HEATEC JIETONG HOLDINGS LTD.

LEADING WITH PROFICIENCY

ANNUAL REPORT 2019

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QUALITY POLICY

To achieve and enhance customer satisfaction through on-time delivery of quality products, services and solutions through using resources efficiently.

OUR VISION

To be the premium heat transfer and piping system products, services and solutions provider in the marine, oil and gas and related industries.

OUR MISSION

To provide value-added solutions, enabling our customers to operate their vessels and plants efficiently, and in turn produce value-added products and services for others.

Leading with Proficiency

Having grown from strength to strength for more than 25 years, Heatec Jietong is today one of the world's leading brands of integrated heat exchanger solutions. Moving ahead, we will build upon the strength of our brand, and our unwavering commitment to excellence in integrated solutions, for a sustainable future.

COMPANY PROFILE

Heatec Jietong Holdings Ltd. (the "Company" or "Heatec") is one of the leaders in piping and heat exchanger services for the marine and oil and gas industries.

HEAT EXCHANGER SERVICES

We provide the full range of heat exchanger services on a 24 by 7 basis. We service any heat exchangers that are utilised on board marine and offshore vessels, such as plate heat exchangers, charged air coolers (shell and tube heat exchangers) and pressure vessels.

Our heat exchanger services include:
- engineering consultancy services;
- on-site inspection;
- fabrication and restoration of heat transfer devices;
- heaters;
- condensers;
- main engine charged air coolers; and
- fresh water generators.

We design, sell and fabricate heat exchangers, as well as provide related services to major players in the offshore marine, oil and gas and shipping industries.

We also provide land-based heat exchanger services to the process and chemical plants conducting routine shut-down maintenance. The heat exchangers that we service include plate heat exchangers and shell and tube heat exchangers.

Heatec is a member of the Heat Transfer Research Inc. and hence is able to design and manufacture Shell and Tube Heat Exchangers, and Air Coolers to meet the stringent requirements of any certification parties and is in compliance with ASME Section VIII Div 1 and API 661, 660. Heatec is also both an ASME-U & ASME-U2 Stamps, and National Board "R" Stamp certified fabricator which further enhances our commitment to quality and excellence in all the products and services that we provide.

The ability of Heatec to conduct the entire stream of heat transfer and related services, from design, fabrication to restoration, repair, and final on-site removal and installation, allows us to be a one-stop centre for client's heat exchanger needs. This further reinforces Heatec's commitment to our customers, enabling them to operate their vessel and plants efficiently with quality products.

PIPING SERVICES

We perform a variety of piping services which include:
- fabrication and installation of all types of piping;
- restoration and installation of all types of pipes and systems, including marine piping; and
- process piping for floating, production, storage and offloading ("**FPSO**") conversions.

Our piping works are used in, among others, 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.

In recent times, we expanded our piping services to include turnkey project management which encompasses:
- procurement;
- construction;
- fabrication;
- commissioning; and
- overall project management.

CHEMICAL CLEANING SERVICES

Our 70% owned subsidiaries, Chem-Grow Pte Ltd, Chem Grow Services Pte Ltd and Chem Grow Engineering Pte Ltd (collectively, "**Chem-Grow**") are well-established companies since 1981 that serve the marine, oil & gas, food, chemical industries in chemical cleaning of boilers, coolers and pipelines.

Chem-Grow services include:
- Chemical cleaning (Heat exchangers, Pipelines Engine parts, pressure vessel etc);
- Stainless steel passivation;
- Tank cleaning;
- Hot oil flushing up to NAS/ISO standard for pipeline/Oil;
- Pigging for pipeline or hose;
- Chemical sales;
- Rental of portable steam boiler/Borescope/Particle counter; and
- Hydro-jetting machines.

Chem-Grow currently occupies a land of 10,500 square feet with its own building which includes a warehouse and a waste treatment facility.

MESSAGE TO SHAREHOLDERS

Apart from focusing on the growing FPSO business, we will also leverage on our foray into the onshore business, such as by increasing our footprint in the numerous petrochemical plants, oil refineries and power stations on Jurong Island.

DEAR SHAREHOLDERS,

The world is bracing itself for a COVID-19 pandemic which will dampen any prospect for global growth amidst a volatile and uncertain economic backdrop.

With the current market situation that is continually evolving, we are keeping a close eye on operating costs, and are confident that with prudent management, the Company will continue to be resilient to meet the challenges. Workplace safety is our first priority, and we have implemented our business continuity plan to protect our staff and business.

FINANCIAL HIGHLIGHTS

For the full year ended 31 December 2019, the Group managed to reduce its net loss position yet again, this time by 33.7% to S$2.4 million on the back of a 13.7% decline in revenue to S$23.7 million. We were able to do this by enhancing our operational efficiency and improving our gross profit margin which rose steadily by 5.2% to 24.6% through better project management.

Apart from reducing administrative expenses which dipped by 10.0%, the Group also merged the operations of Heatec's chemical cleaning team with our 70%-owned chemical cleaning subsidiary, Chem-Grow, in our bid to derive greater operational and cost efficiency. After the restructuring, Chem-Grow is now well positioned to not only take on more chemical cleaning work that the Group subcontracts to them, but also undertake even bigger projects directly.

Further efforts in cost management helped to reduce administrative expenses by 10.0%, while a better hold on monitoring trade receivables helped to rein in net impairment losses on financial assets by 86.6%.

Continuing with the Group's policy of prudent financial management, the Group's liquidity position remained healthy with positive working capital of S$6.1 million. The Group's cash and cash equivalents as at 31 December 2019 stood steady at approximately S$2.3 million.

LOOKING AHEAD

In general, shipping activities and vessel arrivals in Singapore have slowed due to US-China trade tensions as well as a broader decline in the world economy, thereby affecting the Group's heat exchanger services segment.

Moreover, in addition to the far-reaching economic impact of the COVID-19 outbreak, disagreement amongst the Organization of Petroleum Exporting Countries and its partner countries have led to significant shocks to the oil market. The International Energy Authority in its Oil Market Report – March 2020 anticipates that global oil demand will drop in 2020 because of the deep contraction in China and major disruptions to travel and trade.

However, we remain hopeful that despite the anticipated volatilities in the year ahead, there are still opportunities for us to explore.

South America, in particularly Brazil, has been seeing an influx of exploration and production companies in the region, fueled by an upsurge in deepwater investments since 2019. This has resulted in an expansion of demand for Floating, Production, Storage and Offlanding ("**FPSO**") vessels which are traditionally used by oil companies for large-scale deepwater projects, and are increasingly favoured for a wide range of fields in more shallow waters.

FPSO projects are seen to be more practical than alternative platform solutions, primarily due to the installation costs and decommissioning challenges associated with fixed platforms. The built-in storage capacity of FPSOs has also proven to be particularly advantageous for remote offshore locations, where pipeline infrastructure is not economically feasible.

We think that the market for FPSOs, which is an attractive development option for deep and shallow water fields around the world, will continue to be positive in 2020 when government collectively bring COVID-19 under control.

MESSAGE TO SHAREHOLDERS

With our established track record and proven expertise, the Group is well-positioned to continue actively pursuing new business opportunities through tenders and direct negotiations.

NEW CONTRACTS

We are pleased to secure two supply contracts for the supply of heat exchangers and pressure vessels, respectively, for a FPSO vessel in March 2020 for a combined value of approximately S$7.0 million.

Going forward, our strategy for a more sustainable, long-term business would be to continue to grow our brand strength and to enhance our brand equity, which we have amassed over more than 25 years, as an integrated specialist in heat exchanger solutions with expertise in both design & build and repair/maintenance.

We will aggressively pursue and develop new businesses while ensuring that our costs and expenses continue to be well managed, in line with business growth, as we have demonstrated during the downturns in previous years.

Some of our more recent cost containment initiatives include the voluntary winding up of our 51%-owned subsidiary, Heatec Guangzhou Co., Ltd, which we announced on 12 February 2020. Earlier in FY2019, we had also restructured our Shanghai operations in a bid to derive greater cost efficiencies.

Apart from focusing on the growing FPSO business, we will also leverage on our foray into the onshore business, such as by increasing our footprint in the numerous petrochemical plants, oil refineries and power stations on Jurong Island.

APPRECIATION

We are grateful for the support of all our Directors on the Board for their strategic counsel and insights, as we position the Group for the future. We would also like to thank our management and staff for all of their hard work in navigating through a challenging business landscape, and to our shareholders, customers and business partners, for their strong support.

We look forward to catching up with our shareholders at the upcoming Annual General Meeting in April 2020. Have a safe and rewarding year ahead!

LIM SOON HOCK
Non-Executive Chairman and
Non-Independent Director

SOON JEFFREY
Executive Director and
Chief Executive Officer

BOARD OF DIRECTORS

LIM SOON HOCK
Non-Executive Chairman and Non-Independent Director

Mr Lim Soon Hock is our Non-Executive Chairman and Non-Independent Director and was appointed to our Board on 1 May 2018. He is a member of our Remuneration Committee and Nominating Committee.

Mr Lim has more than 30 years of experience as a board member, CEO, technopreneur and private investor, across various highly competitive industries in a global environment.

After stepping down from Compaq Computer Asia Pacific, where he was the first Asian appointed to the position of Vice President and Managing Director for Asia Pacific, he had been involved in taking companies public, M&As and consulting for several global MNCs and promising SMEs.

Mr Lim is a Board Member and/or Senior Advisor of several public listed and private companies.

He received numerous accolades in recognition of his work and public service including the Supercomputing Asia 2019 – Singapore HPC-Pioneer & Achievement Award; 2014 National Day Public Service Star; 2009 National Day Public Service medal; 2012 President's Award for Volunteerism (Individual); Outstanding Volunteer Award (Open Category) from State Courts Singapore as a Volunteer mediator; 2012 IES Outstanding Volunteer Award; 2011 MCYS Outstanding Volunteer Award; 2010 IES-IEEE Joint Medal of Excellence Award; 2010 Honorary Fellow of ASEAN Federation of Engineering Organisations; 2009 NUS Distinguished Alumni Service Award and 1992 NUS Distinguished Engineering Alumni Award.

Mr Lim is a Fellow of the Institution of Engineers Singapore; Academy of Engineering Singapore; Institution of Engineering & Technology, UK; Singapore Computer Society; Singapore Institute of Directors; Singapore Institute of Arbitrators; and Honorary Fellow of ASEAN Federation of Engineering Organisations.

He is also a Justice of the Peace; a Mediator at our State Courts Singapore, Singapore Mediation Centre, Singapore International Mediation Institute, International Mediation Institute; an Adjunct Professor at the National University of Singapore; author and speaker.

SOON JEFFREY
Executive Director and Chief Executive Officer

Mr Soon Jeffrey is our Executive Director and Chief Executive Officer. Mr Soon was appointed to our Board on 1 January 2016. He is a member of our Nominating Committee.

Mr Soon oversees the Group's day-to-day operations and determines the Group's strategic direction for business growth. Mr Soon joined the Company in May 2005 as a Project Engineer. He has held the position as Group Sales & Business Development Director before assuming his current appointment.

Mr Soon has a Master's degree in Business and Administration from Singapore Management University and a Degree of Bachelor of Engineering (Honours) (Mechanical and Production Engineering) from Nanyang Technology University.

BOARD OF DIRECTORS

ANTHONY ANG MENG HUAT
Non-Executive and Independent Director

Mr Anthony Ang Meng Huat is our Independent Director and was appointed to our Board on 17 April 2017. He chairs our Remuneration Committee, and is a member of our Audit and Risks Management Committee.

Mr Ang currently serves as Singapore's Non-Resident Ambassador to the Republic of Tunisia. He is also the Chief Executive Officer of Sasseur Asset Management Pte Ltd, a REIT management company. He was previously Executive Director and the Chief Executive Officer of ARA Asset Management (Fortune) Limited – the manager of Fortune Real Estate Investment Trust and a wholly owned subsidiary of the ARA Group. Prior to that, Mr Ang was the Chief Executive Officer of ARA Asia Dragon Limited, which is the flagship real estate private fund of the ARA Group. Mr. Ang also previously held senior management positions at GIC Real Estate, Vertex Management, Armstrong Industrial Corporation and the Economic Development Board.

Mr Ang graduated with a Bachelor of Science (Mechanical Engineering) with First Class Honours from the Imperial College, London, and obtained a Master of Business Administration from INSEAD. Mr Ang also completed the INSEAD International Director Programme.

Mr Ang currently serves on the executive committee of the EDB society; and the school advisory council of Bukit Panjang Government High School.

CHONG ENG WEE (ZHANG YINGWEI)
Non-Executive and Lead Independent Director

Mr Chong Eng Wee (Zhang Yingwei) is our Non-Executive and Lead Independent Director and was appointed to our Board on 16 April 2018. He chairs our Nominating Committee and is a member of our Audit and Risks Management Committee.

Mr Chong is a Partner and head of Corporate at Kennedys Legal Solutions ("KLS"), a joint law venture between Kennedys Law LLP and Legal Solutions LLC. He is admitted as an Advocate and Solicitor in Singapore, Solicitor of the High Court of Hong Kong, Lawyer of the Supreme Court of New South Wales, Australia, and a Barrister and Solicitor of the High Court of New Zealand.

Prior to joining KLS, he was previously the Representative for the Shanghai Representative Office of another joint law venture firm. He was also the joint Company Secretary for 3 SGX-ST main board listed companies. He is also a Non-Executive and Lead Independent Director at GS Holdings Limited, a SGX-ST Catalist listed company, and a Non-Executive Director and Independent Director at KTL Global Limited, a SGX-ST mainboard listed company. He is also the Joint Company Secretary for China Vanadium Titanium-Magnetite Mining Company Limited, a Hong Kong mainboard listed company.

His areas of practice include capital markets, mergers and acquisitions, private equity, China ("**PRC**"), banking and finance, corporate and commercial contracts, regulatory compliance, and corporate governance. He has advised issuers, issue managers, underwriters and placement agents, private equity funds, multinational corporations, high net-worth individuals and small and medium enterprises on transactions including initial public offerings ("**IPO**"), pre-IPO investment, dual listings, reverse takeovers, public takeovers, rights and warrants issues, placement, local and cross border acquisitions and disposals of shares and assets, downstream investment by private equity funds, joint ventures, and corporate restructuring. He has also acted in various cross border transactions with PRC elements, and frequently advises issuers on their regulatory compliance and corporate governance issues. He was ranked as Singapore's Top 40 Most Influential Lawyers aged 40 and under by Singapore Business Review (2015).

BOARD OF DIRECTORS

LIE LY @ LIELY LEE
Non-Executive and Independent Director

Ms Lie Ly @ Liely Lee is our Non-Executive and Independent Director and was appointed to our Board on 28 July 2018. She chairs our Audit and Risks Management Committee and is a member of our Remuneration Committee.

Ms Lee is currently the Group Chief Financial Officer and Executive Director of Marco Polo Marine Ltd listed on SGX-ST. She is also the Director of PT BBR Tbk listed on IDX. Prior to joining Marco Polo Marine Group, Ms Lee was a co-owner of a food and beverage chain in Singapore. She oversaw the strategic growth, development, finance and human resources matters of the chain.

Ms Lee graduated with a Bachelor of Commerce Degree from Murdoch University in Western Australia and also holds a Master of Accounting Degree from Curtin University in Western Australia, Ms Liely Lee is a qualified Chartered Public Accountant (CPA) Australia.

LOKE WENG SENG
Alternate Director to Mr Lim Soon Hock

Mr Loke Weng Seng is the Alternate Director to Mr Lim Soon Hock, our Non-Executive Chairman and Non-Independent Director, and was appointed on 28 July 2018.

Mr Loke has more than 40 years of experience in the shipbuilding and repair industry, with focus on turbocharger maintenance, repairs and overhaul. He takes responsibility for overall strategy, sales and marketing direction, and profitability of Tru-Marine's global operations. With Mr Loke at the helm, Tru-Marine has grown from a general ship repairer to become a highly reputed turbocharger specialist that has been placed five times on the Singapore Enterprise 50 list in 2002, 2005, 2007, 2008 and 2009.

Mr Loke has served on the Programme Board of the Advanced Remanufacturing and Technology Centre (ARTC) by the Agency for Science, Technology and Research (A*STAR). His other appointments include SPRING Singapore's Board of Directors from 2009 to 2011, as well as Council Member of the Association of Singapore Marine Industries (ASMI), and Chairman for the trade organization's Supporting Industries Committee from 2003 to 2007.

For his outstanding leadership, Mr Loke has been recognized as Ernst & Young Entrepreneur of The Year (Marine & Engineering) 2007; Top Entrepreneur 2008 as well as Entrepreneur of the Year for Enterprise 2008 by The Rotary Club and Association of Small and Medium Enterprises. In 2009, he led the company to become the first privately-owned, small-and-medium enterprise to receive the Singapore Quality Award.

KEY MANAGEMENT PERSONNEL

NG WEI JET
Financial Controller

Mr Ng joined Heatec in August 2019 and is responsible for all matters relating to finance, administration and human resources management of the Group.

Mr Ng has more than 15 years of experience in the finance, accounting and auditing. He worked in various companies including international public accounting firms such as Baker Tilly Singapore and companies listed on SGX-ST such as LHN Limited.

Mr Ng is a member of the Institute of Singapore Chartered Accountants and a Fellow member of the Association of Chartered Certified Accountants.

SOON JENSON
Group General Manager (Operation)

Mr Soon is responsible for the overall supervision and management of our Group's engineering and operations. His responsibilities include oversight of quality control and adherence to Health and Safety Policy.

Before his current appointment, Mr Soon joined Heatec and held the position of Assistant General Manager (Engineering & Operations) from January 2008 to March 2013. Prior to that, Mr Soon was a Project Director with Viking Airtech Pte Ltd.

Mr Soon has a Master's degree in Business and Administration from Nanyang Technology University, a Master of Mechanical & Aerospace Engineering degree from the Illinois Institute of Technology, Chicago, USA and a degree of Bachelor of Engineering (Mechanical & Production Engineering) (Second Class Honours) from Nanyang Technology University.

FINANCIAL REVIEW

A. PROFITABILITY ANALYSIS

REVENUE BY SEGMENTS

	FY2019		FY2018		Variance	
	S$'000	%	S$'000	%	S$'000	%
Heat Exchanger	13,624	57.5	16,855	61.3	(3,231)	(19.2)
Chemical Cleaning	2,563	10.8	2,682	9.8	(119)	(4.4)
Piping	7,522	31.7	7,936	28.9	(414)	(5.2)
	23,709	**100.0**	**27,473**	**100.0**	**(3,764)**	**(13.7)**

The Heat Exchanger, Chemical Cleaning and Piping segments accounted for 57.5%, 10.8%, and 31.7% of revenue respectively in FY2019, as compared to 61.3%, 9.8%, and 28.9% in FY2018.

Overall, revenue fell by 13.7%, from S$27.5 million to S$23.7 million in FY2019 due to lower contributions from all three business segments which were affected by the slowdown in the marine and offshore engineering sector and the global oil and gas industry, which in turn led to fewer work orders and projects during the year.

PROFITABILITY

	FY2019	FY2018	Variance	
	S$'000	S$'000	S$'000	%
Gross profit	5,821	5,318	503	9.5
Gross profit margin	*24.6%*	*19.4%*	–	*5.2 ppt*
Other income	312	334	(22)	(6.6)
Administrative expenses	(7,634)	(8,484)	(850)	(10.0)
Other expenses	(421)	(390)	31	7.9
Net impairment losses on financial assets	(27)	(201)	(174)	(86.6)
Finance costs	(518)	(338)	180	53.3
Share of results of associates	44	52	(8)	(15.4)
Loss before tax	**(2,423)**	**(3,709)**	**(1,286)**	**(34.7)**
Tax (expense)/credit	(15)	34	n.m.	n.m.
Loss for the financial year	**(2,438)**	**(3,675)**	**(1,237)**	**(33.7)**

ppt – percentage points
n.m. – not meaningful

FINANCIAL REVIEW

The Group's gross profit rose by 9.5% to S$5.8 million in FY2019 mainly due to a 19.3% decline in cost of sales to S$17.9 million in line with lower revenue during the year, as well as better project management which resulted in lower manpower and material costs. Gross profit margin improved by 5.2% year-on-year to 24.6%.

Other income decreased by 6.6% to S$0.3 million, largely due to government grants received.

With the Group's continued efforts to manage its costs prudently, administrative expenses declined by 10.0% to S$7.6 million.

Net impairment losses on financial assets decreased by 86.6% to S$0.03 million, thanks to an improvement in collection of trade and other receivables during the year which resulted in lower loss on allowance on trade receivables.

Finance costs rose by 53.3% to S$0.5 million due to lease interest expenses following the adoption of SFRS (I) 16, a new leasing accounting standard, from 1 January 2019.

As a result, net loss narrowed by 33.7% to S$2.4 million in FY2019.

FINANCIAL POSITION

Balance Sheet	As at 31 December 2019 S$'000	As at 31 December 2018 S$'000	Variance S$'000	Variance %
Non-current assets	11,930	11,149	781	7.0
Current assets	17,998	21,228	(3,230)	(15.2)
Non-current liabilities	2,120	459	1,661	n.m.
Current liabilities	11,936	13,528	(1,592)	(11.8)
Working capital	6,061	7,700	(1,639)	(21.3)
Equity attributable to owners of the Company	13,865	16,353	(2,488)	(15.2)
Net asset value per share (Singapore cents)*	11.28	13.30	(2.02)	(15.2)

n.m. – not meaningful

* Calculated based on equity attributable to owners of the Company over the total number of issued shares.

As at 31 December 2019, the Group's net asset value was S$13.9 million, which translates to a net asset value per share of 11.28 Singapore cents, as compared to 13.30 Singapore cents a year ago. The Group's liquidity position remained healthy with positive working capital of S$6.1 million.

