RESPONSE TO SGX-ST'S QUERIES ON THE QUALIFIED OPINION BY THE INDEPENDENT AUDITOR ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 ("FY2022")

The Board of Directors (the "**Board**" or "**Directors**") of Heatec Jietong Holdings Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") would like to respond to the queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 8 May 2023 in relation to the announcement on the qualified opinion ("**Qualified Opinion**") by the independent auditor ("**Auditor**") on the audited financial statements for FY2022 (the "**Announcement**") released to the SGX-ST on 4 May 2023 as follows:

SGX-ST'S QUERIES:

It was disclosed that the basis for Qualified Opinion is due to consultancy service arrangements ("**Consultancy Agreements**") under which the Company made payments totalling S$490K during FY2022. The Auditor highlighted that, amongst others:

a. the scope of work as outlined in the Consultancy Agreements appeared to be generic, and there was a lack of specifications on service deliverables and/or milestones which was uncommon with market practice, especially given the quantum and fixed nature of the fees charged by the Service Provider.

b. the Auditor was unable to observe any substantive work or deliverables from the Service Provider and to assess relevant track records and credentials of the Service Provider.

c. instances of material inconsistencies in certain information in the Consultancy Agreements as opposed to the M&A strategy of the Group.

1. **Please describe in detail (i) the nature of the abovementioned Consultancy Agreements and (ii) deliverables by the vendor (in addition to the information disclosed under Notes 8 to the financial statements).**

   Company's response

   Over the past few years, the Group has faced some headwinds from the shipping and marine industries, including from the Covid-19 pandemic, which have caused its revenue to decline. As such, the Group has been seeking opportunities to diversify its revenue stream and attain sustainable growth to boost the Company's shareholders' value. Management had assessed the situation and was of the view that the engagement of an external consultant (the "**Consultant**") would be beneficial to the Company and the Group as the Consultant would be able to offer strategic advice and guidance from an external party's perspective. At the material time when the first consultancy agreement (the "**First Consultancy Agreement**") was entered into between the Company and the Service

Provider, the terms of the engagement were generic as time was required for the Consultant to understand the Group's businesses, define the Group's goals/objectives, including planning how to facilitate sustainable growth, and to formulate strategies in achieving such objectives. Given that the scope of work under the First Consultancy Agreement was primarily exploratory in nature and involved intensive market and industry research, Management was of the view that fixed fees were more appropriate to account for the changing business needs, the requirements of Management, and the nature of the work asked of the Consultant. Pursuant to the First Consultancy Agreement, the Consultant conducted market and industry research and interacted actively with Management on a regular basis to discuss the Group's goals and objectives, and updated Management on their findings so that the Consultant could better tailor and propose specific growth strategies for the Company's consideration.

As the engagement with the Consultant progressed, the Consultant took on an active role in formulating strategies and providing advice to the Company with a more targeted approach. As part of the foregoing, the Consultant prepared several PowerPoint presentations to outline the business growth strategies developed by the Consultant which included, among others, inorganic growth via mergers and acquisitions. To better reflect the services required from the Consultant based on the opportunities to be pursued as part of the aforesaid strategies developed by the Consultant and taking into consideration the Company's resource constraints, the First Consultancy Agreement was superseded by a second consultancy agreement (the "**Second Consultancy Agreement**") and a service agreement (the "**Service Agreement**"). Under the Second Consultancy Agreement, the scope of work to be performed by the Consultant was refined to include specifically a focus on mergers and acquisitions, whereas under the Service Agreement, the Consultant was to assist the Company in obtaining financing to, among others, fund its growth and diversify its financing sources.

The revised engagement of the Consultant under the Second Consultancy Agreement led to the Company's acquisition of a portion of shares in Setya Energy Pte. Ltd. ("**Setya**") from one of the Company's directors. While Setya was majority owned by the aforementioned director, the Consultant was involved throughout the entire acquisition process of Setya, including the structuring of the deal, negotiations with Setya's shareholders, and liaising with the relevant professionals involved in the acquisition. The Consultant also assisted Management with the financial and legal due diligence exercises to ensure that the acquisition of Setya was smoothly executed and carried out at arm's length.

For the avoidance of doubt, the Company wishes to highlight that the Consultant identified a number of potential suitable acquisition targets and worked with Management in assessing the viability of such potential acquisitions, the synergy in businesses between that of the potential acquisition targets and the Group's, and assessing the benefits and risks of such potential acquisitions. Management decided to prioritise the acquisition of Setya as Management was of the view that Setya provided the greatest synergies with the Group's existing businesses with the least cash outlay to be incurred by the Company as the vendors (i.e. the shareholders of Setya) were amenable to receiving consideration shares in the Company as satisfaction of the consideration amount.

