 2016. Mr Soon Jeffrey is responsible for all day-to-day operations and determines the group's strategic direction for business growth, including the overall group sales activities, as well as business development in new markets and industries.

Information on directors seeking re-election/appointment as set out in Appendix 7F of the Catalist Rules can be found on pages 26 to 36.

- (i) **What is the total shareholder return (TSR) over the past 3, 5, 8 and 10 years? Is the board closely monitoring the company's performance and TSR?**
- (ii) **Could Mr Soon Jeffrey elaborate on his contributions to the group in terms of creating long-term shareholder value? Specifically, can the director provide insights into the strategies and actions he has undertaken to create and realise value for all shareholders, particularly minority shareholders?**
- (iii) **Has the acquisition of Setya Energy been value accretive to the group?**

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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