Non-current assets

Non-current assets rose by 7.0% to S$11.9 million due to an increase in property, plant and equipment as a result of the recognition of right-of-use assets of S$2.0 million following the adoption of the new lease accounting standard, SFRS (I) 16. This was partially offset by depreciation charges of S$1.2 million.

Current assets

Current assets dropped 15.2% to S$18.0 million, largely due to a decline in (i) inventories of S$0.8 million from the movement of goods-in-transit to goods used in production towards the end of FY2019; and (ii) contract assets of S$4.5 million as a result of reduction in work-in-progress works. This dip was partially offset by an increase in (i) trade and other receivable of S$1.0 million and (ii) cash and bank balances of S$1.1 million.

Non-current liabilities

Non-current liabilities increased to S$1.7 million due to the recognition of non-current lease liabilities of S$1.7 million following the adoption of SFRS (I) 16.

Current liabilities

Current liabilities decreased by 11.8% to S$11.9 million, mainly due to a decline in (i) trade and other payables of S$0.8 million as a result of payment made to suppliers towards year end, and (ii) borrowings of S$0.9 million due to repayments of bank loans and finance leases. The overall decrease was partially offset by contract liabilities of S$0.1 million.

FINANCIAL REVIEW

CASH FLOW

	FY2019 S$'000	FY2018 S$'000	Variances S$'000	%
Net cash generated from/(used in) operating activities	2,853	(2,252)	n.m.	n.m.
Net cash used in investing activities	(29)	(233)	(204)	(87.6)
Net cash (used in)/generated from financing activities	(2,868)	2,279	n.m.	n.m.
Cash and cash equivalents as at end of the financial year	2,340	2,384	(44)	(1.8)

n.m. – not meaningful

For FY2019, net cash flows from operating activities amounted to S$2.9 million, comprising operating cash outflows before changes in working capital of S$0.7 million, net working capital inflows of S$3.6 million, and net interest expenses paid of S$0.03 million.

The Group net cash used in investing activities of S$0.03 million, mainly from the purchase of plant and equipment of S$0.2 million. This was partially offset by the proceeds from the disposal of plant and equipment of S$0.1 million, and dividend received from an associate of S$0.07 million.

Net cash used in financing activities of S$2.9 million was largely due to repayment of bank loans and interest of S$1.5 million, repayment of lease liabilities of S$0.2 million, and an increase in pledged fixed deposits of S$1.2 million.

The Group's cash and cash equivalents as at 31 December 2019 remained relatively unchanged at S$2.3 million, as compared to S$2.4 million a year ago.

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE:

Soon Jeffrey
(Executive Director and Chief Executive Officer)

NON-EXECUTIVE:

Lim Soon Hock
(Non-Executive Chairman and Non-Independent Director)

Chong Eng Wee (Zhang Yingwei)
(Non-Executive and Lead Independent Director)

Anthony Ang Meng Huat
(Non-Executive and Independent Director)

Lie Ly @ Liely Lee
(Non-Executive and Independent Director)

ALTERNATE:

Loke Weng Seng
(Alternate Director to Mr Lim Soon Hock)

AUDIT AND RISKS MANAGEMENT COMMITTEE

Lie Ly @ Liely Lee (Chairman)
Chong Eng Wee (Zhang Yingwei)
Anthony Ang Meng Huat

NOMINATING COMMITTEE

Chong Eng Wee (Zhang Yingwei) (Chairman)
Lim Soon Hock
Soon Jeffrey

REMUNERATION COMMITTEE

Anthony Ang Meng Huat (Chairman)
Lim Soon Hock
Lie Ly @ Liely Lee

COMPANY SECRETARY

Kelly Kiar Lee Noi

REGISTERED OFFICE

10 Tuas South Street 15, Singapore 637076
Tel: (65) 6861 1433
Fax: (65) 6861 1347
Email: admin@heatec.com.sg
Website: http://www.heatecholdings.com

SHARE REGISTRAR/SHARE TRANSFER AGENT

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place, #32-01 Singapore Land Tower
Singapore 048623
Tel: (65) 6536 5355
Fax: (65) 6536 1360

AUDITORS

Baker Tilly TFW LLP
Public Accountants and Chartered Accountants
600 North Bridge Road, #05-01 Parkview Square
Singapore 188778

AUDIT PARTNER-IN-CHARGE

Lee Chee Sum Gilbert
(Appointed on 30 April 2019)

CONTINUING SPONSOR

ZICO Capital Pte. Ltd.
8 Robinson Road, #09-00 ASO Building
Singapore 048544

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CORPORATE GOVERNANCE REPORT

The board of directors (the "**Board**" or "**Directors**") of Heatec Jietong Holdings Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") recognises the importance of corporate governance and is committed to ensuring the practices recommended in the Code of Corporate Governance 2018 issued in August 2018 (the "**Code**") are practiced throughout the Group. The Company believes that good corporate governance provides the framework for an ethical and accountable corporate environment that will maximise long term shareholders' value and protect the interests of shareholders.

This report outlines the Company's corporate governance practices that were in place during the financial year ended 31 December 2019 ("**FY2019**"), with specific reference made to the Principles and the Provisions of the Code, which forms part of the continuing obligations of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist ("**Catalist Rules**").

The Company confirms that during FY2019 it has adhered to the Principles of the Code and the Provisions of the Code (except where otherwise explained). In areas where the Company's practices vary from any Provisions of the Code, the Company has stated herein the Provision of the Code from which it has varied, and appropriate explanations are provided for the variation, and how the practices the Company had adopted are consistent with the intent of the relevant Principle of the Code. The Company will continue to assess its needs and implement appropriate practices accordingly.

I. BOARD MATTERS

The Board's Conduct of Affairs

Principle 1: The company is headed by an effective Board which is collectively responsible and works with Management for long-term success of the company.

Provision 1.1

Principal Duties of the Board

The Company is headed by an effective Board to lead and control its operations and affairs. The Board is entrusted with the responsibility for the overall management and corporate governance of the Group including establishing strategic objectives and providing entrepreneurial leadership. The Board's key responsibilities include charting and reviewing the Group's overall business strategy, supervising the management personnel of the Company ("**Management**") and reviewing the Group's financial performance and managerial performance while considering sustainability issues as part of its strategic formulation.

In addition, the Board has an obligation to shareholders of the Company ("**Shareholders**") and other stakeholders of the Company to safeguard their interests and the Company's assets by establishing a framework of prudent and effective controls which enables risk to be assessed and managed, setting the Company's values and standards (including ethical standards), and ensuring that obligations to Shareholders and other stakeholders are understood and met, as well as identifying the key stakeholder groups and recognising that their perceptions affect the Company's reputation.

Code of Business Conduct and Ethics

The Company strives to uphold the highest levels of business conduct and integrity in all transactions and interactions. All Directors objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company.

The Board has thus put in place a Code of Business Conduct and Ethics which serves to guide the Directors on the areas of ethical risk and sets a framework where integrity and accountability are paramount. The Company is also committed to ensuring that its affairs are conducted with the highest standard of probity and in compliance with the law.

CORPORATE GOVERNANCE REPORT

Conflict of Interests

The Board acts in good faith and in the best interests of the Company by exercising due care, skills and diligence, and avoiding conflicts of interest. The Directors are cognizant of their fiduciary duties at law. When a potential conflict of interest situation arises, the affected Director will recuse himself or herself from the discussion and decisions involving the areas of potential conflict, unless the Board is of the opinion that his or her participation is necessary. Where such participation is permitted, the conflicted Director excuses himself or herself for an appropriate period during the discussions to facilitate full and frank exchange by the other Directors, and shall in any event recuse himself or herself from the decision-making.

Pursuant to Section 156 of the Companies Act, Chapter 50 of Singapore (the "**Companies Act**"), each Director is to declare to the Company his or her interests (direct or indirect) in all transactions with the Company and provide details on the nature of such interests as soon as practicable after the relevant facts have come to his or her knowledge. On an annual basis, each Director is also required to submit details of his or her associates for the purpose of monitoring interested persons transactions.

Provision 1.2

Director Competencies

All Directors have a good understanding of the Company's business as well as their directorship duties (including their roles as executive, non-executive and independent directors).

While the duties imposed by law are the same for all Directors, a listed Board will generally have different classes of directors with different roles:

- **Executive Directors (EDs)** are members of Management who are involved in the day-to-day running of the business. They work closely with the Non-Executive Directors on the long-term sustainability and success of the businesses. They provide insights and recommendations on the Group's operations at the Board and Board Committees meetings.

- **Non-Executive Directors (NEDs)** are Non-Executive Non-Independent Directors who do not participate in the business operations. They constructively challenge Management on its decisions and contribute to the development of the Group's strategic goals and policies. They participate in the review of Management's performance in achieving the strategic objectives as well as the appointment, assessment and remuneration of the Executive Directors and key personnel.

- **Independent Directors (IDs)** are Non-Executive Independent Directors who are unrelated to any of the Directors and deemed to be impartial by the Board. Independent Directors have similar duties as the Non-Executive Directors, with the additional responsibility of providing independent and objective advice and insights to the Board and Management.

Directors are expected to develop their competencies to effectively discharge their duties and are provided with opportunities to develop and maintain their skills and knowledge at the Company's expense.

Appointment Letter

Newly appointed Directors will be provided a formal letter of appointment, explaining among other matters, the roles, obligations, duties and responsibilities, and the expectations of their contribution to the Company as a member of the Board.

CORPORATE GOVERNANCE REPORT

Directors' Orientation and Training

The Company does not have a formal training program for the Directors but all new Directors will undergo an orientation in order to be provided with background information about the Group's history, strategic direction and industry-specific knowledge, corporate functions and governance practices, as well as the expected duties of a Director of a listed company. To get a better understanding of the Group's businesses, the Directors will also be given the opportunity to visit the Group's operational facilities and meet with Management.

The Company will also arrange for first-time Directors to attend relevant training in relation to the roles and responsibilities of a director of a listed company, organised by the Singapore Institute of Directors ("**SID**") as required under Rule 406(3)(a) of the Catalist Rules, as well as other courses relating to areas such as accounting, legal and industry specific knowledge as appropriate, organised by other training institutions. The training of Directors will be arranged and funded by the Company.

The Company encourages existing Directors to attend training courses organised by the SID or other training institutions which are aimed at providing them with the latest updates on changes in relevant regulations, accounting standards, corporate governance practices and guidelines from the SGX-ST that affect the Group and/or the Directors in connection with their duties and responsibilities as a Director of a public listed company in Singapore, and such training will be funded by the Company.

All Directors are provided with regular updates on developments in financial reporting and governance standards, as well as changes in the relevant laws and regulations to enable them to make well-informed decisions and to ensure that the Directors are competent in carrying out their expected roles and responsibilities. New releases issued by the SGX-ST, Accounting and Corporate Regulatory Authority ("**ACRA**") and other relevant regulatory bodies which are relevant to the Group and/or Directors are circulated to the Board.

Seminars and Trainings attended by Directors in FY2019

Details of updates provided to, and seminars and training programs attended by the Directors in FY2019 include, amongst others, the following:

- Updates on developments in financial reporting and governance standards, where relevant, by the external auditors of the Company to the Audit and Risks Management Committee ("**ARMC**") and the Board;
- SGX-SID Audit Committee Seminar 2019 organised by ACRA;
- INSEAD International Directorship Programme;
- Core Continuing Professional Development for Securities and Futures Act in relation to REIT Management;
- Transformation Confidence organised by CPA;
- Maritime and Port Authority of Singapore ("**MPA**") Launch of Maritime Sustainability Reporting Guide; and
- Singapore Registry of Ships Forum 2019 organised by MPA Singapore.

CORPORATE GOVERNANCE REPORT

Provision 1.3

Matters Requiring Board's Approval

The Company has in place internal guidelines on matters which specifically require the Board's decision or approval, which has been clearly communicated to Management, including but not limited to the following:

(a) approval of announcements released via SGXNet, including financial results announcements;

(b) approval of operating budgets, annual and interim reports, financial statements, Directors' statement and annual report;

(c) dividend matters;

(d) authorisation of banking facilities and corporate guarantees;

(e) approval of change in corporate business strategy and direction;

(f) appointment and cessation of Directors and key management;

(g) any matters relating to general meetings, Board and Board committees; and

(h) approval of material investment and divestment proposals, acquisitions and disposals, and funding requirements.

The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those prescribed limits to Board committees and specific members of the key Management via a structured Delegation of Authority matrix, which is reviewed on a regular basis and accordingly revised when necessary.

Provision 1.4

Delegation by the Board

To assist the Board in the execution of its responsibilities and to provide independent oversight of Management, the Board has established a number of Board committees, namely the ARMC, the Nominating Committee (the "**NC**") and the Remuneration Committee (the "**RC**") (collectively, the "**Board Committees**"). Each of the Board Committees functions within clearly defined terms of references and operating procedures endorsed by the Board, which are reviewed on a regular basis, along with the committee structures and membership, to ensure their continued relevance, taking into consideration the changes in the governance and legal environment. The Board Committees will also review their terms of reference on a regular basis to ensure their continued relevance and the effectiveness of each Board Committee is also constantly reviewed by the Board. The composition and description of each Board Committee are set out in this report. Any change to the terms of reference for any Board Committee requires the specific written approval of the Board. The responsibilities and authority of the Board Committees set out in their respective terms of reference were revised for alignment with the Code.

All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company and within the Group. The Board Committees report its activities regularly to the Board. Minutes of the Board Committees are regularly provided to the Board and are available to all Board members. The Board acknowledges that while these various Board Committees have the authority to examine particular issues and report back to the Board with their decisions and recommendations, the ultimate responsibility on all matters lies with the Board. The Board Committees have explicit authority to investigate any matter within their terms of reference, have full access to and co-operation by Management, have resources to enable them to discharge their functions properly and full discretion to invite any Director or senior Management to attend their meetings.

Provision 1.5

Board and Board Committees Meetings

The schedule of all the Board and Board Committees meetings as well as the annual general meeting of the Company ("**AGM**") for the next calendar year is planned well in advance. The Board meets at least twice a year and whenever warranted by particular circumstances. Ad-hoc and/or non-scheduled Board and/or Board Committees meetings may be convened to deliberate on urgent substantial matters. In addition to the scheduled meetings, the Board would have informal discussions on corporate events and/or actions, which would then be formally confirmed and approved by circulating resolutions in writing. The Board members also communicate frequently with Management to discuss the business operations of the Group.

Regulation 104(4) of the Company's Constitution allows Board meetings to be conducted by means of conference telephone, videoconferencing, audio visual, or other electronic means of communication by which all persons participating in the meeting can hear one another contemporaneously. Decisions of the Board and Board Committees may also be obtained through circular resolutions.

CORPORATE GOVERNANCE REPORT

The attendance of each Director at meetings of the Board and Board Committees during FY2019 as well as the frequency of such meetings held is set out in the table below:

No. of Meetings held	Board of Directors			Audit and Risks Management Committee			Nominating Committee		Remuneration Committee	
	3			2			1		1	
	1/3	2/3	3/3	Member	1/2	2/2	Member	1/1	Member	1/1
Present Directors										
Lim Soon Hock	✓	✓	✓	No	✓*	✓*	Yes	✓	Yes	✓
Soon Jeffrey	✓	✓	✓	No	✓*	✓*	Yes	✓	No	✓*
Chong Eng Wee (Zhang Yingwei)	✓	✓	✓	Yes	✓	✓	Chairman	✓	No	✓*
Anthony Ang Meng Huat	✓	✓	✓	Yes	✓	✓	No	✓*	Chairman	✓
Lie Ly @ Liely Lee	✓	✓	✓	Chairman	✓	✓	No	✓*	Yes	✓

* Attendance by invitation of the relevant Board Committees

If a Director is unable to attend a Board or Board Committees meeting, he/she will still receive all the papers and materials for discussion at that meeting. He/she will review them and advise the Chairman of the Board or the Board Committees of his/her views and comments on the matters to be discussed so that they can be conveyed to other members at the meeting.

Multiple Board Representations

All Directors are required to declare their board representations on an annual basis and as soon as practicable after the relevant facts have come to his or her knowledge. Where a Director has multiple board representations, and in considering the nomination of Directors for appointment, the NC will evaluate whether or not the Director is able to and has been adequately carrying out his or her duties as a Director, as well as sufficient time and attention are given to the affairs of the Company, taking into consideration the Director's number of listed company board representations and other principal commitments.

The NC has reviewed all the declarations from the Directors and is satisfied that the Directors are able to and have adequately carried out their duties as Directors of the Company, as well as sufficient time and attention are given to the affairs of the Company, after taking into consideration each of the Directors' number of listed company board representations and other principal commitments in FY2019. In view of this, the Board does not limit the maximum number of listed company board representation its Board members may hold as long as each of the Board members is able to commit his or her time and attention to the affairs of the Company and adequately carrying out his or her duties as a Director. The Board believes that each individual Director is best placed to determine and ensure that he or she is able to devote sufficient time and attention to discharge his or her duties and responsibilities as a Director of the Company, bearing in mind his or her other commitments. The Board and the NC will review the requirement to determine the maximum number of listed Board representations as and when they deem fit.

CORPORATE GOVERNANCE REPORT

Provision 1.6

Access to Information

All Directors have unrestricted access to the Company's records and information. From time to time, they are furnished with complete, accurate and adequate information in a timely manner to enable them to be fully cognisant of the decisions and actions of Management.

Detailed Board papers are prepared and circulated to the Directors before each Board meeting. The Board papers include sufficient information on financial, budgets, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at the Board meetings. However, sensitive matters may be tabled at the meeting itself or discussed without any papers being distributed. Managers who can provide additional insight into the matters at hand would be present at the relevant time during the Board meeting.

The Board receives half-year financial performance results, annual budgets and explanation on material forecasts variances to enable them to oversee the Group's operational and financial performance as well as risks faced by the Group. Directors are also informed on a regular basis as and when there are any significant developments or events relating to the Group's business operations.

Provision 1.7

Access to Management and Company Secretary

The Directors have separate and independent access to Management and the Company Secretary, who are responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied, at all times through email, telephone and face-to-face meetings.

The Directors may also liaise with Management as and when required to seek additional information. Any additional materials or information requested by the Directors to make informed decisions is promptly furnished.

The Company Secretary assists the Chairman and the Chairman of each Board Committee in the development of the agendas for the various Board and Board Committees meetings. The Company Secretary and/or their representatives attend all the Board and Board Committees meetings and prepares minutes of meetings. The appointment and removal of the Company Secretary is decided by the Board as a whole.

Independent Professional Advice

Should the Directors, whether as a group or individually, need independent professional advice in furtherance of their duties and responsibilities, the Company will appoint such professional adviser to render the appropriate professional advice. The cost of such professional advice will be borne by the Company.

CORPORATE GOVERNANCE REPORT

Board Composition and Guidance

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

Provision 2.1

Director's Independence

The criterion for independence is based on the definition set out in the Code and Practice Guidance, and taking into consideration whether the Director falls under any circumstances pursuant to Rule 406(3)(d) of the Catalist Rules. The Board considers an "independent" Director as one who has no relationship with the Company, its related corporations, its substantial Shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company.

The NC, shall conduct an annual review to determine the independence of the Directors according to the Code and its Practice Guidance, as well as Rule 406(3)(d) of the Catalist Rules. In its review, the NC shall consider all nature of relationships and circumstances that could influence the judgement and decisions of the Directors before tabling its finding and recommendations to the Board for approval.

For FY2019, the Independent Directors (namely Mr Chong Eng Wee (Zhang Yingwei), Mr Anthony Ang Meng Huat and Ms Lie Ly @ Liely Lee) have confirmed that they or their immediate family members do not have any relationship with the Company or any of its related corporations, its substantial Shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment with a view to the best interests of the Company, and do not fall under any of the circumstances pursuant to Rule 406(3)(d) of the Catalist Rules. The Independent Directors did not own shares of the Company and were not in foreseeable situation that could compromise their independence of thought and decision. The Board, based on the review conducted by the NC, has determined that the said Directors are independent.

Duration of Independent Directors' Tenure

As at the date of this report, none of the Independent Directors has served on the Board beyond nine (9) years since the date of his or her first appointment. Nonetheless, the independence of any Directors who has served on the Board beyond nine (9) years since the date of his or her first appointment will be subject to particularly rigorous review.

Provision 2.2

Proportion of Independent Non-Executive Directors

In view that the Chairman is not an Independent Director, the Board comprises a majority of three (3) Directors (out of a five (5) member Board) who are Independent Directors.

Provision 2.3

Proportion of Non-Executive Directors

The Board comprises a majority of four (4) Directors (out of a five (5) member Board) who are Non-Executive Directors.

CORPORATE GOVERNANCE REPORT

Provision 2.4

Board Composition and Size

As at the date of this report, the Board comprises the following five (5) Directors, one (1) of whom is an Executive Director and four (4) of whom are Non-Executive Directors of which three (3) are Independent Directors:

Executive Director

Soon Jeffrey	–	Executive Director and Chief Executive Officer ("**CEO**")

Non-Executive Directors

Lim Soon Hock (Alternate Director – Loke Weng Seng)	–	Non-Executive Chairman and Non-Independent Director
Chong Eng Wee (Zhang Yingwei)	–	Non-Executive and Lead Independent Director
Anthony Ang Meng Huat	–	Non-Executive and Independent Director
Lie Ly @ Liely Lee	–	Non-Executive and Independent Director

The NC is responsible for examining the size and composition of the Board and Board Committees. Having considered the scope and nature of the Group's operations, the requirements of the businesses and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees, the Board, in concurrence with the NC, believes that its current board size and the existing composition of the Board Committees effectively serve the Group. It provides sufficient diversity of skills, experience and knowledge of the Group without interfering with efficient decision-making.