In respect of the Service Agreement, the Consultant had identified various banks and financial institutions who were willing and able to provide the Company with financing facilities. However, given the interest rates offered, the Company was of the view that it would not be in the best interests of the Company to proceed with such loan(s) at the relevant times.

2. **Please identify the vendor. How was the vendor introduced to the Company?**

Company's response

The Consultant is Nexis Consulting Pte Ltd. The Company's Chief Executive Officer was introduced to a consultant at Nexis Consulting Pte Ltd by a mutual acquaintance. Save for the engagement pursuant to the Consultancy Agreements, the Consultant does not have any connection (including business relationship or dealings) with the Company, its Directors and, as far as the Company is aware, any substantial shareholders of the Company.

3. **Please explain the causes that resulted in the issues highlighted in above observations (a) to (c) by the Auditors.**

Company's response

The Board understands from the Auditor that the Auditor is of the view that the payment made for consultancy services for FY2022 totalling S$490,000 is relatively significant as compared to the Company's net loss, which led to the Qualified Opinion. In respect of (a) and (b), as explained in the Company's response to SGX-ST query 1 above, the generic scope of work and lack of specifications as to deliverables in the Consultancy Agreements arose from the initial stages of the consultation with the Consultant under the First Consultancy Agreement, and the scope of work evolving to be more definitive over the Consultant's engagement as reflected in the Second Consultancy Agreement and Service Agreement. To the best of the Board's knowledge, the nature of a consultancy agreement ultimately depends on the actual circumstances of such consultancy engagement which, in the Company's case and as mentioned in the Company's response to SGX-ST query 1, involves exploratory and research work on the part of the Consultant to define and formulate specific strategies for the Company and the Group.

In terms of the Consultant's work or deliverables, in addition to the items referred to in the Company's response to SGX-ST's query 1 above, Management has provided the independent auditors with the documents prepared by the Consultant, which outlined a 3 to 5 years' business growth strategy developed by the Consultant, as well as quarterly summary of matters discussed with the Consultant. With the advice and guidance of the Consultant, the Company had successfully undertaken the acquisition of Setya and identified other potential acquisition targets. There were also other tangible deliverables in the form of the identification of other potential suitable acquisition targets and financing parties for the Company, which were discussed and explored at the regular meetings held between Management and the Consultant.

In respect of (c), the Board is of the view that the Consultancy Agreements are in line with the internal M&A strategy of the Group as the aforesaid M&A strategy has always been to explore and consider opportunities which would, among others, provide synergies to the existing businesses of the Group while diversifying the Group's revenue stream to enhance the Group's profitability and improve shareholders' value over time.

In respect of the independent auditor's opinion on material inconsistencies in certain information in the Consultancy Agreements as opposed to the M&A strategy of the Group, other than certain editorial errors in the Consultancy Agreements and as explained in the aforesaid response to SGX-ST's query 1, the Company believes that the other inconsistencies may have arisen due to the ongoing changes in the scope of the consultancy work performed by the Consultant as well as generic wording in the Consultancy Agreement.

4. How will the Company prevent similar issues from happening going forward?

Company's response

The Board has been actively discussing with Management for Management to review and update the Company's internal control processes to ensure, among others, that the review process for, among others, entry into contracts with external service providers will be further tightened and enhanced in respect of specific delegation of authority for different threshold amounts, and segregated for both operational and non-operational (mainly financing and investment) activities, and to ensure that the terms of said contracts specify, to the extent possible, the deliverables and stipulated payment milestones to match such deliverables.

Management will also ensure that meetings with external third parties are properly documented to record key discussion points and action plans so that such documentation may be readily furnished to the relevant parties, including the Company's independent auditors, to clarify and/or confirm any deliverables and/or work done by third parties, where required.

The Company is also concurrently reviewing its review and approval process for out-sourcing arrangements to identify gaps in the existing procedures and implement rectification/improvements, if any.

As part of the follow up action, the Audit and Risk Management Committee will be in discussion with the internal auditors to consider performing reviews on this area of improvement in the last quarter of this financial year.

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BY ORDER OF THE BOARD

Soon Jeffrey
Executive Director and Chief Executive Officer

12 May 2023

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*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.

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