HEATEC JIETONG HOLDINGS LTD.
Co. Reg. No. 200717808Z

RESPONSE TO SECURITIES INVESTORS ASSOCIATION SINGAPORE ("SIAS") QUERIES

The board of directors (the "**Board**") of Heatec Jietong Holdings Ltd (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the queries raised by the Securities Investors Association Singapore ("**SIAS**") in an email to the Company dated 19 June 2024 and (as set out below) and wishes to respond as follows:

<u>SIAS'S QUERY 1:</u>

On 26 March 2024, the company announced 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 $880,000 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?

Company's response

In order to capitalise on the thriving and buoyant Floating, Production, Storage and Offloading ("**FPSO**") market, especially in Brazil, the group is employing a comprehensive strategy that involves several key actions as follows:

(a) Paying close attention to and tracking market trends and developments in the FPSO sector;
(b) Engaging in consistent dialogue with existing and potential clients to understand their needs, project timelines, and requirements;
(c) Regularly evaluating the performance and capacity of current suppliers to ensure they can meet the demands of new FPSO projects;
(d) Identifying and onboarding new suppliers to enhance the supply chain's flexibility and resilience. This includes seeking suppliers with innovative technologies or better cost efficiencies;
(e) Working closely with financers to secure funding and ensure financial stability for upcoming projects, enabling the Group to capitalise on new opportunities swiftly;

Heatec Jietong Vietnam, our newly set up base in Ho Chi Minh, Vietnam was operational in 2023 and recently completed its maiden heat exchanger project for an FPSO which was delivered to Dubai in early 2024. It was set up to take advantage of the cost competitiveness in Vietnam. Being a relatively new set up, the capability and capacity of the FPSO team in Vietnam is smaller than that in Singapore. Nonetheless, the FPSO team in Vietnam will endeavor to grow the operation in size, capability and capacity, barring any unforeseen circumstances.

Looking ahead, the Company envisages that the overall business environment is cautiously positive as the Group intensifies its efforts to develop and grow the business, especially in the FPSO market. However, shipping routes have been affected by the ensuing geopolitical conflicts in various parts of the world. Global trade tensions, inflation and the Singapore Government's policy on tightening foreign labour supply continue to add challenges. Meanwhile, the Company will look for opportunities to grow inorganically.

The piping segment still grapples with a shortage of worker dormitories as well as escalating dormitory fees. At the same time, the skilled Singaporean labour market remains tight. Therefore, the Group continues to be cautious in securing contracts with tight delivery schedules.

The following are the three operational priorities meant to bring the piping segment back to profitability:

(a) Increase manpower strategically to achieve economies of scale. This involves assessing current operational needs and hiring additional workers where their contribution can maximise production efficiency and reduce costs per hour.

(b) Focus on converting contract assets into accounts receivable promptly and efficiently. This includes streamlining billing processes, ensuring accurate invoicing, and following up diligently to expedite payments.

(c) Engage in proactive negotiations with clients to settle contract assets at a higher rate. This involves demonstrating the value delivered and leveraging relationships to secure faster payments.

As the historical figures have shown, the Group has been facing various challenges in the existing core business over the years. Thus, a balanced approach focusing on improvements in managing its core businesses and strategic, complementary diversification is preferred by Management. The Company's independent directors have recommended a cautious yet proactive stance in exploring inorganic growth opportunities while ensuring that there is no significant/ adverse impact on operational cash flow and maintaining flexibility in non-binding exploratory initiatives.

Management understood from Setya Energy that the amount of $502,400 was deposited with the supplier to secure long term supply of a bunker. It did not seek for the refund of the deposit as it anticipates that there will be more business opportunities in future with this particular supplier. Management's view is that the amount of the $502,400 deposit can be collected, if required, and had also received a written confirmation from the supplier for the deposit. However, out of prudence and following discussions with its auditors, the Group decided to impair this deposit.

The $880,000 impairment loss on long overdue trade receivables was deemed recoverable during the due diligence process because the credit term was not yet due as at the material time. In addition, the customer had a good track payment record with Setya. Management has been regularly and actively following up with the customer regarding the overdue debts. The independent due diligence exercise was completed with a report presented to the Management, and to the ARMC and the Board separately. No significant negative findings were observed that warranted immediate attention or adversely impacted the Company's decision to proceed with the acquisition at the material time.

SIAS'S QUERY 2:

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 Ltd. 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?

(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 2023?

(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?

Company's response

The board/ ARMC was briefed by Management on the background and experience of several key members of the service provider. Management also shared with the board/ARMC of its assessment that the service provider would contribute much to ensuring that the acquisition of Setya would be successfully completed. Please refer to the announcement dated 12 May 2023 as set out in the link below for more details of the consultancy services provided to the Company.

https://links.sgx.com/1.0.0/corporate-announcements/M2BV4827RTOCMXXZ/9c26028e0df93d132bef672d886af6bdfa50623202c536446e0ab7247e9b4a5a

In line with the then existing approval matrix and/or protocols at the material time, the entry into the consultancy agreements with Nexis did not require the board's approval. Notwithstanding the above, Management kept the Board updated on the progress of the acquisition of Setya Energy Pte Ltd. The consultancy agreement(s) with the service provider were terminated due to parties' inability to agree on key commercial terms and the Company's intention to cut down on costs. To enhance the Group's internal control processes, the Company has refined its authority matrix to include specific investment-related engagement to require the approval of the ARMC and/or the Board, as detailed in the announcement dated 12 May 2023.

SIAS'S QUERY 3:

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?

Company's response

While the Company is currently facing challenges and experiencing losses, the Board remains actively engaged in monitoring the Company's performance and TSR. Despite the financial difficulties, the Management led by Mr Soon Jeffrey and Board are committed on managing inflation pressured operational expenditure, reviewing and implementing process improvement, in order to continue delivering quality service with good constant profit margins, while evaluating various business strategic alternatives in the best interest of shareholders. The acquisition of Setya Energy has the potential to be value accretive to the group, but it requires more time to be fully realised and add value. Given the current circumstances and the impairments that have been disclosed, the Company is actively working towards optimising operations and realising the synergies expected from the acquisition. Continued efforts and strategic adjustments are necessary to ensure that the acquisition is value accretive over the long term.

BY ORDER OF THE BOARD

Soon Jeffrey
Executive Director and Chief Executive Officer

26 June 2024

---

*This announcement has been prepared by the Company and reviewed by the Company's sponsor, Novus Corporate Finance Pte. Ltd. (the "**Sponsor**"), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr. Pong Chen Yih, Chief Operating Officer, at 7 Temasek Boulevard, #04-02 Suntec Tower 1, Singapore 038987, telephone (65) 6950 2188.