Board Diversity

The Board's policy in identifying nominees for directorship is primarily to have an appropriate mix of expertise with complementary skills, core competencies and experience for facilitating effective decision making, regardless of gender. In recognition of the importance and value of gender diversity in the composition of the Board, the Company has appointed a female Director in July 2018. Each Director has been appointed based on his or her skills, experience and knowledge, and is expected to bring forth his or her experience and expertise to the Board for the continuous development of the Group.

All Directors possess the right core competencies and diversity of experience that enable them to effectively contribute to the Board. Their varied experiences are particularly important in ensuring that the strategies proposed by Management are fully discussed and examined, taking into account the long-term interests of the Company, the Group and Shareholders.

Board Guidance

An effective and robust Board, whose members engage in open and constructive debate and challenge Management on its assumptions and proposals, is fundamental to good corporate governance. A Board should also aid in the development of strategic proposals and oversee effective implementation by Management to achieve set objectives.

The Directors, in particular the Non-Executive Directors, are kept informed of the Company's business and affairs as well as about the industry in which the Company operates in. This knowledge is essential for the Directors to engage in informed and constructive discussions. To ensure that Non-Executive Directors are well supported by accurate, complete and timely information, Non-Executive Directors have unrestricted access to Management. Besides receiving regular Board briefings on latest market developments and trends, and key business initiatives, periodic information papers, industry and market reports, the Non-Executive Directors are regularly briefed by Management on major decisions and prospective business deals.

CORPORATE GOVERNANCE REPORT

Provision 2.5

Meeting of Independent Directors without Management

Although all Directors have equal responsibility for the performance of the Group, the role of the Independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and rigorously examined, assessing the performance of Management in meeting the agreed goals and objectives, as well as monitoring the reporting of performance.

The Independent Directors are encouraged to meet, without the presence of Management, so as to facilitate a more effective check on Management. During FY2019, the Independent Directors have met informally at least once without the presence of Management to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development and the remuneration of Directors and key management personnel ("**KMPs**").

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the Management, and no one individual has unfettered powers of decision-making.

Provision 3.1

Separation of the Role of Chairman and CEO

The Chairman of the Board and the CEO should in principle be separate persons to maintain an appropriate balance of power and authority, increased accountability and greater capacity of the Board for independent decision making. There is a clear division of responsibilities, as set out in writing and agreed by the Board, between the leadership of the Board and Management responsible for managing the Group's business operations. The Non-Executive Chairman, Mr Lim Soon Hock, and the CEO, Mr Soon Jeffrey, are not related to each other.

Provision 3.2

Role of Chairman and Chief Executive Officer

The Chairman is responsible for the effective functioning of the Board and exercises control over the quality, quantity and timeliness of information flow between the Board and Management and effective communication with Shareholders. In addition, the Chairman encourages constructive relations among the Directors and the Board's interaction with Management, as well as facilitates effective contribution of Non-Executive Directors. The Chairman's responsibilities in respect of the Board proceedings include:

(a) in consultation with the CEO, setting the agenda (with the assistance of the Company Secretary and her representatives) and ensuring that adequate time is available for discussion of all agenda items, in particular, strategic issues;

(b) ensuring that all agenda items are adequately and openly debated at the Board meetings;

(c) ensuring that all Directors receive complete, adequate and timely information; and

(d) assisting in ensuring that the Group complies with the Code and maintains high standards of corporate governance.

The CEO has full executive responsibilities in the business directions and operation efficiency of the Group. He oversees execution of the Group's corporate and business strategies and is responsible for the day-to-day running of the business. All major proposals and decisions made by the CEO are discussed and reviewed by the Chairman and the ARMC, and recommended to the Board for its consideration and approval. The performance and remuneration package of the CEO is reviewed periodically by the NC and the RC. As the majority of the members of the Board comprises Independent Directors, the Board believes that there are sufficient strong and independent elements and adequate safeguards in place against an uneven concentration of power and authority in a single individual.

Provision 3.3

Lead Independent Director

The Board has a Lead Independent Director, Mr Chong Eng Wee (Zhang Yingwei), to provide leadership in situations where the Non-Executive Chairman, who is not independent, is conflicted. The Lead Independent Director is a key member of the Board, representing the views of the Independent Directors and facilitating a two-way flow of information between Shareholders, the Chairman and the Board.

The Lead Independent Director's role may include chairing Board meetings in the absence of the Chairman, working with the Chairman in leading the Board, and providing a channel to Non-Executive Directors for confidential discussions on any concerns and to resolve conflicts of interest as and when necessary.

In addition, the Lead Independent Director may also help the NC conduct annual performance evaluation and development of succession plans for the Chairman and CEO and help the RC design and assess the Chairman's remuneration.

The Lead Independent Director makes himself available at all times when Shareholders have concerns and for which contact through the normal channels of the Chairman, the CEO or Management have failed to resolve or is inappropriate. The Lead Independent Director also makes himself available to Shareholders at the Company's general meetings.

There were no query or request on any matters which requires the Lead Independent Director's attention received in FY2019.

Independent Director Meetings in Absence of Other Directors

Where necessary, the Lead Independent Director shall lead the meetings among the Independent Directors without the presence of other Directors. The Lead Independent Director shall provide feedback to the Chairman of the Board after such meetings, if it is necessary.

Board Membership

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

Provision 4.1

Roles and Duties of Nominating Committee

The Board established the NC since 2009 with written terms of reference which clearly set out its authority and duties, and report to the Board directly.

CORPORATE GOVERNANCE REPORT

The terms of reference of the NC, which was revised and adopted for alignment with the Code and the Catalist Rules, sets out its duties and responsibilities. Amongst them, the NC is responsible for:–

1. regularly and strategically reviewing the structure, size and composition (including the skills, gender, age, qualification, experience and diversity) of the Board and Board Committees;

2. identifying and nominating candidates to fill Board vacancies as they occur;

3. requesting nominated candidates to disclose any existing or expected future business interests that may lead to a conflict of interest. This disclosure is to be included in any recommendations to the Board;

4. sending the newly-appointed Director a formal appointment letter which clearly sets out his or her roles and responsibilities, authority, and the Board's expectations in respect of his or her time commitment as a Director of the Company;

5. recommending the membership of the Board Committees to the Board;

6. reviewing the independent status of Non-Executive Directors (in accordance with Catalist Rules 406(3)(d)(i), (ii), and (iii), and Provision 2.1 of the Code) and that of the Alternate Director, if applicable, annually, or when necessary, along with issues of conflict of interest;

7. developing the performance evaluation framework for the Board, the Board Committees and individual Directors and propose objective performance criteria for the Board, the Board Committees and individual Directors;

8. recommending that the Board removes or reappoints a Non-Executive Director at the end of his or her term, and recommend the Directors to be re-elected under the provisions of the Company's Constitution on the policy of retirement by rotation. In making these recommendations, the NC should consider the Director's performance, commitment and his or her ability to continue contributing to the Board;

9. reviewing other directorships held by each Director and decide whether or not a Director is able to carry out, and has been adequately carrying out, his or her duties as a Director;

10. reviewing and ensure that there is a clear division of responsibilities between the Chairman and CEO of the Company in place;

11. reviewing the Board with its succession plans for the Board Chairman, Directors, CEO and KMPs of the Company;

12. keeping up to date with developments in corporate governance initiatives, changes to relevant legislations, strategic issues and commercial changes that may affect the Company and the industry in which it operates; and

13. undertaking such other functions and duties as may be required by the Board under the Code, statute or the Catalist Rules (where applicable).

Provision 4.2

Nominating Committee Composition

As at the date of this report, the NC comprises three (3) members, including the Lead Independent Director (as Chairman), an Executive Director and a Non-Executive Director, as follows:

Chong Eng Wee (Zhang Yingwei)	–	Chairman
Lim Soon Hock	–	Member
Soon Jeffrey	–	Member

Currently, the composition of the NC is not in compliance with the Code which requires the majority of the NC members to be independent. The Board has earlier decided to constitute the NC (with a majority of such members being not independent) to include Directors who are familiar with the business and operations of the Group, and have relevant human resource experience such as board succession planning. The NC and the Board noted that the Company is required to comply with the requirement for Independent Directors to make up a majority of the NC and are considering making arrangement to reconstitute the NC composition to comply with the Code's requirements. Nevertheless, the Board notes that the NC is able to effectively discharge its duties and responsibilities and exercise objective judgement on the NC's affairs independently and constructively challenge key decisions and report to the Board in all respects. Taking into account the above, and that the Company is in compliance with the remaining Provisions under Principle 4 of the Code, the Board is of the view that the Company complies with Principle 4 of the Code.

Provision 4.3

Nomination and Selection of Directors

Where a vacancy arises pursuant to an expansion of the Board or such other circumstances as they may occur, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the NC, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The search for a suitable candidate is drawn from the contacts and networks of existing Directors. The NC can also approach relevant institutions such as the SID, professional organisations or business federations to source for a suitable candidate. New Directors will be appointed by way of a Board resolution, after the NC makes the necessary recommendation to the Board and the Board approves such appointment.

The NC is responsible for identifying candidates and reviewing all nominations for the appointments of new Directors, amongst others, to consider succession planning and refresh the Board membership progressively and in an orderly manner, to avoid losing institutional memory.

When an existing Director chooses to retire or the need for a new Director arises, either to replace a retiring Director or to enhance the Board's strength, the NC, in consultation with the Board, evaluates and determines the selection criteria so as to identify candidates with the appropriate expertise and experience for the appointment as new Director. The selection criterion includes integrity, diversity of competencies, expertise, industry experience and financial literacy.

Re-election of Directors

Regulation 98 of the Company's Constitution provides that at each AGM, at least one-third of the Directors for the time being shall retire from office by rotation and submit themselves for re-election, provided that all Directors shall retire from office at least once every three (3) years. Rule 720(4) of the Catalist Rules also provides that all Directors must submit themselves for re-nomination and re-appointment at least once every three (3) years.

CORPORATE GOVERNANCE REPORT

Regulation 99 of the Company's Constitution provides that the Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who is due to retire at the meeting by reason of age or who wishes to retire and not to offer himself or herself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment or have been in office for the three (3) years since their last election. Between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by the drawing of lots. A retiring Director shall be eligible for re-election.

Regulation 102 of the Company's Constitution provides that the Directors shall have power at any time and from time to time to appoint any person to be a Director either to fill a casual vacancy or as an additional Director but the total number of Directors shall not at any time exceed the maximum number (if any) fixed by the Company's Constitution. Any Director so appointed shall hold office only until the next AGM and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

In this respect, the Board has accepted the NC's nomination of Mr Anthony Ang Meg Huat and Mr Chong Eng Wee (Zhang Yingwei), who would be retiring by rotation pursuant to Regulations 98 and 99 of the Company's Constitution at the forthcoming AGM.

Mr Anthony Ang Meng Huat has given his consent for re-election and he will, upon re-election as a Director of the Company, remain as the Non-Executive and Independent Director, Chairman of the RC and a member of the ARMC respectively, and will be considered by the Board to be independent for the purpose of Rule 704(7) of the Catalist Rules.

Mr Chong Eng Wee (Zhang Yingwei) has given his consent for re-election and he will, upon re-election as a Director of the Company, remain as the Non-Executive and Lead Independent Director, Chairman of the NC and a member of the ARMC respectively, and will be considered by the Board to be independent for the purpose of Rule 704(7) of the Catalist Rules.

In making the recommendation, the NC has considered the Directors' overall contributions and performance. Each member of the NC shall abstain from making any recommendation and/or participating in any deliberation of the NC in respect of the assessment of their own performance or re-election as a Director.

Pursuant to Rule 720(5) of the Catalist Rules, information relating to the retiring Directors as set out in Appendix 7F of the Catalist Rules is disclosed below:

Name of Director	Anthony Ang Meng Huat	Chong Eng Wee (Zhang Yingwei)
Date of first appointment	17 April 2017	16 April 2018
Date of last re-appointment (if applicable)	16 April 2018	30 April 2019
Age	65	40
Country of principal residence	Singapore	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The re-election of Mr Ang as the Non-Executive and Independent Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration his qualifications, expertise, past experience and overall contribution since he was appointed as a Director of the Company.	The re-election of Mr Chong as the Non-Executive and Lead Independent Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration his qualifications, expertise, past experience and overall contribution since he was appointed as a Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Non-Executive and Independent Director, Chairman of the RC and member of ARMC	Non-Executive and Lead Independent Director, the Chairman of the NC and member of ARMC
Professional qualifications	Master of Business Administration from INSEAD in France Bachelor of Science (Mechanical Engineering) with First Class Honours from the Imperial College, United Kingdom	Advocate & Solicitor, Supreme Court of Singapore Solicitor, High Court of Hong Kong Lawyer, Supreme Court of New South Wales, Australia Barrister & Solicitor, High Court of New Zealand Bachelor of Laws

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Name of Director	Anthony Ang Meng Huat	Chong Eng Wee (Zhang Yingwei)
Working experience and occupation(s) during the past 10 years	**March 2017 – Present** CEO of Sasseur Asset Management Pte Ltd, the manager of Sasseur REIT **September 2016 – Present** Ambassador Extraordinary and Plenipotentiary of the Republic of Singapore to the Republic of Tunisia **March 2010 – December 2016** Executive Director of ARA Asset Management (Fortune) Limited, the manager of Fortune REIT **March 2010 – January 2015** CEO and Executive Director of ARA Asset Management (Fortune) Limited, the manager of the Fortune REIT **March 2007 – March 2010** CEO of ARA Asia Dragon Fund **February 2006 – February 2010** Director of Administration and Business Development, ARA Asset Management Pte. Ltd.	**October 2017 – Current** Partner & Head of Corporate at Kennedys Legal Solutions Pte Ltd **July 2015 – October 2017** Partner & Deputy Head, Capital Markets & International China Practice (South East Asia) at RHTLaw Taylor Wessing LLP **April 2011 – June 2015** Associate Director & Representative of Shanghai Representative office at Duane Morris & Selvam LLP **December 2009 – March 2011** Associate at KhattarWong LLP
Shareholding interest in the listed issuer and its subsidiaries	None	None
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	None	None

CORPORATE GOVERNANCE REPORT

Name of Director	Anthony Ang Meng Huat	Chong Eng Wee (Zhang Yingwei)
Conflict of interest (including any competing business)	None	None
Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Other Principal Commitments including Directorships		
Past (for the last 5 years)	1. ARA Asset Management (Fortune) Limited 2. ARA Asia Dragon Limited 3. Rich Field (China) Limited 4. Twin Prosper Limited 5. ADF Lion I Limited 6. ADF Phoenix I Limited 7. ADF Phoenix V Limited 8. Elite Trade Investments Limited 9. ADF Tiger I Limited 10. ADF Tiger III Limited 11. ADF Tiger IV Limited 12. ADF Tiger V Limited 13. Pearl Properties V Pte. Ltd. 14. Dalian Defang Property Management Co., Ltd (大连德方物业管理有限公司) 15. ADF Falcon I Limited 16. Aqua Holdings Limited 17. ARA Managers (Beijing) Limited 18. Am ARA REIT Holdings Sdn. Bhd. 19. Jadeline Capital Sdn. Bhd. 20. Majulah Connection Limited 21. E3 Holdings Limited 22. IPS Securex Holdings Limited 23. Europtronic Group Ltd 24. SYW Pte. Ltd.	1. CW Group Holdings Limited 2. Innopac Holdings Limited

CORPORATE GOVERNANCE **REPORT**

Name of Director	Anthony Ang Meng Huat	Chong Eng Wee (Zhang Yingwei)
Present	1. Imperiale Investment Company Limited 2. Yong Tai Berhad 3. Sasseur Bishan HK Limited 4. Sasseur Hefei HK Limited 5. Sasseur Jinan HK Limited 6. Hong Sun Group Development Limited 7. Sasseur Singapore Holdings Pte Ltd 8. Sasseur Bishan (BVI) Limited 9. Sasseur Hefei Limited 10. Sasseur Jinan Limited	1. Kennedy Legal Solutions Pte Ltd 2. Legal Solutions LLC 3. GS Holdings Limited 4. Wish Hospitality Holdings Private Limited 5. KTL Global Limited 6. Wish Health Management (Shanghai) Co. Ltd.
Information required pursuant to Catalist Rules 704(6) and/or 704(7)		
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
(c) Whether there is any unsatisfied judgment against him?	No	No

CORPORATE GOVERNANCE REPORT

Name of Director	Anthony Ang Meng Huat	Chong Eng Wee (Zhang Yingwei)
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No

CORPORATE GOVERNANCE REPORT

Name of Director	Anthony Ang Meng Huat	Chong Eng Wee (Zhang Yingwei)
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:		
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No

CORPORATE GOVERNANCE REPORT

Name of Director	Anthony Ang Meng Huat	Chong Eng Wee (Zhang Yingwei)
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No
Disclosure applicable to the appointment of Director only		
Any prior experience as a director of an issuer listed on the Exchange? If yes, please provide details of prior experience. If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	Yes 1. E3 Holdings Limited (delisted on 31 May 2011) 2. ARA Asset Management (Fortune) Limited, manager of Fortune REIT 3. Armstrong Industrial Corporation Ltd. (delisted on 6 January 2014) 4. IPX Securex Holdings Limited 5. Europtronic Group Ltd. (delisted on 1 September 2018) 6. Yong Tai Berhad	Yes 1. GS Holdings Limited 2. KTL Global Limited 3. Innopac Holdings Limited

CORPORATE GOVERNANCE REPORT

Alternate Director

On 28 July 2018, Mr Loke Weng Seng was appointed as alternate Director to Mr Lim Soon Hock. An alternate Director owes the same fiduciary duties as a Director and is subject to the same liabilities to the Company. Should the Chairman be unavailable, Mr Loke Weng Seng will only attend the Board meetings on the Chairman's behalf as a member of the Board, but not as Chairman, in view that the Company has a Lead Independent Director. Mr Loke Weng Seng is familiar with the affairs of the Company. The Board has considered the expertise and experience, as well as the business and financial backgrounds of Mr Loke Weng Seng and is satisfied that Mr Loke is appropriately qualified to serve as an alternate Director to Mr Lim Soon Hock.

Provision 4.4

Continuous Review of Directors' Independence

The Company has put in place a process to ensure the continuous monitoring of the independence of the Directors whereby the Directors must immediately report any changes in their external appointments that could affect their independence on the Board.

The NC reviews the independence of each Director annually in accordance with the definition of independence as set out in the Code and Practice Guidance, and taking into consideration whether the Directors falls under any circumstances pursuant to Rule 406(3)(d) of the Catalist Rules. The Independent Directors have submitted their confirmation of independence annually for the NC's reviews. In respect of the Company's current Independent Directors, namely Mr Chong Eng Wee (Zhang Yingwei), Mr Anthony Ang Meng Huat, and Ms Lie Ly @ Liely Lee, the Board is of the view that they are independent, taking into account the circumstances set forth in the Code, Rule 406(3)(d) of the Catalist Rules and any other salient factors. For FY2019, the Independent Directors have also confirmed their independence in accordance with the Code and Rule 406(3)(d) of the Catalist Rules.

Provision 4.5

Directors' Time Commitments

In addition to the current procedures for the review of the attendance records and analysis of directorships, a policy has also been put in place for Directors to notify the Board of any changes in their external appointments. This would allow the Director to review his or her time commitments with the proposed new appointment and in the case of an Independent Director, to also ensure that his or her independence would not be affected.

Listed Company Directorship and Principal Commitments

As at the date of this report, the members of the Board and their details are set out below:–

Name of Director	Date of last re-election/ appointment	Nature of appointment	Functions/ Board Committee served	Academic and professional qualifications	Directorships or Chairmanships both present in other listed companies and other principal commitments
Mr Lim Soon Hock	30 April 2019	Non-Executive and Non-Independent	Non-Executive Chairman and Non-Independent Director	· Bachelor of Engineering (Hon) · Diploma of Business Administration · Graduate Certificate In International Arbitration · Registered Professional Engineer(s) · Fellow of Institution of Engineers Singapore · Fellow of Academy of Engineering Singapore · Chartered Engineer (UK) · Fellow of Institution of Engineering And Technology · Honorary Fellow of Asean Federation of Engineering Organizations · Fellow of Singapore Computer Society · Fellow of Singapore Institute of Directors · Fellow of Singapore Institute Of Arbitrators · Member of the Singapore Mediation Centre's Family Panel of Mediators and Associate Mediators Panel	Other Principal Commitments Adjunct Professor, National University Of Singapore Raffles Girls School State Courts Singapore (Court Volunteer as a Mediator) Justice of The Peace Present Directorships China Fishery Group Limited (incorporated in Cayman Islands) DISA Limited
Mr Soon Jeffrey	30 April 2019	Executive	Chief Executive Officer	· Master's Degree in Business and Administration · Degree of Bachelor of Engineering (Honours) (Mechanical and Production Engineering)	Other Principal Commitment – Present Directorship –

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Name of Director	Date of last re-election/ appointment	Nature of appointment	Functions/ Board Committee served	Academic and professional qualifications	Directorships or Chairmanships both present in other listed companies and other principal commitments
Mr Chong Eng Wee (Zhang Yingwei)	30 April 2019	Non-Executive and Independent	Lead Independent Director, Chairman of the NC and a member of the ARMC	· Advocate & Solicitor, Supreme Court of Singapore · Solicitor, High Court of Hong Kong · Lawyer, Supreme Court of New South Wales, Australia · Barrister & Solicitor, High Court of New Zealand · Bachelor of Laws	<u>Other Principal Commitment</u> Partner and Head of Corporate, Kennedys Legal Solutions Pte Ltd <u>Present Directorships</u> GS Holdings Limited KTL Global Limited
Mr Anthony Ang Meng Huat	17 April 2017	Non-Executive and Independent	Chairman of the RC and member of the ARMC	· Master of Business Administration from INSEAD in France · Bachelor of Science (Mechanical Engineering) with First Class Honours from the Imperial College, United Kingdom · INSEAD International Directorship Programme Certified in Corporate Governance	<u>Other Principal Commitment</u> Chief Executive Officer of Sasseur Asset Management Pte Ltd Non-Resident Ambassador of the Republic of Singapore to the Republic of Tunisia, Ministry of Foreign Affairs <u>Present Directorship</u> Yong Tai Berhad
Ms Lie Ly @ Liely Lee	30 April 2019	Non-Executive and Independent	Chairman of the ARMC and a member of the RC	· CPA Australia · Master in Accounting · Bachelor of Commerce	<u>Other Principal Commitment</u> Group Chief Financial Officer of Marco Polo Marine Ltd <u>Present Directorships</u> Marco Polo Marine Ltd PT. Pelayaran Nasional Bina Buana Raya TBK

Information of the interests of the Directors who held office at the end of the financial year in shares, debentures and share options in the Company and its related corporations (other than the wholly-owned subsidiaries) are set out in the Directors' Statement on pages 59 to 62 of this annual report.

Board Performance

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole and that each of its board committees and individual directors.

Provision 5.1 and 5.2

Performance Criteria

The Board, through the NC, has used its best effort to ensure that Directors appointed to the Board and Board Committees, whether individually or collectively, possess the background, experience, knowledge in the business, competencies in finance and management skills critical to the Group's business. It has also ensured that each Director, with his or her special contributions, brings the Board an independent and objective perspective to enable sound, balanced and well-considered decisions to be made.

The NC has been tasked to assist the Board to develop a performance evaluation framework for the Board, Board Committees and individual Directors, proposed performance criteria and assist in the conduct of the evaluation, analyses the findings and reports the results to the Board.

The NC, together with the Board, has established a formal process setting out the performance criteria for assessing the effectiveness of the Board as a whole and its Board Committees, and for assessing the contribution by each individual Directors to the effectiveness of the Board to align with the applicable principles and provisions set out in the Code.

On an annual basis, all the Directors are required to complete the following:

- Board Performance Evaluation Questionnaire;
- Audit and Risk Management Committee Performance Evaluation Questionnaire;
- Nominating Committee Performance Evaluation Questionnaire;
- Remuneration Committee Performance Evaluation Questionnaire; and
- Individual Director Self-Assessment Form.

For FY2019, the NC conducted a formal review of the performance evaluation of the Board, Board Committees and individual Directors, by way of circulating the questionnaires to the Board and Board Committees and self-assessment form to each individual Director for completion. The summary of findings of each evaluation together with the feedback and recommendations from the Board, Board Committees and each individual Director had been discussed and reviewed by the NC.

Board Evaluation Process

The evaluation serves to assess the effectiveness of the Board as a whole on the following parameters:

(a) Board composition;

(b) Board conduct of affairs;

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(c) Internal controls and risk management;

(d) Board accountability;

(e) CEO; and

(f) Standards of conduct.

Based on the summary of findings of the evaluation for FY2019 together with the feedback and recommendations from each Director, the NC is satisfied that the Board as a whole had met its performance objective in FY2019.

Board Committees Evaluation Process

The evaluation serves to assess the effectiveness of the Board Committees on the following parameters:

Audit and Risks Management Committee

(a) Membership and appointments;

(b) Meetings;

(c) Training and resources;

(d) Financial reporting;

(e) Risk management and internal control systems;

(f) Internal audit process;

(g) External audit process;

(h) Compliance;

(i) Anti-fraud;

(j) Whistle-blowing;

(k) Interested person transactions ("**IPTs**") and related party transactions;

(l) Reporting;

(m) Standards of conduct; and

(n) Communication with shareholders.

Nominating Committee

(a) Membership and appointments;

(b) Meetings;

(c) Training and resources;

(d) Reporting;

(e) Process for selection and appointment of new Directors;

(f) Board diversity;

(g) Nomination of Directors for re-election;

(h) Independence of Directors;

(i) Board performance evaluation;

(j) Succession planning;

(k) Multiple board representation;

(l) Chairman and CEO;

(m) Standards of conduct; and

(n) Communication with shareholders.

Remuneration Committee

(a) Membership and appointments;

(b) Meetings;

(c) Training and resources;

(d) Reporting;

(e) Remuneration framework;

(f) Standards of conduct; and

(g) Communication with shareholders.

Based on the summary of the evaluation for FY2019 together with the feedback and recommendations from members of the respective Board Committees, the NC is satisfied that each of the Board Committees had met its performance objective in FY2019.

The primary objective of the Board evaluation exercise is to create a platform for the Board and Board Committees members to provide constructive feedback on the Board procedures and processes and the changes which should be made to enhance the effectiveness of the Board and Board Committees.

The NC has, without the engagement of external facilitator, assessed the Board and Board Committees overall performance to-date and is of the view that the performance of the Board as a whole and Board Committees were satisfactory.

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Individual Directors Evaluation Process

The evaluation serves to assess the effectiveness of each of the individual Directors on the following parameters:

(a) Attendance at Board and related activities;

(b) Adequacy of preparation for Board meetings;

(c) Contribution;

(d) Initiative;

(e) Knowledge of the senior management's job scope;

(f) Knowledge of Company's business;

(g) Participation in constructive debate/discussion;

(h) Maintenance of independence;

(i) Disclosure of IPTs; and

(j) Declaration of conflicts of interest.

Based on the summary of the evaluation for FY2019 together with the feedback and recommendations from the respective individual Directors, the NC is satisfied that each of the individual Directors had met its performance objective in FY2019.

The individual Director evaluation exercise assists the NC in determining whether to re-nominate Directors who are due for retirement at the forthcoming AGM, and in determining whether Directors with multiple board representations are able to and have adequately discharged their duties as Directors of the Company.

Each member of the NC shall abstain from voting on any resolutions in respect of the assessment of his performance or his or her re-nomination as Director.

II. REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6: There Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director should be involved in deciding his own remuneration.

Provision 6.1

Roles and Duties of Remuneration Committee

The Board established the RC since 2009 with written terms of reference which clearly set out its authority and duties, and report to the Board directly.

The terms of reference of the RC, which was revised and adopted for alignment with the Code and Catalist Rules, sets out its duties and responsibilities. Amongst them, the RC is responsible for:–

1. determining the Company's remuneration policies. In doing so, it should also consider the Company's risk appetite and ensure that the policies are aligned to long-term goals;

2. ensuring that the level and structure of remuneration of the Board and KMPs are appropriate and proportionate to the sustained performance and value creation of the Company;

3. setting the remuneration policy for Directors (both Executive Directors and Non-Executive Directors) and KMPs;

4. recommending proposed Non-Executive Directors' fees for shareholders' approval;

5. monitoring the level and structure of remuneration for KMPs relative to the internal and external peers and competitors;

6. ensuring that the remuneration of the Non-Executive Directors is appropriate to the level of contribution;

7. reviewing the remuneration of employees related to the Directors, CEO or substantial shareholders, if any, to ensure that their remuneration packages are in line with staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities;

8. reviewing the ongoing appropriateness and relevance of the Company's remuneration policy (including but not limited to Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards and benefits-in-kind are covered) and other benefit programmes (where appropriate);

9. obtaining reliable, up-to-date information on the remuneration practices of other companies and the relevant market benchmarks through the appointment of external consultants;

10. overseeing any major changes in employee benefits or remuneration structures;

11. reviewing the design of all long-term and short-term incentive schemes for approval by the Board and Shareholders;

12. ensuring that the contractual terms and any termination payments are fair to the individual and the Company. Poor performance should not be rewarded;

13. setting performance measures and determine targets for any performance-related pay schemes operated by the Company;

14. ensuring that a significant and appropriate proportion of Executive Directors' and KMPs' remuneration is structured so as to link rewards to corporate and individual performance;

15. working and liaise, as necessary, with all other Board Committees on any other matters connected with remuneration matters; and

16. undertaking such other functions and duties as may be required by the Board under the Code, statute or the Catalist Rules (where applicable).

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Provision 6.2

Remuneration Committee Composition

As at the date of this report, the RC comprises the following three (3) members, all of whom, are Non-Executive Directors, and of which two (2) are Independent Directors (including the Chairman):

Anthony Ang Meng Huat	–	Chairman
Lim Soon Hock	–	Member
Lie Ly @ Liely Lee	–	Member

Provision 6.3

Remuneration Packages and Framework

The RC reviews and recommends to the Board the remuneration packages or policies for the Executive Director/CEO and the KMPs based on the performance of the Group, the individual Director and the KMPs. No Director individually decides or is involved in the determination of his or her own remuneration. The RC's recommendations are submitted for endorsement by the Board.

The RC will also review the Company's obligations under the service agreement entered into with the Executive Director and KMPs that would arise in the event of termination of these service agreements. This is to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance.

Provision 6.4

Engagement of Remuneration Consultants

The RC has access to advice from the internal human resource department and, if necessary, may seek external expert advice of which the expenses will be borne by the Company. No external expert was engaged by the Company in FY2019.

Level and Mix of Remuneration

Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value of creation of the company, taking into account the strategic objectives of the company.

Provisions 7.1 and 7.3

Remuneration of Executive Directors and KMPs

The Group's remuneration policy is to provide compensation packages at market rates which reward successful performance and to attract, retain and motivate Directors and KMPs. The remuneration packages take into account the performance of the Group, the individual Directors and individual KMPs.

The Executive Director does not receive Directors' fees. The remuneration of Mr Soon Jeffrey, Executive Director and CEO of the Company, and Mr Soon Jenson, one of the KMPs (who is the brother of Mr Soon Jeffrey and son of Mr Soon Yeow Kwee Johnny, a substantial Shareholder), are governed by their respective service agreements effective 1 January 2016. To align the interests of the Executive Director and KMPs with those of Shareholders, Mr Soon Jeffrey and Mr Soon Jenson are allowed to participate in a profit sharing incentive scheme in which the performance condition is based on the Group's profit before tax for each of the financial years. The respective service agreements of Mr Soon Jeffrey and Mr Soon Jenson expired on 31 December 2018 and their respective service agreement had been renewed in FY2019. The RC and the Board have reviewed and approved the service agreements without any changes to the remuneration packages.

Having reviewed and considered the variable components in the remuneration packages of the Executive Director and KMPs, which are moderate, the RC is of the view that presently there is no urgent need to institute contractual provisions in the terms of employment to reclaim incentive components of their remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company and the Group.

Provision 7.2

Remuneration of Non-Executive Directors

The Non-Executive Directors receive Directors' fees in accordance with their contributions. Directors' fees for the Non-Executive Directors are proposed by Mr Soon Jeffrey, Executive Director and CEO of the Company and reviewed and recommended by the RC, based on the effort, time spent and the responsibilities of the individual Non-Executive Directors. No Director is involved in deciding his or her own remuneration. The Non-Executive Directors have not been over-compensated to the extent that their independence is compromised. The total remuneration of the Non-Executive Directors is recommended for Shareholders' approval at each AGM. Directors' fees for the Non-Executive Directors of S$151,000 for FY2019 (with payment to be made quarterly in arrears) had been approved by Shareholders at the last AGM held on 30 April 2019. In view of the continued weak market conditions of the industries which the Group operates in, the RC and the Board have recommended to maintain and not increase the Directors' fees for the Non-Executive Directors for the current financial year ending 31 December 2020, as compared to FY2019. Directors' fees for the Non-Executive Directors of S$151,000 for the current financial year ending 31 December 2020 (with payment to be made quarterly in arrears) have been recommended by the Board and will be tabled for approval by Shareholders at the forthcoming AGM.

Disclosure on Remuneration

Principle 8: The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and relationships between remuneration, performance and value creation.

Provision 8.1

Remuneration Policy and Criteria

The compensation packages for employees including the Executive Director and the KMPs comprised a fixed component (base salary), a variable component (cash-based annual bonus) and benefits-in-kind, where applicable, taking into account amongst other factors, the individual's performance, the performance of the Group and industry practices.

An annual review of the compensation is carried out by the RC to ensure that the remuneration of the Executive Director and KMPs commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group. The performance of the Executive Director and CEO of the Company (together with other KMPs) is reviewed periodically by the RC and the Board. In structuring the compensation framework, the RC also takes into account the risk policies of the Group, the need for the compensation to be symmetric with the risk outcomes and the time horizon of risks.

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Disclosure on Remuneration of Directors and CEO

A breakdown showing the level and mix of the remuneration payable to each individual Director for FY2019 is as follows:

Name of Director	Salary[1] (%)	Bonus[1] and/or profit sharing (%)	Directors' fee (%)	Allowances and other benefits (%)	Total (%)
Below S$250,000					
Lim Soon Hock	–	–	100	–	100
Soon Jeffrey[2]	87	8	–	5	100
Chong Eng Wee (Zhang Yingwei)	–	–	100	–	100
Anthony Ang Meng Huat	–	–	100	–	100
Lie Ly @ Liely Lee	–	–	100	–	100

Notes:

(1) The salary and bonus amounts shown are inclusive of Singapore Central Provident Fund contributions.

(2) Mr Soon Jeffrey is also the CEO of the Company.

Disclosure on Remuneration of Key Management Personnel

A breakdown of the remuneration bands payable to the top three (3) KMPs[1] (who are not Directors or the CEO), including the immediate family members of a Director or the CEO or a substantial Shareholder exceeding S$100,000 for FY2019, is as follows:

Name of Key Management Personnel	Salary[2] (%)	Bonus[2] and/or profit sharing (%)	Allowances and other benefits (%)	Total (%)
Below S$250,000				
Soon Jenson[3]	87	8	5	100
Ng Wei Jet[4]	92	8	–	100
Koh Lay Cheng	90	7	3	100

Notes:

(1) The Group had only three (3) KMPs in FY2019.

(2) The salary and bonus amounts shown are inclusive of Singapore Central Provident Fund contributions.

(3) Brother of Mr Soon Jeffrey, Executive Director and CEO, and son of Mr Soon Yeow Kwee Johnny, a substantial Shareholder.

(4) Appointed as Financial Controller on 1 September 2019.

The RC will review the remuneration of the Directors and the KMPs from time to time. All Directors and KMPs are remunerated on an earned basis and there were no termination, retirement and post-employment benefits granted during FY2019.

Save as disclosed above, the Code recommends that:

(a) the Company should fully disclose the amount and breakdown of remuneration of each individual Director and the CEO on a named basis;

(b) the Company should disclose the details of the remuneration of employees who are immediate family members of a Director or the CEO or a substantial Shareholder, in incremental bands of S$100,000; and

(c) the Company should disclose in aggregate the total remuneration paid to the top five (5) KMPs (who are not Directors or the CEO).

The Board has decided not to disclose the aforementioned details as recommended by the Code, given the competitive business environment and possible negative impact on the Group's business interest, the disclosure of such detailed remuneration amongst the immediate family members of the Executive Director and the CEO of the Company as well as a substantial Shareholder could have an adverse effect on working relationships and contributions to the operations of the Group. The total remuneration of the top three (3) KMPs (who are not Directors or the CEO), including the immediate family member of a Director or CEO, was not disclosed to prevent poaching of KMPs.

After taking into account the reasons for non-disclosure stated above, the Board is of the view that the current disclosure of the remuneration presented herein in this report is sufficient to provide Shareholders information on the Group's remuneration policies, as well as the level and mix of remuneration. Accordingly, the Board is of the view that the Company complies with Principle 8 of the Code.

Provision 8.2

Disclosure on Remuneration of Immediate Family Member of Substantial Shareholder

Saved as disclosed above under Provision 8.1 – Disclosure on Remuneration of Key Management Personnel and in the table set out below, there were no other employees who are substantial Shareholders, or are immediate family members of a Director, the CEO or a substantial Shareholder, and whose remuneration exceeded S$100,000 during FY2019.

The following table shows a breakdown of the annual remuneration (in percentage terms) of an immediate family member of a substantial Shareholder (who is not a KMP) and whose remuneration exceeds S$100,000 for FY2019.

Name	Salary(1) (%)	Bonus(1) and/or profit sharing (%)	Allowances and other benefits (%)	Total (%)
Yong Chin Seng	80	5	15	100

Note:

(1) The salary and bonus amounts shown are inclusive of Singapore Central Provident Fund contributions.

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Mr Yong Chin Seng is a Regional Sales Manager of Heatec Jietong Pte. Ltd. and responsible for sourcing of new clients, sales administrative and sales management for the Heat Exchanger (Repair & Services) segment of the Company regionally. He is the son of Mr Yong Yeow Sin, a substantial Shareholder. His remuneration was in the band of between S$100,000 and S$200,000 for FY2019.

Provision 8.3

Details of Heatec Employee Share Option Scheme and Heatec Performance Share Plan

The Company has a share option scheme known as Heatec Employee Share Option Scheme (the "**Heatec ESOS**") and a performance share plan known as Heatec Performance Share Plan (the "**Performance Share Plan**") which were approved by Shareholders at the extraordinary general meeting of the Company ("**EGM**") held on 18 June 2009. The Heatec ESOS and Performance Share Plan expired on 17 June 2019, and the Company had obtained the approval of its Shareholders at the AGM held on 30 April 2019 for the extension of the respective durations of the Heatec ESOS and Performance Share Plan for a further period of 10 years from 18 June 2019 up to 17 June 2029.

The Heatec ESOS and Performance Share Plan comply with the relevant rules as set out in Chapter 8 of the Catalist Rules. The Heatec ESOS and Performance Share Plan will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. Both the Heatec ESOS and Performance Share Plan are administered by the RC. Details of the Heatec ESOS and Performance Share Plan were set out in the Company's Offer Document dated 30 June 2009.

As at 31 December 2019, the Company has granted an aggregate of 1,772,000 share awards pursuant to the Performance Share Plan, all of which had been granted prior to FY2019. The shares to be issued pursuant to the share awards granted are subject to certain performance conditions to be satisfied by the participants and such shares pursuant to the share awards granted have been issued to the relevant participants as at the date of this report. The Company did not grant any share awards pursuant to the Performance Share Plan in FY2019.

As at 31 December 2019, the Company has granted an aggregate of 7,000,000 share options pursuant to the Heatec ESOS, of which options to subscribe for 3,000,000 shares remained outstanding. Movements in the number of unissued shares of the Company under the Heatec ESOS during FY2019 were as follows:

Exercise period		Outstanding options as at 1 January 2019	Number of options granted in FY2019	Number of options cancelled in FY2019	Outstanding options as at 31 December 2019	Exercise price (S$)
From	**To**					
18 April 2017	17 April 2026	1,800,000	–	–	1,800,000	0.085
16 April 2019	15 April 2028	1,200,000	–	–	1,200,000	0.062
Total		**3,000,000**	**–**	**–**	**3,000,000**	

Please refer to the Directors' Statement and Note 28 to the Financial Statements set out in this annual report for more information on the Heatec ESOS.

III. ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

Provision 9.1

Nature and Extent of Risks

The Board acknowledges that it is responsible for establishing, maintaining and reviewing the effectiveness of the Company's overall internal control framework. The Board also recognises that an effective internal control system will not preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Company has put in place risk management and internal control systems, including financial, operational, compliance and information technology controls, which are detailed in formal instructions, standard operating procedures and financial authority limits policies. The Board has determined the Group's levels of risk tolerance and risk policies and oversees Management in the design, implementation and monitoring of the risk management and internal control systems. The Board also monitors the Group's risks through the ARMC, internal and external auditors.

The Group has in place an Enterprise Risk Management Framework to manage its exposure to risks that are associated with the conduct of its business. The Board will continue its risk assessment, which is an on-going process, with a view to improve the Group's internal control system.

Provision 9.2

Assurance from the Chief Executive Officer, Financial Controller and Key Management Personnel

The Board and the ARMC has reviewed, with the assistance of the internal and external auditors, the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls, and risk management systems.

The Board has received written assurance from the CEO and Financial Controller that, as at 31 December 2019, the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances.

The Board has also received written assurance from the CEO and the relevant KMPs that the system of internal controls (including financial, operational, compliance and information technology controls) and risk management systems in place were adequate and effective as at 31 December 2019 to address the risks that the Group considers relevant and material to its business operations.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by Management, various Board Committees and the Board, as well as the said assurances set out above, the Board is satisfied and the ARMC concurs with the Board that the Group's internal controls (including financial, operational, compliance and information technology controls) and risk management systems were adequate and effective as at 31 December 2019 to address the risks that the Group considers relevant and material to its business operations.

CORPORATE GOVERNANCE REPORT

The system of internal controls provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board notes that no system of internal controls and risk management systems can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

Management will continue to review and strengthen the Group's control environment and devote resources and expertise towards improving its internal policies and procedures to maintain a high level of governance and internal controls.

Audit and Risks Management Committee

Principle 10: The Board should establish an Audit Committee which discharges its duties objectively.

Provision 10.1

Roles and Duties of the Audit and Risks Management Committee

The Board established the ARMC since 2009 with written terms of reference which clearly set out its authority and duties, and report to the Board directly.

The terms of reference of the ARMC, which was revised and adopted for alignment with the Code and the Catalist Rules, sets out its duties and responsibilities. Amongst them, the ARMC is responsible for:-

1. reviewing the financial reporting issues and judgements so as to ensure the integrity of financial statements, and of announcements on the Company's financial performance and recommend changes;
2. overseeing and reviewing the adequacy and effectiveness of the Company's risk management function;
3. overseeing Management in establishing the risk management framework of the Company;
4. reviewing and reporting to the Board at least annually on the adequacy and effectiveness of the Company's risk management and internal controls;
5. reviewing the adequacy, effectiveness, independence, scope and results of the Company's internal audit function;
6. reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors;
7. recommending to the Board the appointment, reappointment and removal of the external auditors, and its remuneration and terms of engagement;
8. ensuring that the Company complies with the requisite laws and regulation;
9. ensuring that the Company has programmes and policies in place to identify and prevent fraud;
10. overseeing the establishment and operation of the whistleblowing process in the Company;
11. reviewing all IPTs and Related Party Transactions; and
12. undertaking such other functions and duties as may be required by the Board under the Code, statute or the Catalist Rules (where applicable).

The ARMC has explicit authority to investigate any matters within its terms of reference. The ARMC also has full access to, and the co-operation of, Management and full discretion to invite any Director or senior management to attend its meetings. The ARMC has adequate resources, including access to external consultants and auditors, to enable it to discharge its responsibilities properly.

Provisions 10.2 and 10.3

Audit and Risks Management Committee Composition

As at the date of this report, the ARMC comprises the following three (3) members, all of whom, including the ARMC Chairman, are Non-Executive and Independent Directors:

Lie Ly @ Liely Lee	–	Chairman
Anthony Ang Meng Huat	–	Member
Chong Eng Wee (Zhang Yingwei)	–	Member

The Board is of the view that the members of the ARMC are appropriately qualified and possess recent and relevant accounting or related financial management expertise or experience to discharge their responsibilities. All ARMC members have many years of experience in accounting, finance and/or legal related expertise and experience.

No former partner or Director of the Company's existing auditing firm is a member of the ARMC and the members of ARMC also confirmed that they have no financial interest in the auditing firm.

Provision 10.4

Internal Audit Function

The current size of the operations of the Group does not warrant the Group to have an in-house internal audit function. The internal audit function of the Company is outsourced to BDO LLP, a member of the BDO network. The ARMC approves the hiring, removal, evaluation and compensation of the internal auditors.

The internal auditors report primarily to the ARMC on internal audit matters and the ARMC is empowered to review any of the accounting, auditing and financial practices of the Company and the Group. The internal auditors have unfettered access to all the Group's documents, records, properties and personnel, including unrestricted direct access to the ARMC.

The internal auditors will submit their annual audit planning for approval by the ARMC and report their findings to the ARMC. In FY2019, the internal auditors carried out the review which is consistent with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors on certain key areas to assess and evaluate:

(a) whether adequate systems of internal controls are in place;

(b) whether operations of the business processes under review are conducted efficiently and effectively; and

(c) internal control improvement opportunities.

The ARMC has reviewed with the internal auditors their audit plan and their evaluation of the system of internal controls and has evaluated their audit findings and Management's responses to those findings, the adequacy and effectiveness of material internal controls, (including financial, operational, compliance and information technology controls) and risk management systems of the Company and the Group for FY2019. The ARMC is satisfied that the outsourced internal audit function is independent, adequately resourced, effective and has the appropriate standing within the Group. The ARMC is also of the view that the outsourced internal audit function is adequately staffed with persons with the relevant qualifications and experience and adheres to professional standards including those promulgated by The Institute of Internal Auditors.

CORPORATE GOVERNANCE REPORT

The annual audits conducted by the internal auditors aim to assess the adequacy and effectiveness of the Group's internal control procedures and to provide reasonable assurances to the ARMC and Management that the Group's risk management systems, controls and governance processes are adequate and effective.

On an annual basis, the ARMC reviews the independence, adequacy and effectiveness of the internal audit function.

External Audit Function

The ARMC reviews the scope and results of the audit carried out by the external auditors, the cost effectiveness of the audit and the independence and objectively of the external auditors. It always seeks to balance the maintenance of objectivity of the external auditors and their ability to provide value-for-money professional services. The ARMC also recommends to the Board the appointment, re-appointment and removal of external auditors, and approves the remuneration and terms of engagement of the external auditors. The re-appointment of the external auditors is always subject to Shareholders' approval at the AGM.

Baker Tilly TFW LLP ("**Baker Tilly**") was appointed as the external auditors of the Company at the AGM held on 30 April 2019 until the conclusion of the forthcoming AGM. The aggregate amount of audit fees paid to Baker Tilly in FY2019 was S$65,000. There were no non-audit fees paid to Baker Tilly in FY2019.

In reviewing the nomination of Baker Tilly for re-appointment for the financial year ending 31 December 2020, the ARMC has considered the adequacy of the resources, experience and competence of Baker Tilly, and has taken into account the Audit Quality Indicators relating to Baker Tilly firm level and on the audit engagement level. Consideration was also given to the experience of the engagement partner and key team members in handling the audit. The Board also considered the audit team's ability to work in a cooperative manner with Management whilst maintaining integrity and objectivity and to deliver their services professionally and within agreed timelines.

On the basis of the above, the ARMC and the Board are satisfied with the standard and quality of work performed by Baker Tilly and have recommended the nomination of Baker Tilly for re-appointment as external auditors of the Company for the ensuring year be tabled for Shareholders' approval at the forthcoming AGM.

For FY2019, the Company confirms that it is in compliance with Rules 712 and 715 of the Catalist Rules in relation to the appointment of audit firms for the Group. The ARMC and the Board are satisfied with the standards and the effectiveness of the audits performed by the independent external auditors of the subsidiaries and significant associated companies of the Group, other than those of the Company.

Provision 10.5

Meeting Auditors without the Management

In performing its functions, the ARMC and Management meet with the external and internal auditors to discuss and evaluate the internal controls of the Group and review the overall scope of both external and internal audits. The ARMC also meets regularly with Management, the Financial Controller, and external and internal auditors to keep abreast of any changes to the accounting standards and issues which could have a direct impact on the Group's financial statements. At least once a year and as and when required, the ARMC meets with the external and internal auditors without the presence of Management, to review any matters that might be raised privately.

The ARMC has separately met with the external and internal auditors once in the absence of Management for FY2019.

CORPORATE GOVERNANCE REPORT

Whistle Blowing Policy

The Company has implemented and clearly communicated to its employees the Whistle Blowing Policy which provides the mechanism for which staff of the Company may in confidence, raise concerns about possible improprieties of financial reporting or other matters. The ARMC oversees the administration of the policy. Where a complaint has been made, a report will be submitted to the ARMC for investigation and follow-up.

Audit and Risks Management Committee Activities

In FY2019, the ARMC had, among others, carried out the following activities:

(a) reviewed the half-year and full-year financial statements announcements of the Group, and recommended to the Board for approval and release to the SGX-ST via SGXNet;

(b) reviewed the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls, and risk management systems;

(c) reviewed IPTs of the Group;

(d) reviewed and approved the annual audit plan of the external auditors;

(e) reviewed and approved the internal audit plan of the internal auditors, having considered the scope of the internal audit procedures;

(f) reviewed the effectiveness of the Group's internal audit function;

(g) reviewed the audit findings of the internal auditors and Management's responses to those findings;

(h) reviewed the independence of the external auditors;

(i) reviewed the annual re-appointment of the external auditors and determined their remuneration, and made a recommendation for the Board's approval; and

(j) met with the internal and external auditors once without the presence of Management.

CORPORATE GOVERNANCE REPORT

Key Audit Matters

In the review of the financial statements, the ARMC has discussed with Management the accounting principles that were applied and their judgment of items that might affect the integrity of the financial statements. The following significant matter impacting the financial statements was discussed with Management and the external auditors, and was reviewed by the ARMC:

Matter considered	How the ARMC reviewed this matter and what decisions were made
Revenue recognition	The ARMC discussed with Management and the external auditor on the procedures and controls over revenue recognition and ensure that the revenue recognition policy is in accordance with SFRS (I) 15 *Revenue from contracts with customers*. The ARMC reviewed Management's assessment of key estimates and judgements made in determining the stage of completion, extent of the contract costs and the estimated total contract costs to complete on revenue from provision of heat exchanger services. For revenue from provision of piping services, the ARMC reviewed the Management's estimates in determining the external auditors' report which outlined the audit procedures to address the key audit matter. As a result of the above procedures, the ARMC was of the view that the approach and methodology applied by the Management were adequate and appropriate. The revenue recognition on contracts was also areas of focus for the external auditor. The external auditor had included this item as a key audit matter in its audit report for FY2019. Please refer to page 64 of this annual report.
Impairment assessment of cost of investment in subsidiaries (Company)	The ARMC discussed with Management and the external auditor on the impairment assessment of cost of investment in subsidiaries, and ensured that it is in compliance with SFRS (I) 1-36 *Impairment of Assets*. The ARMC reviewed the recoverable amounts of the investment in subsidiaries determined by Management, based on both fair value less cost to sell and value-in-use using the discounted cash flow method. The ARMC has also evaluated the key assumptions made in determining the recoverable amounts, as well as considered the external auditors' report outlined the audit procedures to address the key audit matter. As a results of the above procedures, the ARMC was of the view that the assessment of recoverable amount applied by the Management was reasonable. The impairment assessment of cost of investment in subsidiaries was also areas of focus for the external auditor. The external auditor has included this item as a key audit matter in its audit report for FY2019. Please refer to page 65 of this annual report.

IV. SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and Conduct of General Meetings

Principle 11: The company treat all shareholders fairly and equitably in order to enable them to exercise of shareholders' rights and have opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of performance, position and prospects.

Provision 11.1

Shareholders' Participation in General Meetings

Shareholders are informed of shareholders' meetings through notices contained in annual reports or circulars sent to all Shareholders. These notices are also published in the Business Times and posted onto the SGXNet.

In order to provide ample time for Shareholders to review, the notice of AGM, together with the Annual Report 2019, is distributed to all Shareholders at least fourteen (14) days before the scheduled AGM date. Shareholders are encouraged to attend the general meetings to ensure a high level of participation and accountability.

If a Shareholder is not able to attend in person, the Shareholder is generally able to appoint one (1) or two (2) proxies to attend and vote in his or her stead at general meetings. On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as "relevant intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirements. Relevant intermediary includes corporations holding licenses in providing nominee and custodial services and Central Provident Fund Board which purchases shares on behalf of the Central Provident Fund investors. A proxy need not be a member of the Company.

Shareholders are invited to attend the general meetings to put forth any questions they may have on the motions to be debated and decided upon.

Shareholders are also informed of the voting procedures prior to the commencement of voting by poll.

Provision 11.2

Conduct of Resolutions and Voting

The resolutions tabled at the general meetings are on each substantially separate issue, Unless the issues are interdependent and linked so as to form one significant proposal. If a scenario arises where the resolutions are inter-conditional, it is the Company's current intention to explain the reasons and material implications in the notice of meeting.

The Company typically ensures that there are separate resolutions at general meetings on each distinct issue. Detailed information on each item in the AGM/EGM agenda is provided in the explanatory notes to the Notice of AGM/EGM in the annual report.

CORPORATE GOVERNANCE REPORT

Provision 11.3

Interaction with Shareholders

At general meetings of the Company, Shareholders are given the opportunity to raise questions to the Directors and the Management relating to the Company's business or performance.

Management, as well as the respective chairperson of the Board, ARMC, RC and NC will be present and available to address all comments or queries raised by Shareholders at general meetings of the Company. The external auditors of the Company were present at the AGM to address Shareholders' queries on the conduct of the audit and the preparation and content of the auditor's report.

Save for Mr Anthony Ang Meng Huat, the Chairman of the RC, all Directors were present at the last AGM held on 30 April 2019. Although Mr Anthony Ang Meng Huat could not attend the last AGM, the other members of the RC were present at the AGM to address comments and queries raised by Shareholders. All Directors will endeavour to be present at the Company's forthcoming AGM to address Shareholders' questions (if any).

Save for the last AGM held on 30 April 2019, there were no other general meetings of the Company held during FY2019.

Provision 11.4

Absentia Voting

The Company has decided, for the time being, not to implement voting in absentia through mail, electronic mail or fax until security, integrity and other pertinent issues are satisfactorily resolved.

Provision 11.5

Minutes of General Meetings

The proceeding of each of the general meetings will be properly recorded, including substantial or relevant comments or queries from Shareholders relating to the agenda of the general meetings and responses from the Board and Management. All minutes of the general meetings will be available on the Company's corporate website.

Provision 11.6

Dividend Policy

The Company currently does not have a fixed dividend policy. Any future dividends that the Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as other factors deemed relevant by the Board:

(a) the level of the Group's cash and retained earnings;

(b) the Group's actual and projected financial performance;

(c) the Group's projected levels of capital expenditure and other investment plans;

(d) the dividend yield of similar-sized companies with similar growth listed on the Catalist board of the SGX-ST; and

(e) restrictions on payment of dividends imposed on the Company by the Group's financing arrangements or legal and contractual obligations (if any).

In view of the Group's loss-making position for FY2019, the Board has not recommended any dividends for FY2019.

Engagement with Shareholders

Principle 12: The company communicate regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues allow shareholders to communicate their views on various matters affecting the company.

Provisions 12.1, 12.2 and 12.3

Investor Relations Practices

The Company does not have an Investor Relations Policy in place. However, the Board's policy is that all Shareholders should be informed simultaneously in an accurate and comprehensive manner regarding all material developments that impact the Group via SGXNet on an immediate basis, in line with the Group's disclosure obligations pursuant to the Catalist Rules and the Companies Act. There is no dedicated investor relations team in place as the Board was of the view that the current communication channels are sufficient and cost-effective.

Disclosures of Information

The Company believes in timely and accurate dissemination of information to its Shareholders. The Board makes every effort to comply with continuous disclosure obligations of the Company under the Catalist Rules and the Companies Act. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly as soon as practicable. Communication to Shareholders is normally made through:–

(a) annual reports that are prepared and issued to all Shareholders;

(b) annual and half-year financial statements announcements containing a summary of the financial information and affairs of the Group for the period;

(c) notices and explanatory memoranda for general meetings;

(d) disclosures to the SGX-ST via SGXNet; and

(e) press/media releases.

The Company will put all resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages.

Outside of the financial announcement periods, when necessary and appropriate, the Non-Executive Chairman and/or the CEO will meet all stakeholders, Shareholders, analysts and media who wish to seek a better understanding of the Group's operations.

Dialogue with Shareholders

The AGM is the principal forum for dialogue with Shareholders. The Company recognises the value of feedback from Shareholders. During the general meetings, Shareholders are given ample time and opportunities to air their views and concerns. All the Directors will endeavour to attend the AGMs and EGMs, and Shareholders will be given the chance to share their thoughts and ideas or ask questions relating to the resolutions to be passed or on other corporate and business issues.

CORPORATE GOVERNANCE REPORT

V. MANAGING STAKEHOLDERS RELATIONSHIPS

Engagement with Stakeholders

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

Provisions 13.1 and 13.2

Stakeholders' Engagement

The Company and the Group has regularly engaged its stakeholders through various medium and channels to ensure that the business interests are aligned with those of the stakeholders, to understand and address the concerns so as to improve services and products' standards, as well as to sustain business operations for long-term growth.

The stakeholders have been identified as those who are impacted by the Group's business and operations and those who are similarly are able to impact the Group's business and operations. Six stakeholders' groups have been identified through an assessment of their significance to the business operations. They are namely, employees, investors/ shareholders, customers and consumers, local communities, suppliers and service providers, and government and regulators.

The Company and the Group have undertaken a process to determine the economic, environmental, social and governance issues, which important to these stakeholders. These issues form the materiality matrix upon which targets, performance and progress are reviewed and endorsed by the Board annually.

Detailed approach to the stakeholder engagement and materiality assessment (including commitments, key areas of focus and activities) are disclosed under the Sustainability Report on pages 136 to 152 of this annual report.

Provision 13.3

Corporate Website

To promote regular, effective and fair communication with Shareholders, the Company maintains a corporate website at http://www.heatecholdings.com through which Shareholders are able to access up-to-date information on the Group. The website provides annual reports, financial information, stock information, profiles of the Group, and contact details of the investor relations of the Group.

VI. INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the ARMC and that the transactions are conducted at arms' length basis, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

All interested person transactions are subject to review by the ARMC to ensure compliance with established procedures. The Company has not obtained a general mandate from its Shareholders in respect of interested person transactions for FY2019. The aggregate value of interested person transactions entered into during FY2019 is as follows:

Name of Interested Person	Nature of Relationship	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under Shareholders' mandate pursuant to Rule 920) (S$'000)	Aggregate value of all interested person transactions conducted under Shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000) (S$'000)
Provision of consultancy services and allowances by the following consultants: Soon Yeow Kwee Johnny Yong Yeow Sin	 A controlling Shareholder and father of Soon Jeffrey (Executive Director and CEO) A controlling Shareholder	227[(1)]	–
Sales of heat exchangers by the Group to: Tru-Marine Pte. Ltd.	 A controlling Shareholder	372	

Note:
(1) Fees paid by the Group to the consultants are disclosed as an aggregate sum, rather than on an individual basis, as the Board is of the view that disclosure of the latter may affect the working relationships amongst the stakeholders and contributions by the Consultants in relation to the operations of the Group.

CORPORATE GOVERNANCE REPORT

VII. MATERIAL CONTRACTS

Save as disclosed above in the section entitled "Interested Person Transactions", the service agreement between the Company and the Executive Director and CEO, and the Directors' Statement and Financial Statements, there were no material contracts (including loans) entered into by the Company or any of its subsidiaries involving the interests of any Director or controlling Shareholder which are either still subsisting as at the end of FY2019 or if not then subsisting, entered into since the end of the previous financial year.

VIII. DEALINGS IN SECURITIES

The Company has complied with Rule 1204(19) of the Catalist Rules in relation to the best practices on dealings in the securities:

(a) The Company had devised and adopted its own internal compliance code to provide guidance to its Directors and officers with regards to dealings by the Company, its Directors and its officers in its securities, as well as to set out the implications on insider trading;

(b) Directors and officers of the Company are discouraged from dealing in the Company's securities on short-term considerations; and

(c) The Company, its Directors and its officers are prohibited from dealing in the Company's securities (i) during the periods commencing one month before the announcement of the Company's half-year and full-year financial statements and ending on the date of the announcement of the relevant financial results; and (ii) if they are in possession of unpublished price-sensitive information of the Group.

In addition, the Directors and Management are expected to observe the insider trading laws at all times even when dealing in securities within permitted trading period.

IX. NON-SPONSORSHIP FEES

With reference to Rule 1204(21) of the Catalist Rules, there were no non-sponsorship fees payable or paid to the Company's Sponsor, ZICO Capital Pte. Ltd., for FY2019.

DIRECTORS' STATEMENT

The directors present their statement to the members together with the audited consolidated financial statements of Heatec Jietong Holdings Ltd. (the "Company") and its subsidiaries (the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2019.

In the opinion of the directors:

(a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 68 to 135 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International); and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors in office at the date of this statement are:

Lim Soon Hock
Soon Jeffrey
Anthony Ang Meng Huat
Chong Eng Wee (Zhang Yingwei)
Lie Ly @ Liely Lee
Loke Weng Seng (alternate director to Lim Soon Hock)

Arrangement to enable directors to acquire benefits

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than share options as disclosed in this statement.

Directors' interest in shares or debentures

The directors of the Company holding office at the end of the financial year had no interests in the shares or debentures of the Company and related corporations as recorded in the Register of Directors' Shareholdings kept by the Company under Section 164 of the Act, except as follows:

	Number of ordinary shares			
	Shareholdings registered in their own names		Shareholdings in which a director is deemed to have an interest	
	At 1.1.2019	At 31.12.2019	At 1.1.2019	At 31.12.2019
The Company				
Soon Jeffrey	1,400,000	1,400,000	–	–
Loke Weng Seng	–	–	32,030,678	32,030,678
Subsidiary corporation				
Heatec Veslink Marine Services Corp.				
Soon Jeffrey	1	1	–	–

DIRECTORS' STATEMENT

The director, Mr Loke Weng Seng, by virtue of Section 7 of the Act, is deemed to have an interest in the shares held by the Company in its wholly-owned subsidiary corporations.

The director, Mr Loke Weng Seng, by virtue of his interest of not less than 20% of the issued share capital of the Company, is deemed to have an interest in the shares of the following subsidiary corporations that are not wholly-owned by the Group:

	Number of ordinary shares	
	At 1.1.2019	At 31.12.2019
Chem-Grow Pte. Ltd.	266,000	266,000
Chem Grow Engineering Pte. Ltd.	70,000	70,000
Chem Grow Services Pte. Ltd.	70,000	70,000
Heatec Veslink Marine Services Corp.	5,399,997	5,399,997
Heatec Guangzhou Co., Ltd.	510,000*	510,000*

* Represents capital injected in RMB.

The directors' interests in the shares of the Company at 21 January 2020 were the same as those as at 31 December 2019.

Share Options

(a) The Company adopted the Heatec Employee Share Option Scheme (the "Scheme") and the Heatec Performance Share Plan which were approved by the shareholders at an Extraordinary General Meeting held on 18 June 2009. The scheme is administered by the Remuneration Committee which comprise of these three directors, Anthony Ang Meng Huat (Chairman), Lim Soon Hock and Lie Ly @ Liely Lee.

(b) Information regarding the Scheme is set out below:

(1) The exercise price of the options is determined based on the average of the last dealt prices for the shares of the Company on the Singapore Exchange Securities Trading Limited for the five consecutive trading days preceding the date of grant. The Remuneration Committee may at its discretion fix the exercise price at a discount not exceeding 20% to the above price.

(2) The options vest 12 months after the grant date and expire 10 years after grant date unless cancelled or lapsed prior to that date.

(c) Share options outstanding at the end of the financial year, details of the options granted under the Scheme on the unissued shares of $0.062 to $0.085 each of the Company are as follows:

Number of options to subscribe for ordinary shares of the Company

Date of grant of option	Exercise price per share	Options outstanding at 1.1.2019	Options granted	Cancelled/ lapsed	Options outstanding at 31.12.2019	Exercisable period
18 April 2016	$0.085	1,800,000	–	–	1,800,000	18 April 2017 to 17 April 2026
16 April 2018	$0.062	1,200,000	–	–	1,200,000	16 April 2019 to 15 April 2028
Total		3,000,000	–	–	3,000,000	

Except as disclosed, there were no unissued shares of the Company or its subsidiary corporations under options granted by the Company or its subsidiary corporations as at the end of the financial year.

(d) Since the commencement of the Scheme till the end of the financial year:

- No options have been granted to directors or controlling shareholders of the Company and their associates.

- No participant under the Scheme has received 5% or more of the total options available under the Scheme.

- No options have been granted at a discount.

Audit and Risks Management Committee

The members of the Audit and Risks Management Committee during the financial year and at the date of this statement are:

Lie Ly @ Liely Lee	(Chairman)
Chong Eng Wee	(Member)
Anthony Ang Meng Huat	(Member)

The Audit and Risks Management Committee carried out its functions specified in Section 201B(5) of the Companies Act. Their functions are detailed in the Report on Corporate Governance.

In performing its functions, the Audit and Risks Management Committee met with the Company's independent and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit and Risks Management Committee also reviewed the following:

(a) the audit plans and scope of audit examination of the external audit;

(b) the Group's financial and operating results and accounting policies;

(c) the half-yearly and annual announcements as well as the related press releases on the results and financial position of the Company and the Group before submission to the Board of Directors (the "Board") for adoption;

(d) the co-operation and assistance given by the management to the Group's external auditors;

(e) the review of interested person transactions falling within the scope of Chapter 9 of the Catalist Rules;

(f) the scope of internal audit procedures and the results of the internal audit; and

(g) the review of adequacy of the Company's internal financial controls, operational, information technology and compliance controls, and ensure that a review of the effectiveness of the Company's internal controls is conducted at least annually and such a review can be carried out by the internal auditors.

The Audit and Risks Management Committee is satisfied with the independence and objectivity of the independent auditor and has recommended to the Board that Baker Tilly TFW LLP be nominated for re-appointment as independent auditor of the Company at the forthcoming Annual General Meeting.

DIRECTORS' STATEMENT

Independent auditor

The independent auditor, Baker Tilly TFW LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

Lim Soon Hock	Soon Jeffrey
Director	Director

18 March 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HEATEC JIETONG HOLDINGS LTD.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Heatec Jietong Holdings Ltd. (the "Company") and its subsidiaries (the "Group") as set out on pages 68 to 135, which comprise the statements of financial position of the Group and of the Company as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2018 were audited by another independent auditor whose report dated 4 April 2019 expressed an unmodified opinion on those financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HEATEC JIETONG HOLDINGS LTD.

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Revenue recognition

The key audit matter:

The Group is mainly involved in heat exchanger services as well as piping services.

(a) Revenue from provision of heat exchanger services is recognised over time using input method, based on the actual contract costs incurred to-date compare with the total budgeted contract costs for the project. The assessment in determining the stage of completion, extent of the contract costs incurred and the estimated total contract costs to complete are considered to be significant to our audit as it requires application of judgement and use of estimates by management.

The details of the revenue recognition on contracts are set out in Notes 2(b), 4 and 5 to the financial statements.

(b) Piping services are often provided while prices are being negotiated with the customers. Revenue is recognised at the expected settlement rates based on the labour hours delivered.

Management estimates the expected settlement rate based on historical settlement rate and actual settlement rates during the financial year, taking into consideration discounts provided to the customers. The expected settlement rate may eventually be different after negotiation. The assessment in determining the expected settlement rate is considered to be significant to our audit as it requires the use of estimates by management.

The details of the piping services revenue are set out in Notes 2(b), 4 and 5 to the financial statements.

Our procedures to address the key audit matter

Heat exchanger services

We obtained an understanding of management's process in estimating total contract costs and assessed whether management's policies and processes for making these estimates continue to be appropriate and are applied consistently to all contracts of similar nature.

We evaluated the appropriateness of the stage of completion for open contracts, the actual contract costs incurred to-date and estimated contract costs to complete, as well as the subsequent progress or completion of significant projects.

We also assessed the adequacy and appropriateness of the disclosure made in the financial statements.

Piping services

We performed a retrospective review of management's estimates and evaluated the appropriateness of the expected settlement rates used, with comparison to the actual settlement rates during the financial year.

We enquired with management on the status of their negotiation with customers and assessed whether management's process for making such estimates continue to be appropriate and are applied consistently to all contracts of similar nature.

We also assessed the adequacy and appropriateness of the disclosure made in the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HEATEC JIETONG HOLDINGS LTD.

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment assessment of cost of investment in subsidiaries (Company)

As disclosed in Note 14 to the financial statements, the net carrying amount of the Company's investment in subsidiaries amounted to $5,502,799, after deducting impairment loss of $10,581,129 as at 31 December 2019.

During the financial year, the Company performed an impairment assessment to determine the recoverable amounts of the Company's cost of investment in subsidiaries. The Company has assessed the recoverable amount of its investment in subsidiaries based on fair value less cost to sell and value-in-use of the investment in subsidiaries using the discounted cash flow method. The determination of fair value less cost to sell involves estimation of the underlying fair value of the net assets of the subsidiaries. The use of the value-in-use calculations involves significant judgement and estimates in the cash flows forecast for the next five years and terminal value. The value-in-use calculations also include assumptions on the discount rate and terminal year growth rate.

The assessment of recoverable amount of the Company's investment in subsidiaries is considered to be significant to our audit as it requires application of judgement and use of subjective assumptions by management.

Our procedures to address the key audit matter

We obtained an understanding of management's impairment assessment process.

We obtained the Company's value-in-use calculations. We evaluated the key assumptions to the value-in-use calculations which includes the discount rate and terminal year growth rate.

We involved our valuation specialist in evaluating the appropriateness of the discount rate used by management.

We performed sensitivity analysis in the areas of terminal year growth rate and discount rate assumptions.

We obtained management's assessment of fair value less cost to sell and evaluated the assessment for reasonableness.

We obtained and evaluated the valuation reports from independent valuers to ascertain the competency and objectivity of the independent valuers, reliability of information used and reasonableness and adequacy of valuation methods used.

We also assessed the adequacy and appropriateness of the disclosure made in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2019 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HEATEC JIETONG HOLDINGS LTD.

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HEATEC JIETONG HOLDINGS LTD.

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Lee Chee Sum Gilbert.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

18 March 2020

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		Group	
		2019	2018
	Note	$	$
Revenue	5	23,708,980	27,473,387
Cost of sales		(17,888,415)	(22,155,172)
Gross profit		5,820,565	5,318,215
Other income			
- Interest		8,258	5,954
- Others	6	303,621	327,880
Expenses			
Administrative expenses		(7,634,093)	(8,484,213)
Other operating expenses	7	(420,207)	(389,748)
Net impairment losses on financial assets		(27,277)	(200,660)
Finance costs	8	(518,003)	(338,010)
Share of results of associates		44,566	51,890
Loss before tax	9	(2,422,570)	(3,708,692)
Tax (expense)/credit	11	(15,399)	33,937
Loss for the financial year		(2,437,969)	(3,674,755)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 $	Group 2018 $
Loss for the financial year		(2,437,969)	(3,674,755)
Other comprehensive loss:			
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation differences arising on consolidation		(13,196)	(36,875)
Share of other comprehensive loss of associates		(23,035)	–
Other comprehensive loss for the financial year, net of tax		(36,231)	(36,875)
Total comprehensive loss for the financial year		(2,474,200)	(3,711,630)
(Loss)/profit attributable to:			
Equity holders of the Company		(2,451,276)	(3,410,204)
Non-controlling interests		13,307	(264,551)
Loss for the financial year		(2,437,969)	(3,674,755)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(2,487,507)	(3,447,079)
Non-controlling interests		13,307	(264,551)
Total comprehensive loss for the financial year		(2,474,200)	(3,711,630)
Loss per share attributable to equity holders of the Company *(expressed in cents per share)*	12		
Basic		(1.99)	(2.77)
Diluted		(1.99)	(2.77)

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	Group 31.12.2019 $	Group (Restated) 31.12.2018 $	Group (Restated) 1.1.2018 $	Company 31.12.2019 $	Company 31.12.2018 $
Non-current assets						
Property, plant and equipment	13	11,676,959	10,845,866	11,791,638	5,588,781	4,793,056
Investment in subsidiaries	14	–	–	–	5,502,799	6,623,614
Investment in associates	15	252,636	302,756	276,263	–	–
Goodwill		–	–	288,000	–	–
Total non-current assets		11,929,595	11,148,622	12,355,901	11,091,580	11,416,670
Current assets						
Inventories	16	321,449	1,167,146	555,692	–	–
Contract assets	17	4,137,644	8,619,478	7,573,929	–	–
Trade receivables	18	7,673,380	8,153,801	7,577,425	–	–
Other receivables	19	2,311,001	853,796	773,340	1,331,664	4,548,249
Cash and bank balances	20	3,554,390	2,434,254	2,601,077	15,894	13,773
Total current assets		17,997,864	21,228,475	19,081,463	1,347,558	4,562,022
Total assets		29,927,459	32,377,097	31,437,364	12,439,138	15,978,692
Non-current liabilities						
Borrowings	21	1,815,471	88,810	1,363,211	1,211,268	–
Finance lease liabilities	22	–	57,682	93,986	–	–
Deferred tax liabilities	23	304,714	312,790	372,951	–	–
Total non-current liabilities		2,120,185	459,282	1,830,148	1,211,268	–
Current liabilities						
Contract liabilities	17	59,569	–	869,200	–	–
Trade payables	24	1,638,438	3,930,368	725,701	–	–
Other payables	25	3,692,512	2,205,648	2,204,628	596,631	3,597,416
Borrowings	21	6,532,532	7,356,002	3,522,946	83,820	–
Finance lease liabilities	22	–	36,303	200,333	–	–
Tax payable		13,389	–	311	–	–
Total current liabilities		11,936,440	13,528,321	7,523,119	680,451	3,597,416
Total liabilities		14,056,625	13,987,603	9,353,267	1,891,719	3,597,416
Net assets		15,870,834	18,389,494	22,084,097	10,547,419	12,381,276
Equity						
Share capital	26	11,554,627	11,554,627	11,554,627	11,554,627	11,554,627
Reserves	27	2,310,719	4,798,226	8,222,305	(1,007,208)	826,649
Equity attributable to equity holders of the Company, total		13,865,346	16,352,853	19,776,932	10,547,419	12,381,276
Non-controlling interests		2,005,488	2,036,641	2,307,165	–	–
Total equity		15,870,834	18,389,494	22,084,097	10,547,419	12,381,276

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF
CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Attributable to equity holders of the Company								
	Share capital (Note 26) $	Other reserve (Note 27) $	Translation reserve (Note 27) $	Merger reserve (Note 27) $	Share options reserve (Note 27) $	Retained earnings (Note 27) $	Total $	Non-controlling interests $	Total equity $
Group									
2019									
At 1 January 2019	11,554,627	221,206	(87,259)	(3,913,614)	69,690	8,508,203	16,352,853	2,036,641	18,389,494
Loss for the financial year	–	–	–	–	–	(2,451,276)	(2,451,276)	13,307	(2,437,969)
Other comprehensive loss									
Currency translation differences arising on consolidation	–	–	(13,196)	–	–	–	(13,196)	–	(13,196)
Share of other comprehensive loss of associates	–	–	(23,035)	–	–	–	(23,035)	–	(23,035)
Other comprehensive loss for the financial year, net of tax	–	–	(36,231)	–	–	–	(36,231)	–	(36,231)
Total comprehensive (loss)/income for the financial year	–	–	(36,231)	–	–	(2,451,276)	(2,487,507)	13,307	(2,474,200)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	(44,460)	(44,460)
At 31 December 2019	11,554,627	221,206	(123,490)	(3,913,614)	69,690	6,056,927	13,865,346	2,005,488	15,870,834

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Attributable to equity holders of the Company								
	Share capital (Note 26) $	Other reserve (Note 27) $	Translation reserve (Note 27) $	Merger reserve (Note 27) $	Share options reserve (Note 27) $	Retained earnings (Note 27) $	Total $	Non-controlling interests $	Total equity $
Group									
2018									
At 1 January 2018	11,554,627	221,206	(50,384)	(3,913,614)	98,990	11,866,107	19,776,932	2,307,165	22,084,097
Loss for the financial year	–	–	–	–	–	(3,410,204)	(3,410,204)	(264,551)	(3,674,755)
Other comprehensive loss									
Currency translation differences arising on consolidation	–	–	(36,875)	–	–	–	(36,875)	–	(36,875)
Total comprehensive loss for the financial year	–	–	(36,875)	–	–	(3,410,204)	(3,447,079)	(264,551)	(3,711,630)
Effects of striking off of a subsidiary	–	–	–	–	–	–	–	23,667	23,667
Recognition of share-based payments	–	–	–	–	(29,300)	52,300	23,000	–	23,000
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	(29,640)	(29,640)
At 31 December 2018	11,554,627	221,206	(87,259)	(3,913,614)	69,690	8,508,203	16,352,853	2,036,641	18,389,494

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Share capital (Note 26) $	Share options reserve (Note 27) $	Retained earnings/ (accumulated losses) (Note 27) $	Total equity $
Company				
At 1 January 2018	11,554,627	98,990	546,631	12,200,248
Profit and total comprehensive income for the financial year	–	–	158,028	158,028
Recognition of share-based payments	–	(29,300)	52,300	23,000
At 31 December 2018	11,554,627	69,690	756,959	12,381,276
Loss and total comprehensive loss for the financial year	–	–	(1,833,857)	(1,833,857)
At 31 December 2019	11,554,627	69,690	(1,076,898)	10,547,419

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 $	Group 2018 $
Cash flows from operating activities			
Loss before tax		(2,422,570)	(3,708,692)
Adjustments for:			
Interest income		(8,258)	(5,954)
Interest expenses		518,003	338,010
Net impairment losses on financial assets		27,277	200,660
Write down of inventories		–	16,295
Depreciation of property, plant and equipment		1,211,453	1,125,174
Property, plant and equipment written off		–	2,376
Loss on disposal of property, plant and equipment		38,222	29,059
Impairment loss on property, plant and equipment		–	40,769
Share of results of associates		(44,566)	(51,890)
Share-based payments expenses		–	23,000
Loss on striking off of a subsidiary		–	23,667
Reversal of foreseeable losses		–	(152,672)
Provision for warranty		–	23,121
Impairment loss on goodwill		–	288,000
Unrealised exchange gain		–	(20,867)
Operating cash flows before movements in working capital		(680,439)	(1,829,944)
Trade and other receivables and contract assets		3,477,773	(1,748,687)
Inventories		845,697	(627,749)
Trade and other payables and contract liabilities		(744,546)	2,313,366
Currency translation adjustments		(13,866)	–
Cash generated from/(used in) operations		2,884,619	(1,893,014)
Interest received		8,258	5,954
Interest paid		(28,620)	(338,010)
Income tax paid		(11,036)	(26,535)
Net cash generated from/(used in) operating activities		2,853,221	(2,251,605)
Cash flows from investing activities			
Purchases of property, plant and equipment		(224,354)	(270,983)
Proceeds from disposal of property, plant and equipment		123,682	12,307
Dividends received from an associate		71,650	25,397
Net cash used in investing activities		(29,022)	(233,279)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED
STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 $	Group 2018 $
Cash flows from financing activities			
Interest paid		(489,383)	–
Increase in pledged fixed deposit		(1,164,313)	(49,839)
Dividend paid to non-controlling shareholders		(44,460)	(29,640)
Proceeds from bank loans		–	6,701,156
Repayments of bank loans		(613,082)	(1,820,163)
Proceeds from revolving credit loans		–	1,000,000
Repayments of revolving credit loans		(400,000)	(3,121,802)
Proceeds from trade financing loans		–	1,033,288
Repayments of trade financing loans		–	(1,233,824)
Repayments of finance lease liabilities		–	(200,334)
Repayments of lease liabilities		(157,138)	–
Proceeds from shareholders' loan		450,000	–
Repayments of shareholders' loan		(450,000)	–
Net cash (used in)/generated from financing activities		(2,868,376)	2,278,842
Net decrease in cash and cash equivalents		(44,177)	(206,042)
Cash and cash equivalents at beginning of the financial year		2,384,415	2,601,077
Effect of exchange rate changes on cash and cash equivalents		–	(10,620)
Cash and cash equivalents at end of the financial year	20	2,340,238	2,384,415

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 Corporate information

The Company (Co. Reg. No. 200717808Z) is incorporated and domiciled in Singapore. The address of its registered office is at 10 Tuas South Street 15, Singapore 637076.

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are disclosed in Note 14 to the financial statements.

2 Summary of significant accounting policies

(a) Basis of preparation

The financial statements are presented in Singapore Dollars ("$"), which is the Company's functional currency. The financial statements have been prepared in accordance with the provisions of the Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International) ("SFRS(I)"). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with SFRS(I) requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions and historical experiences and various other factors that are believed to be reasonable under the circumstances, actual results may ultimately differ from those estimates.

Use of estimates and judgements

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a higher degree of judgement in applying accounting policies, or areas where assumptions and estimates have a significant risk of resulting in material adjustment within the next financial year are disclosed in Note 4 to the financial statements.

The carrying amounts of cash and bank balances, trade and other current receivables and payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

New and revised standards

In the current financial year, the Group has adopted all the new and revised SFRS(I) and SFRS(I) Interpretations ("SFRS(I) INT") that are relevant to its operations and effective for the current financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and SFRS(I) INT.

The adoption of these new and revised SFRS(I) and INT FRS(I) did not have any material effect on the financial results or position of the Group except as disclosed in Note 3.

New standards, amendments to standards and interpretations that have been issued at the end of the reporting period but are not yet effective for the financial year ended 31 December 2019 have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

(b) Revenue recognition

The Group recognises revenue from the following major sources:

- Fabrication and servicing of heat exchangers;
- Provision of piping services; and
- Provision of chemical cleaning services.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Revenue is reduced for estimated sales discount allowance.

Revenue from fabrication and servicing of heat exchangers

The Group provides heat exchanger services (including design, fabricate and repair of heat exchangers) under contracts with customers. Such contracts are entered into before the services begin. Under the terms of the contracts, the Group is contractually required to perform the services at the customers' specified sites that the Group's performance creates or enhances an asset that the customer controls as the Group performs.

Revenue from provision of such services is therefore recognised over time using input method, i.e. based on the actual contract costs incurred by the Group to-date compare with the total budgeted contract costs for the project to estimate the revenue recognised during the period. The management of the Group considers that input method would faithfully depict the Group's performance towards complete satisfaction of these performance obligation under SFRS(I) 15.

The Group becomes entitled to invoice customers for heat exchanger services based on achieving a series of performance-related milestones. When a particular milestone is reached, an invoice and the relevant documents as required by the milestone arrangement is sent to the customer. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to-date under the input method then the Group recognises a contract liability for the difference. This is not considered to be a significant financing component in heat exchanger contracts with customers as the period between the recognition of revenue under the input method and the milestone payment is always less than one year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

Revenue from provision of piping services

The Group provides piping services, which include installation and restoration of pipes and systems that are used for marine and offshore business operations. Such contracts are entered into before the services begin. Under the terms of the contracts, the Group is contractually required to perform the services at the customers' specified sites that the Group's performance creates or enhances an asset that the customer controls as the Group performs. Such services are recognised as a performance obligation satisfied over time. Revenue is recognised for these piping services based on the stage of completion of the contract at the expected settlement rates. Management has assessed that the stage of completion determined based on the labour hours delivered is an appropriate measure of progress towards complete satisfaction of these performance obligations under SFRS(I) 15.

Payment for piping services is not due from the customer until the services are complete and therefore a contract asset is recognised over the period in which the piping services are performed representing the entity's right to consideration for the services performed to-date.

Revenue from provision of chemical cleaning services

The Group provides chemical cleaning services, which comprise mainly cleaning of heat exchangers, pipelines engine parts pressure vessels and oil tanks. Such services are recognised as a performance obligation satisfied overtime. Due to the short term nature of these services, management is of the view that the effect of recognising revenue from the provision of chemical cleaning services at a point in time is not materially different from recognising revenue over time. Accordingly, management recognises revenue from provision of chemical cleaning services at a point in time, upon completion of the services rendered to the customer.

A receivable is recognised by the Group upon completion of the service rendered to the customer, as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

NOTES TO THE
FINANCIAL STATEMENTS
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2 Summary of significant accounting policies (continued)

(c) Subsidiaries (continued)

In the Company's statement of financial position, investment in subsidiaries are accounted for at cost less accumulated impairment losses, if any. On disposal of the investment, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. Subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and property, plant and equipment, are eliminated in full.

Business combinations involving entities under common control are accounted for by applying the pooling of interest method. Under this method, the Company has been treated as the holding company of the subsidiaries as if the combination had occurred from the date the subsidiaries first came under the control of the same shareholders. Accordingly, the results of the Group include the results of the subsidiaries for the entire periods under review. Such manner of presentation reflects the economic substance of the companies, which were under common control throughout the relevant period, as a single economic enterprise, although the legal parent-subsidiary relationships were not established.

Pursuant to this:

- Assets and liabilities are reflected at their existing carrying amounts;
- No adjustments are made to reflect the fair values on the date of combination or recognise any new assets or liabilities;
- No additional goodwill is recognised as a result of the combination;
- Prior to the issue of shares by the Company, the aggregate equity of the subsidiaries held directly by the Company is shown as the Group's equity for financial years under review; and
- Any difference between the consideration paid by the Company and the equity 'acquired' is reflected within the equity of the Group as merger reserve.

All other business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are recognised as expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2 Summary of significant accounting policies (continued)

(d) Basis of consolidation (continued)

Any excess of the fair value of the consideration transferred in the business combination, the amount of any non-controlling interest in the acquiree (if any) and the fair value of the Group's previously held equity interest in the acquiree (if any), over the fair value of the net identifiable assets acquired is recorded as goodwill. Goodwill is accounted for in accordance with the accounting policy for goodwill stated in Note 2(f). In instances where the latter amount exceeds the former and the measurement of all amounts has been reviewed, the excess is recognised as gain from bargain purchase in profit or loss on the date of acquisition.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity and statement of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on an acquisition-by-acquisition basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standard.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and any corresponding gain or loss, if any, is recognised in profit or loss.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amount of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributable to equity holders of the Company.

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill, non-controlling interest and other components of equity related to the subsidiary are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific SFRS(I).

Any retained equity interest in the previous subsidiary is remeasured at fair value at the date that control is lost. The difference between the carrying amount of the retained interest at the date control is lost, and its fair value is recognised in profit or loss.

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2 Summary of significant accounting policies (continued)

(e) Associates

An associated company is an entity over which the Group has significant influence but not control or joint control, over the financial and operating policies of the entity. Significant influence is presumed to exist generally when the Group holds 20% or more but not exceeding 50% of the voting power of another entity.

Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting, less impairment losses, if any.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Subsequent to initial recognition, the consolidated financial statements include the Group's share of the post-acquisition profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Distributions received from associated companies is adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associated company recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately as income in the Group's profit or loss.

Where a group entity transacts with an associated company of the Group, unrealised gains are eliminated to the extent of the Group's interest in the relevant associated company. Unrealised losses are also eliminated unless the transactions provide evidence of impairment of the assets transferred.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

In the Company's statement of financial position, investments in associated companies are carried at cost less accumulated impairment loss, if any. On disposal of investment in associated companies, the difference between the disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

2 Summary of significant accounting policies (continued)

(f) Goodwill

Goodwill is initially measured at cost and is subsequently measured at cost less any accumulated impairment losses.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary or an associated company, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associated company is described in Note 2(e).

(g) Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and any impairment in value.

The cost of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised.

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to profit or loss.

2 Summary of significant accounting policies (continued)

(g) Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis to allocate the depreciable amount of property, plant and equipment over their expected useful lives. The estimated depreciation rates are as follows:

Leasehold properties	1.8% to 5.3%
Leasehold improvements	1.8% to 5.3%
Plant and equipment	5.26% to 33.33%
Motor vehicles	18% to 26%
Renovation	20%

The residual values, estimated depreciation rates and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are recognised in profit or loss when the changes arise.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

(h) Impairment of non-financial assets excluding goodwill

At each reporting date, the Group assesses the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A previously recognised impairment loss for an asset other than goodwill is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(j) Leases

The accounting policy for leases before 1 January 2019 is as follows:

When a group entity is the lessee:

Finance leases

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Each lease payment is allocated between reduction of the outstanding liability and finance charges. The corresponding lease liabilities, net of finance charges, are included in borrowings. The finance charge is taken to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The asset acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases

Leases where a significant portion of the risks and rewards incidental to ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to profit or loss on a straight-line basis over the period of the lease. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

When an operating lease is terminated before the lease period expires, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

The accounting policy for leases from 1 January 2019 onwards is as follows:

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

When the Group is the lessee:

The Group applies a single recognition and measurement approach for all contracts that are, or contain, a lease, except for short-term leases (i.e. for leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets (e.g. leases of tablet and personal computers, small items of office equipment and telephones). For these exempted leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

2 Summary of significant accounting policies (continued)

(j) Leases (continued)

The accounting policy for leases from 1 January 2019 onwards is as follows: (continued)

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

The lease liability is presented within "borrowings" in the statements of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method, and reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, initial direct cost, less any lease incentive received.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under SFRS(I) 1-37. To the extent that the cost relates to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter period of the lease term and useful life of the underlying asset. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented within "property, plant and equipment" in the statements of financial position. The Group applies SFRS(I) 1-36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 2(h).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(k) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised outside profit or loss, either in other comprehensive income or directly in equity in which the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity respectively).

Current tax is the expected tax payable or recoverable on the taxable income for the current year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable or recoverable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method, on all temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except where the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on currently enacted or substantively enacted tax rates at the end of the reporting period.

(l) Financial assets

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss. Trade receivables without a significant financing component is initially measured at transaction prices.

2 Summary of significant accounting policies (continued)

(l) Financial assets (continued)

Classification and measurement

All financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

The Group classifies its financial assets at amortised cost.

The classification is based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group reclassifies financial assets when and only when its business model for managing those assets changes.

Subsequent measurement

Debt instruments

Debt instruments include cash and bank balances and trade and other receivables (excluding prepayments, GST recoverable and advance payment to supplier). The subsequent measurement category, based on the Group's business model for managing the asset and cash flow characteristics of the asset, is as follows:

Amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. Interest income from these financial assets is included in interest income using the EIR method.

Impairment

The Group recognises an allowance for expected credit losses ("ECLs") for financial assets carried at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2 Summary of significant accounting policies (continued)

(l) Financial assets (continued)

Impairment (continued)

For trade receivables and contract assets that do not have a significant financing component, the Group applies a simplified approach to recognise a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted as appropriate for current conditions and forward-looking factors specific to the debtors and the economic environment.

If the Group has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Offset

Financial assets and liabilities are offset and the net amount presented on the statement of financial position when, and only when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(m) Cash and cash equivalents in the consolidated statement of cash flows

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, deposits with financial institutions which are subject to an insignificant risk of changes in value and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and excludes pledged deposits.

(n) Financial liabilities

Financial liabilities are recognised on the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instruments.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, derivatives are measured at fair value. Other financial liabilities (except for the financial guarantees) are measured at amortised cost using the effective interest method.

For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in fair value of derivatives are recognised in profit or loss. Net gains or losses on derivatives include exchange differences. A financial liability is derecognised when the obligation under the liability is extinguished.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(o) Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values plus transaction costs. Financial guarantees are classified as financial liabilities.

Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the expected loss computed using the impairment methodology under SFRS(I) 9. Financial guarantee contracts are amortised in profit or loss over the period of the guarantee.

(p) Share capital

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

(q) Merger reserve

Merger reserve represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

(r) Provisions for other liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of economic resources will be required to settle that obligation and the amount can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of the provision shall be discounted to present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and risks specific to the obligation.

When discounting is used, the increase in the provision due to passage of time is recognised as a finance cost in profit or loss.

The Group recognises the estimated liability to repair or replace products still under warranty at the end of the reporting period. This provision is calculated based on past historical experience of the level of repairs and replacements.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(s) Borrowing costs

Borrowing costs, which comprise interest and other costs incurred in connection with the borrowing of funds, are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are recognised in the profit or loss using the effective interest method.

(t) Employee benefits

Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the end of the reporting period.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund, and will have no legal or constructive obligation to pay further contributions once the contributions have been paid. Contributions to defined contribution plans are recognised as an expense in the period in which the related service is performed.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after end of the reporting period are discounted to present value.

Share-based compensation

Employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options granted on the date of the grant. This cost is recognised in profit or loss, with a corresponding increase in the share options reserve, over the vesting period. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At end of the reporting period, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share options reserve over the remaining vesting period.

2 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

Share-based compensation (continued)

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share options reserve are credited to share capital account if new ordinary shares are issued, or credited to the "treasury shares" account if treasury shares are re-issued to the employees. Upon expiry of the options, the balance in the share options reserve is transferred to retained earnings.

(u) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which that entity operates ("the functional currency"). The financial statements of the Group and the Company are presented in Singapore Dollars, which is the Company's functional currency.

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except for currency translation differences on net investment in foreign operations and borrowings and other currency instruments qualifying as net investment hedges for foreign operations, which are included in the currency translation reserve within equity in the consolidated financial statements. The currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rates at the end of the reporting period;

(ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

(iii) All resulting exchange differences are recognised in the translation reserve within equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(u) Foreign currencies (continued)

Translation of Group entities' financial statements (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated in a separate component of equity under the header translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

On disposal of a foreign group entity, the cumulative amount of the translation reserve relating to that particular foreign entity is reclassified from equity and recognised in profit or loss when the gain or loss on disposal is recognised.

(v) Dividends

Interim dividends are recorded during the financial year in which they are declared payable.

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders.

(w) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the grant is presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset and is recognised in profit or loss over the life of the depreciable asset as a reduced depreciation expense.

When the grant relates to an expense item, it is recognised in profit or loss over the period necessary to match them on a systematic basis to the costs that it is intended to compensate.

(x) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker for making decisions about allocating resources and assessing performance of the operating segments.

3 Interpretations and amendments to published standards effective in 2019

SFRS(I) 16 Leases

When the Group is the lessee

SFRS(I) 16 replaces the existing SFRS(I) 1-17: Leases for financial periods beginning 1 January 2019. It reforms lessee accounting by introducing a single lessee accounting model. Lessees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets (a "right-of-use" asset) and the associated obligations for lease payments (a lease liability), with limited exemptions for short term leases (less than 12 months) and leases of low value items. In addition, the nature of expenses related to those leases will change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge of right-of-use asset and interest expense on lease liability.

On adoption of SFRS(I) 16, the Group and the Company recognised lease liabilities in relation to leases which had previously been classified as "Operating Leases" under SFRS(I) 1-17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's and the Company's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.60%.

	Group 2019 $	Company 2019 $
Operating lease commitments disclosed as at 31 December 2018 (Note 29)	3,818,882	1,972,698
Discounted using the weighted average lessee's incremental borrowing rate	(1,578,399)	(598,805)
Add: finance lease liabilities recognised as at 31 December 2018 (Note 22)	93,985	–
Less: short term leases recognised on a straight-line basis as an expense	(261,057)	–
Lease liability recognised as at 1 January 2019	2,073,411	1,373,893

The associated right-of-use assets were measured at the amount equal to the lease liability on adoption. Arising from the adoption of SFRS(I) 16, rights-of-use asset and lease liability of $1,979,426 and $2,073,411 respectively for the Group, and $1,373,893 and $1,373,893 respectively for the Company were recognised on the statements of financial position on 1 January 2019.

In applying SFRS(I) 16 for the first time, the Group and the Company have used the following practical expedients permitted by the standard:

- use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- account for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- exclude initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgement that has the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with in the subsequent paragraphs).

Management is of the opinion that there are no critical judgements involved that have a significant effect on the amounts recognised in the financial statements, except for those involving estimation uncertainties as disclosed below.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Calculation of loss allowance

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions and forecasts of future economic conditions. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

As the calculation of loss allowance on trade receivables is subject to assumptions and forecasts, any changes to these estimations will affect the amounts of loss allowance recognised and the carrying amounts of trade receivables. Details of ECL measurement and carrying value of trade receivables at reporting date are disclosed in Note 32.

Revenue and costs of contracts

Heat exchanger services

Revenue from the provision of heat exchanger services are recognised over time based on input method. The measures of progress is determined based on the actual contract costs incurred by the Group to-date compare to the total budgeted contract costs. Significant assumptions are required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract costs to complete as well as the recoverability of the contracts. In making these estimates, the Group relied on past experience and knowledge of the project managers.

When it is probable that the unavoidable aggregate costs of meeting the obligations under the contracts exceed the economic benefits expected to be received, a provision for onerous contract is to be recognised immediately. These are based on the presumption that the outcome of the project can be estimated reliably.

Some of the Group's contracts with customers contain liquidated damages for non-compliance with key milestones. Finalisation of the liquidated damages can take some time and management has to exercise judgement in estimating the extent of liquidated damages. The carrying amounts of contract assets and liabilities are disclosed in Note 17.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Revenue and costs of contracts (continued)

Piping services

Revenue from the provision of piping services are recognised based on the stage of completion of the contract determined based on the labour hours delivered at the expected settlement rates. Management estimates the expected settlement rates based on historical settlement rates and actual settlement rates during the financial year, taking into consideration discounts provided to the customers.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

When value in use calculations are undertaken, management is required to estimate the expected future cash flows from the asset or cash-generating unit and a suitable discount rate, in order to determine the present value of those cash flows. The carrying values of the Group's property, plant and equipment and the Company's investment in subsidiaries are disclosed in Note 13 and Note 14 respectively. Further details of the key assumptions applied in the impairment assessment of the Company's investment in subsidiaries are disclosed in Note 14. Changes in assumptions made and discount rate applied could affect the carrying value of these assets.

Estimating the incremental borrowing rate for leases

The Group uses the incremental borrowing rate to measure the lease liabilities because the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what would the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs such as market interest rates, when available and is required to make certain entity-specific estimates, such as the subsidiary's stand-alone credit rating. Any change in estimation of incremental borrowing rate may have a significant impact to the determination of lease liabilities and right-of-use asset at the date of initial application of SFRS(I) 16. The carrying amount of lease liabilities and right-of-use assets are disclosed in Note 21 and Note 13 respectively.

5 Revenue

	Group	
	2019	**2018**
	$	**$**
Segment revenue		
Heat exchanger	13,623,986	16,855,704
Piping	7,521,967	7,935,847
Chemical cleaning	2,563,027	2,681,836
	23,708,980	27,473,387

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5 Revenue (continued)

The following table provides a disaggregation of the Group's revenue by timing of revenue recognition.

	Group	
	2019	2018
	$	$
Timing of revenue recognition		
At a point in time:		
Chemical cleaning	2,563,027	2,681,836
Over time:		
Heat exchanger	13,623,986	16,855,704
Piping	7,521,967	7,935,847
	23,708,980	27,473,387

The Group applies the practical expedient in SFRS(I) 15 and does not disclose information about its remaining performance obligation if:

- The performance obligation is part of a contract that has an original expected duration of one year or less; or
- The Group has a right to invoice a customer in an amount that corresponds directly with its performance to date, and it recognises revenue in that amount.

6 Other income

	Group	
	2019	2018
	$	$
Sundry income	303,621	305,599
Net foreign exchange gain	–	22,281
	303,621	327,880

7 Other operating expenses

	Group	
	2019	2018
	$	$
Loss on striking off of a subsidiary	–	23,667
Property, plant and equipment written off	–	2,376
Loss on disposal of property, plant and equipment	38,222	29,059
Impairment loss on property, plant and equipment	–	40,769
Fixed asset expensed off	–	5,877
Impairment loss on goodwill	–	288,000
Net foreign exchange loss	62,410	–
Termination benefits	296,208	–
Others	23,367	–
	420,207	389,748

In 2018, the Group has struck off a subsidiary, Heatec Oilfield Services Pte. Ltd. Accordingly, the Group recorded a loss on striking off of a subsidiary amounting to $23,667.

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8 Finance costs

	Group	
	2019	2018
	$	$
Interest on:		
– Bank overdrafts	–	5,035
– Term loans	339,566	147,147
– Revolving credit loans	18,538	154,223
– Finance lease liabilities	–	6,115
– Trade financing loans	–	25,490
– Lease liabilities	127,617	–
– Loan from shareholders	3,662	–
- Others	28,620	–
	518,003	338,010

9 Loss before tax

	Group	
	2019	2018
	$	$
This is arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	1,211,453	1,125,174
Audit fees paid/payable to the auditors of the Company	65,000	108,500
Staff costs (Note 10)	13,486,322	15,492,770
Write down of inventories	–	16,295
Reversal of foreseeable losses	–	(152,672)
Provision for warranty	–	23,121
Rental expenses (Note 35)	1,032,439	1,780,656

In 2019 and 2018, there is no non-audit fees paid to the auditors of the Company.

10 Staff costs

	Group	
	2019	2018
	$	$
Key management personnel		
– Directors' fees	151,000	151,000
– Salaries and bonuses and other benefits	768,692	763,059
– Contribution to defined contribution plans	58,375	53,569
Other personnel		
– Salaries, bonuses and other benefits	12,091,614	14,066,090
– Contribution to defined contribution plans	416,641	459,052
	13,486,322	15,492,770

NOTES TO THE FINANCIAL STATEMENTS

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11 Tax expense/(credit)

	Group	
	2019	2018
	$	$
Tax expense attributable to loss is made up of:		
– Current income tax provision	10,000	–
– Underprovision in respect of previous financial years	1,081	16,385
Deferred tax (Note 23)	(8,076)	(60,161)
Withholding tax	12,394	9,839
Tax expense/(credit)	15,399	(33,937)

The income tax expense on the results of the financial year differs from the amount of income tax determined by applying the domestic rates applicable in the countries where the Group entities operates due to the following factors:

	Group	
	2019	2018
	$	$
Loss before tax	(2,422,570)	(3,708,692)
Notional tax expense on loss before tax, calculated at the rates applicable in the tax jurisdictions concerned	(471,416)	(646,491)
Tax effect of share of results of associates	(7,576)	(8,821)
Effect of income not subject to tax	(12,308)	(30,399)
Effect of tax concessions	(7,689)	(1,894)
Effect of expenses that are not deductible for tax purpose	194,772	238,958
Effect of partial tax exempt income	(18,745)	(11,171)
Deferred tax assets not recognised	363,395	384,404
Utilisation of previously unrecognised tax losses	(53,473)	–
Underprovision of income tax in respect of previous financial year	1,081	16,385
Withholding tax	12,394	9,839
Others	14,964	15,253
Total income tax expense/(credit)	15,399	(33,937)

The income tax applicable to the Company is 17% (2018: 17%). The corporate income tax rate applicable to the subsidiaries in Singapore and People's Republic of China are 17% (2018: 17%) and 25% (2018: 25%) respectively.

As at 31 December 2019, the Group has deferred tax assets in respect of tax losses of $8,545,000 (2018: $6,858,000), available for carry-forward to set-off against future taxable income arising from trade source subject to the agreement of the tax authorities and compliance with relevant provisions of the tax legislation of the respective countries in which the Group operate. The potential deferred tax assets have not been recognised in the financial statements as it is not probable that future taxable profit will be sufficient to allow to related tax benefits to be unutilised. The unutilised tax losses do not expire under current tax legislation.

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12 Loss per share

The calculation of the basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	Group	
	2019	2018
	$	$
Net loss attributable to equity holders of the Company	(2,451,276)	(3,410,204)
Weighted average number of ordinary shares outstanding for basic and diluted loss per share	122,959,345	122,959,345
Basic and diluted loss per share (cents per share)	(1.99)	(2.77)

The diluted loss per share is equivalent to the basic loss per share as the share options outstanding during the financial year do not have a dilutive effect as at 31 December 2019.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

13 Property, plant and equipment

	Leasehold properties	Leasehold improvements	Plant and equipment	Motor vehicles	Renovation	Total
	$	$	$	$	$	$
Group						
2019						
Cost						
Balance at 1 January 2019	9,760,184	116,042	4,663,701	666,940	614,567	15,821,434
Recognition of right-of-use assets on initial application of SFRS(I) 16	1,979,426	–	–	–	–	1,979,426
Additions	–	–	180,354	40,000	4,000	224,354
Disposals	–	–	(537,939)	(346,770)	(273,688)	(1,158,397)
Currency translation differences	–	–	3,356	2,106	–	5,462
Balance at 31 December 2019	11,739,610	116,042	4,309,472	362,276	344,879	16,872,279
Accumulated depreciation						
Balance at 1 January 2019	2,455,307	26,229	1,760,890	264,077	428,296	4,934,799
Depreciation charge	566,806	7,215	480,510	113,092	43,830	1,211,453
Disposals	–	–	(439,560)	(283,245)	(273,688)	(996,493)
Currency translation differences	–	–	2,927	1,865	–	4,792
Balance at 31 December 2019	3,022,113	33,444	1,804,767	95,789	198,438	5,154,551
Accumulated impairment loss						
Balance at 1 January 2019 and 31 December 2019	–	–	40,769	–	–	40,769
Net carrying value						
Balance at 31 December 2019	8,717,497	82,598	2,463,936	266,487	146,441	11,676,959

NOTES TO THE FINANCIAL STATEMENTS

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13 Property, plant and equipment (continued)

	Leasehold properties $	Leasehold improvements $	Plant and equipment $	Construction in-progress $	Motor vehicles $	Renovation $	Total $
Group							
2018							
Cost							
Balance at 1 January 2018	9,760,184	116,042	4,470,171	111,169	697,933	519,082	15,674,581
Additions	–	–	165,834	–	–	105,149	270,983
Written-off	–	–	–	–	(17,464)	–	(17,464)
Disposals	–	–	(60,180)	–	(8,578)	–	(68,758)
Reclassification	–	–	111,169	(111,169)	–	–	–
Currency translation differences	–	–	(23,293)	–	(4,951)	(9,664)	(37,908)
Balance at 31 December 2018	9,760,184	116,042	4,663,701	–	666,940	614,567	15,821,434
Accumulated depreciation							
Balance at 1 January 2018	2,019,394	19,014	1,284,432	–	156,193	403,910	3,882,943
Depreciation charge	435,913	7,215	514,399	–	133,597	34,050	1,125,174
Written-off	–	–	–	–	(15,088)	–	(15,088)
Disposals	–	–	(20,816)	–	(6,576)	–	(27,392)
Currency translation differences	–	–	(17,125)	–	(4,049)	(9,664)	(30,838)
Balance at 31 December 2018	2,455,307	26,229	1,760,890	–	264,077	428,296	4,934,799
Accumulated impairment loss							
Impairment loss recognised in the financial year ended 31 December 2018 and balance at 31 December 2018	–	–	40,769	–	–	–	40,769
Net carrying value							
Balance at 31 December 2018	7,304,877	89,813	2,862,042	–	402,863	186,271	10,845,866

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13 Property, plant and equipment (continued)

	Leasehold properties $	Leasehold improvements $	Plant and equipment $	Total $
Company				
2019				
Cost				
Balance at 1 January 2019	6,036,700	116,042	968,818	7,121,560
Recognition of right-of-use assets on initial application of SFRS(I) 16	1,373,893	–	–	1,373,893
Balance at 31 December 2019	7,410,593	116,042	968,818	8,495,453
Accumulated depreciation				
Balance at 1 January 2019	1,855,155	26,226	447,123	2,328,504
Depreciation charge	467,855	7,216	103,097	578,168
Balance at 31 December 2019	2,323,010	33,442	550,220	2,906,672
Net carrying value				
Balance at 31 December 2019	5,087,583	82,600	418,598	5,588,781
2018				
Cost				
Balance at 1 January 2018	6,036,700	116,042	946,672	7,099,414
Additions	–	–	22,146	22,146
Balance at 31 December 2018	6,036,700	116,042	968,818	7,121,560
Accumulated depreciation				
Balance at 1 January 2018	1,501,789	19,013	335,944	1,856,746
Depreciation charge	353,366	7,213	111,179	471,758
Balance at 31 December 2018	1,855,155	26,226	447,123	2,328,504
Net carrying value				
Balance at 31 December 2018	4,181,545	89,816	521,695	4,793,056

(a) As at 31 December 2019, the net carrying value of the Group's and the Company's property, plant and equipment under right-of-use assets were $1,848,532 (1.1.2019: $1,979,426) and $1,259,402 (1.1.2019: $1,373,893) respectively (Note 35).

(b) At 31 December 2018, the net carrying values of plant and equipment of the Group acquired under financial lease agreements (classified as finance lease under SFRS(I) 1-17) amounted to $922,655 (Note 22).

(c) In 2018, the Group carried out a review of the recoverable amount of its plant and equipment having regard to the decline in gross margin of certain subsidiaries due to the highly competitive market. The review led to the recognition of an impairment loss of $40,769 that has been recognised in profit or loss and included in the line item "other operating expenses". The recoverable amount of the relevant assets was determined based on its value in use.

(d) The Group's and the Company's leasehold properties with carrying amount of $6,868,966 (2018: $7,304,877) and $3,828,181 (2018: $4,181,545) respectively are pledged to secure certain banking facilities granted to the Group (Note 21).

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14 Investment in subsidiaries

	Company 2019 $	Company 2018 $
Unquoted equity shares, at cost		
Balance at beginning of financial year	6,623,614	6,623,614
Deemed capital contributions during financial year	9,460,314	–
Balance at end of financial year	16,083,928	6,623,614
Impairment allowances:		
Balance at beginning of financial year	–	–
Allowance made during financial year	10,581,129	–
Balance at end of financial year	10,581,129	–
Net carrying amount	5,502,799	6,623,614

(a) Details of subsidiaries:

Name of subsidiaries (Country of incorporation)	Principal activities	Group's effective equity interest 2019 %	Group's effective equity interest 2018 %
Held by the Company			
Heatec Jietong Pte. Ltd. (1) (Singapore)	Servicing and fabrication of heat exchanger.	100	100
JJY Engineering & Construction Pte. Ltd. (1) (Singapore)	To carry on the businesses of repairing ships, tankers and other ocean-going vessels.	100	100
HJT Engineering & Construction Pte. Ltd. (1) (Singapore)	To carry on the businesses of repairing ships, tankers and other ocean-going vessels.	100	100
Held by Heatec Jietong Pte. Ltd.			
Heatec (Shanghai) Co., Ltd. (2) (People's Republic of China)	Manufacture and repair of air cooler(s) evaporator, heat exchanger and related auxiliaries.	100	100
Chem-Grow Pte. Ltd. (1) (Singapore)	Provide chemical cleaning services to ships and tankers.	70	70
Chem Grow Engineering Pte. Ltd. (1) (Singapore)	Provide repair services to ships, tankers and other ocean-going vessels, and chemical cleaning services to ships and tankers.	70	70

14 Investment in subsidiaries (continued)

(a) Details of subsidiaries: (continued)

Name of subsidiaries (Country of incorporation)	Principal activities	Group's effective equity interest 2019 %	Group's effective equity interest 2018 %
Held by Heatec Jietong Pte. Ltd. (continued)			
Heatec Veslink Marine Services Corp. (3) (Philippines)	To engage in the business of trading, selling, servicing, manufacturing, distributing, marketing, maintenance, export and import.	60	60
Heatec Guangzhou Co., Ltd. (3) (People's Republic of China)	Provide repairs and services for heat exchangers and to design, sell and fabricate heat exchangers.	51	51
Held by Chem-Grow Pte. Ltd.			
Chem Grow Services Pte. Ltd. (1) (Singapore)	Provide repair services to ships, tankers and other ocean-going vessels, and chemical cleaning services to ships and tankers.	70	70

(1) Audited by Baker Tilly TFW LLP.
(2) Audited by Shanghai Zhong Chuang Haijia CPA Co., Ltd.
(3) Subsidiaries are not material to the Group.

(b) Significant restrictions

Cash and bank balances of $194,654 (2018: $251,633) are held in the People's Republic of China and are subject to local exchange control regulations. These regulations place restrictions on the amount of currency being exported from the country, other than through dividends.

(c) Summarised financial information of subsidiary with material non-controlling interests ("NCI")

The Group has the following subsidiary that have NCI that are considered by management to be material to the Group:

Name of subsidiary	Principal place of business/Country of incorporation	Ownership interests held by NCI
31 December 2019		
Chem-Grow Pte. Ltd.	Singapore	30%
31 December 2018		
Chem-Grow Pte. Ltd.	Singapore	30%

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14 Investment in subsidiaries (continued)

(c) Summarised financial information of subsidiary with material non-controlling interests ("NCI") (continued)

The following are the summarised financial information of the Group's subsidiary with NCI that are considered by management to be material to the Group. These financial information include consolidation adjustments but before inter-company eliminations.

Summarised Statement of Financial Position

	Chem-Grow Pte. Ltd.	
	2019	**2018**
	$	**$**
Non-current assets	4,962,953	4,548,547
Current assets	2,571,645	2,444,959
Non-current liabilities	(991,960)	(482,781)
Current liabilities	(760,292)	(509,331)
Net assets	5,782,346	6,001,394
Net assets attributable to NCI	1,734,703	1,800,418

Summarised Income Statement

	Chem-Grow Pte. Ltd.	
	2019	**2018**
	$	**$**
Revenue	2,742,396	1,823,729
Loss before tax	(60,618)	(692,519)
Tax (expense)/credit	(10,230)	27,906
Loss after tax and total comprehensive loss	(70,848)	(664,613)
Loss allocated to NCI	(21,254)	(199,384)
Dividends paid to NCI	44,460	29,640

Summarised Cash Flows

	Chem-Grow Pte. Ltd.	
	2019	**2018**
	$	**$**
Cash flows generated from operating activities	383,376	108,277
Cash flows (used in)/generated from investing activities	(114,274)	91,258
Cash flows used in financing activities	(224,609)	(241,158)
Net increase/(decrease) in cash and cash equivalents	44,493	(41,623)

14 Investment in subsidiaries (continued)

(d) Company level – Impairment review of investment in subsidiaries

JJY Engineering & Construction Pte. Ltd.

During the financial year, management performed impairment review for the Company's investment in JJY Engineering & Construction Pte. Ltd. ("JJY") as JJY recorded losses in current and previous financial years. An impairment loss of $2,891,152 was recognised for the financial year ended 31 December 2019 to write down the full cost of investment in JJY. The recoverable amount of the investment was determined based on value-in-use calculations using cash flow projections from forecast approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projection and the forecasted growth rate used to extrapolate cash flow projections beyond the five-year period are 9% and 2% respectively.

HJT Engineering & Construction Pte. Ltd.

During the financial year, management performed impairment review for the Company's investment in HJT Engineering & Construction Pte. Ltd. ("HJT") as HJT recorded losses in previous financial year. An impairment loss of $3,057,482 was recognised for the financial year ended 31 December 2019 to write down the cost of investment in HJT to its recoverable amount of $100,000. The recoverable amount of the investment was determined based on value-in-use calculations using cash flow projections from forecast approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projection and the forecasted growth rate used to extrapolate cash flow projections beyond the five-year period are 11% and 2% respectively.

Sensitivity analysis

Management has considered the most significant assumption used in the value-in-use calculations is the discount rate applied.

Had the discount rate varied from the management's estimation, the estimated recoverable amount of the investment in HJT and the impairment charge would be as follows:

	Estimated recoverable amount $	**Increase/ (decrease) in impairment charge $**
HJT		
1% higher than the management's projection	80,000	20,000
1% lower than the management's projection	127,000	(27,000)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14 Investment in subsidiaries (continued)

(d) Company level – Impairment review of investment in subsidiaries (continued)

Heatec Jietong Pte. Ltd. and its subsidiaries ("HJPL Group")

During the financial year, management performed impairment review for the Company's investments in HJPL Group as HJPL Group has recorded losses in the current and previous financial years. An impairment loss of $4,632,495 was recognised for the financial year ended 31 December 2019 to write down the cost of investment in HJPL Group to its aggregate recoverable amount of $5,402,799, which was derived from the recoverable amounts of the subsidiaries of HJPL. The recoverable amounts of certain subsidiaries within HJPL Group were determined based on value-in-use calculations using cash flow projections from forecast approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections are between 10% to 12% and the forecasted growth rate used to extrapolate cash flow projections beyond the five-year period is 2%.

Recoverable amount of a subsidiary of HJPL Group is measured based on Fair Value Less Costs to Sell ("FVLCS") as it is higher than the value-in-use amount computed. The FVLCS is determined based on the net assets of the subsidiary, adjusted for FVLCS of the leasehold property and plant and machineries held by the subsidiary, which management had estimated that the adjusted book value of the net assets are fairly comparable at market value which approximates the FVLCS of the Company's investment in the subsidiary.

Sensitivity analysis

Management has considered the most significant assumption used in the value-in-use calculation is the discount rate applied.

Had the discount rate varied from the management's estimation, the estimated recoverable amount of the investment in HJPL Group and the impairment charge would be as follows:

	Estimated recoverable amount $	Increase/ (decrease) in impairment charge $
HJPL Group		
1% higher than the management's projection	3,929,799	1,473,000
1% lower than the management's projection	7,375,799	(1,973,000)

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

15 Investment in associates

	Group 2019 $	Group 2018 $
Unquoted equity shares, at cost	687,616	687,616
Share of post-acquisition reserves, net of dividend received	(367,136)	(317,016)
Impairment loss	(67,844)	(67,844)
	252,636	302,756

At the end of each reporting period, the Group carried out a review whether there is an indication that the investment in associates are impaired. No impairment loss has been recognised in respect of the years ended 31 December 2019 and 2018.

Movements in allowance for impairment loss are as follows:

	Group 2019 $	Group 2018 $
At beginning and ending of financial year	67,844	67,844

(a) Details of associates:

Name of associates (Country of incorporation)	Principal activities	Group's effective equity interest 2019 %	Group's effective equity interest 2018 %
Held by Heatec Jietong Pte. Ltd.			
Zhoushan Heatec IMC-YY Engineering Co., Ltd. (People's Republic of China)	Service and repair all kinds of heat exchangers and piping works.	45	45
Heatec Marine Phils Construction Inc. (Philippines)	Dormant.	39.97	39.97
Ipromar (Pte.) Ltd. (1) (Singapore)	Process plant and engineering services.	–	25
Karnot Technology Pte. Ltd. (Singapore)	Dormant.	20	20
Held by Ipromar (Pte.) Ltd.			
Ipromar (Pte.) Ltd Ipromar Sdn. Bhd. (Malaysia)	Process plant and engineering services.	–	25

(1) Struck off on 9 December 2019.

Management has evaluated and concluded that the associates are not individually and collectively material to the Group. Therefore, the information required by SFRS(I) 12 on the associates has not been disclosed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

16 Inventories

	Group	
	2019	2018
	$	$
Raw materials and supplies	321,449	545,096
Goods-in-transit	–	622,050
	321,449	1,167,146

In 2019, cost of inventories included as cost of sales amounted to $5,510,791 (2018: $5,864,330).

17 Contract assets and liabilities

The Group receives payments from customers based on performance milestone as established in contract.

Contract assets relate to the Group's rights to consideration for work completed but not billed at the reporting date on the Group's heat exchanger and piping businesses. Contract liabilities relate to balances due to customers and arises when a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method. Contract liabilities are recognised as revenue as (or when) the Group satisfies the performance obligations under its contracts.

The following table provides information about contract assets and contract liabilities from contracts with customers.

		Group	
		(Restated)	(Restated)
	31.12.2019	31.12.2018	1.1.2018
	$	$	$
Contract assets	4,137,644	8,619,478	7,573,929
Contract liabilities	59,569	–	869,200

Contract assets balance decreased significantly due to reclassification of contract assets to trade receivables.

There were no significant changes in the contract liabilities balances during the financial year.

18 Trade receivables

	Group	
		(Restated)
	2019	2018
	$	$
Third parties	7,762,326	8,336,273
Controlling shareholder	30,786	59,769
Associates	–	11,050
Less: Allowance for impairment loss (Note 32)	(119,732)	(253,291)
	7,673,380	8,153,801

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

19 Other receivables

	Group		Company	
	2019	2018	2019	2018
	$	$	$	$
Non-controlling shareholders of subsidiaries	8,035	4,003	–	–
Subsidiaries	–	–	1,287,042	4,489,868
Other receivables	243,929	134,054	–	–
Less: Allowance for impairment loss (Note 32)	–	(3,630)	–	–
	243,929	130,424	–	–
GST recoverable	126,934	314,301	–	–
Deposits	203,738	282,307	14,310	38,270
Prepayments	138,241	122,761	30,312	20,111
Advance payment to supplier	1,590,124	–	–	–
Associates	486,238	486,238	–	–
Less: Allowance for impairment loss (Note 32)	(486,238)	(486,238)	–	–
	–	–	–	–
	2,311,001	853,796	1,331,664	4,548,249

Amount receivable from subsidiaries, associates and non-controlling shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

20 Cash and bank balances

	Group		Company	
	2019	2018	2019	2018
	$	$	$	$
Cash at bank	1,879,107	1,967,876	15,894	13,773
Fixed deposits	1,675,283	466,378	–	–
Total cash and bank balances	3,554,390	2,434,254	15,894	13,773
Less: Pledged fixed deposits	(1,214,152)	(49,839)	–	–
Cash and cash equivalents for presentation on the consolidated statement of cash flows	2,340,238	2,384,415	15,894	13,773

Cash and bank balances comprise cash and fixed deposits held by the Group. Short-term fixed deposits have original maturity of 12 months or less and are readily convertible to cash. The carrying amounts of these assets approximate their fair values.

Short-term fixed deposits bear average interest rate of 0% to 1.95% (2018: 0.15% to 2.20%) per annum and for a tenure of approximately 1 to 12 months (2018: 1 to 12 months), without significant risk of changes in value.

As at 31 December 2019, fixed deposits of $1,214,152 (2018: $49,839) are pledged to secure banking facilities granted to the Group (Note 21).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

21 Borrowings

	Group		Company	
	2019	2018	2019	2018
	$	$	$	$
Non-current				
Term loans (a)	–	88,810	–	–
Trade financing loans (b)	–	–	–	–
Lease liabilities	1,815,471	–	1,211,268	–
	1,815,471	88,810	1,211,268	–
Current				
Term loans (a)	6,231,730	6,756,002	–	–
Revolving credit loans (c)	200,000	600,000	–	–
Lease liabilities	100,802	–	83,820	–
	6,532,532	7,356,002	83,820	–
Total borrowings	8,348,003	7,444,812	1,295,088	–

Certain term loans are subject to contractual interest rate repricing annually. Such term loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The fair value of the Group's borrowings approximate the carrying amounts of the borrowings as the bank loans are charged market interest rates.

(a) The Group's term loans are as follows:

(i) A loan of $92,382 (2018: $221,816). The loan was raised on 27 July 2000. Repayment commenced on 1 September 2000 and is repayable over 20 years. The loan is secured by:

(a) a first legal mortgage over the Group's leasehold property (Note 13); and

(b) a corporate guarantee by one of the Company's subsidiary.

The loan carries interest at 3-month Singapore Interbank Offered Rate plus 1.18%.

(ii) A loan of $3,139,348 (2018: $3,622,996). The loan was raised on 18 October 2018. Repayment commenced on 19 November 2018 and is repayable over 7 years. The loan is secured by:

(a) a first legal mortgage over the Group's leasehold property (Note 13); and

(b) a corporate guarantee by the Company.

The loan carries interest at 1.75% plus 3 months Swap Offer Rate ("SOR") per annum.

(iii) A loan of $3,000,000 (2018: $3,000,000) that was raised on 16 May 2018. Repayment will commence on 18 June 2020 and is repayable over 6 years. The loan is secured by:

(a) a first legal mortgage over the Group's leasehold property (Note 13); and

(b) a corporate guarantee by the Company.

The loan carries fixed interest at 6.75% per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

21 Borrowings (continued)

(b) The trade financing facilities carried interest at bank's prevailing enterprise financing rate, repayable up to 120 days and were secured by:

(i) a first legal mortgage over the Group's leased property (Note 13); and

(ii) a corporate guarantee by the Company.

The trade financing facilities were fully repaid in 2018.

(c) The revolving credit facilities carry interest at 2% (2018: 2%) plus cost of fund per annum, are repayable on demand and are secured by:

(i) proceeds from certain of the Group's projects in the Heat Exchanger segment; and

(ii) a corporate guarantee by the Company.

In the financial year ended 31 December 2019 and 31 December 2018, the Group did not fulfil certain financial covenants on its loans with a carrying amount of $6,139,348 (2018: $6,622,996). Accordingly, the outstanding balance was presented as a current liability in the statement of financial position as at 31 December 2019 and 31 December 2018.

On 20 February 2020 and 11 February 2019, the Group obtained a confirmation from the bank to accommodate the breach for financial year ended 31 December 2019 and 31 December 2018 respectively on a one-off basis. The bank will not request accelerated repayment of the loans and the terms of the loans were not changed.

Based on discounted cash flows using market lending rate for similar borrowings which the management expects would be available to the Group at the end of the reporting period, the fair values of the non-current bank loans at the end of the reporting period approximate their carrying value as there are no significant changes in the interest rates available to the Group at the end of the reporting period. This fair value measurement for disclosure purposes is categorised in Level 3 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

21 Borrowings (continued)

Reconciliation movement of liabilities to cash flows arising from financing activities:

Group	Term loans $	Trade financing loans $	Revolving credit loans $	Loan from shareholders $	Lease liabilities $	Total $
Balance at 1 January 2018	1,963,819	200,536	2,721,802	–	–	4,886,157
Changes from financing cash flows:						
– Proceeds	6,701,156	1,033,288	1,000,000	–	–	8,734,444
– Repayment	(1,820,163)	(1,233,824)	(3,121,802)	–	–	(6,175,789)
– Interest paid	(147,147)	(25,490)	(154,223)	–	–	(326,860)
Non-cash changes:						
– Interest expense	147,147	25,490	154,223	–	–	326,860
Balance at 31 December 2018	6,844,812	–	600,000	–	–	7,444,812
Reclassification from finance lease liabilities	–	–	–	–	93,985	93,985
Adoption of SFRS(I) 16	–	–	–	–	1,979,426	1,979,426
Changes from financing cash flows:						
– Proceeds	–	–	–	450,000	–	450,000
– Repayment	(613,082)	–	(400,000)	(450,000)	(157,138)	(1,620,220)
– Interest paid	(339,566)	–	(18,538)	(3,662)	(127,617)	(489,383)
Non-cash changes:						
– Interest expense	339,566	–	18,538	3,662	127,617	489,383
Balance at 31 December 2019	6,231,730	–	200,000	–	1,916,273	8,348,003

Company	Lease liabilities $
Balance at 1 January 2019	–
Adoption of SFRS(I) 16	1,373,893
Changes from financing cash flows:	
– Repayment	(78,805)
– Interest paid	(85,761)
Non-cash changes:	
– Interest expense	85,761
Balance at 31 December 2019	1,295,088

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

22 Finance lease liabilities

Finance lease liabilities were reclassified to lease liabilities on 1 January 2019 arising from the adoption of SFRS(I) 16. The impact of adoption is disclosed in Note 3.

	Group 2018	
	Minimum lease payments $	Present value of lease payments $
Not later than 1 financial year	38,748	36,303
Later than 1 financial year but not later than 5 financial years	59,139	57,682
Total minimum lease payments	97,887	93,985
Less: future finance charges	(3,902)	–
Present value of finance lease liabilities	93,985	93,985

	Group 2018 $
Representing finance lease liabilities:	
Current	36,303
Non-current	57,682
	93,985

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 5 years. As at 31 December 2018, the finance leases bore effective interest rate at 2.81% per annum. Interest rates were fixed and variable at the contract date and the Group was exposed to fair value interest rate risk for its fixed rate lease contracts. All leases were on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

The net carrying value of plant and equipment acquired under finance lease arrangements are disclosed in Note 13.

Based on the discounted cash flow analysis using market interest rates for similar finance lease agreements at end of the financial period, the fair values of finance lease liabilities at end of the financial period approximated their carrying amounts as the market interest rate at the end of the financial period was close to the effective interest rate of the Group's existing finance lease liabilities. This fair value measurement for disclosures purpose was categorised in Level 3 of the fair value hierarchy as at 31 December 2018.

Reconciliation movement of liabilities to cash flows arising from financing activities:

	Group 2018
Balance at 1 January	294,319
Changes from financing cash flows:	
– Repayments	(200,334)
Balance at 31 December	93,985

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

23 Deferred tax liabilities

The movements in the deferred tax account are as follows:

	Group	
	2019	2018
	$	$
Balance at 1 January	312,790	372,951
Tax credited to profit or loss (Note 11)	(8,076)	(60,161)
Balance at 31 December	304,714	312,790

Presented on the statement of financial position:

Non-current		
Deferred tax liabilities	304,714	312,790

The following are the major deferred tax liabilities recognised by the Group and the movements thereon, during the current and prior reporting periods.

	Accelerated tax depreciation	Others	Total
	$	$	$
Group			
Balance at 1 January 2018	385,386	(12,435)	372,951
Credited to profit or loss for the financial year (Note 11)	(60,161)	–	(60,161)
Balance at 31 December 2018	325,225	(12,435)	312,790
Credited to profit or loss for the financial year (Note 11)	(8,076)	–	(8,076)
Balance at 31 December 2019	317,149	(12,435)	304,714

24 Trade payables

	Group	
	2019	2018
	$	$
Third parties	1,638,438	3,930,368

25 Other payables

	Group		Company	
	2019	2018	2019	2018
	$	$	$	$
Subsidiaries	–	–	223,130	3,286,488
Non-controlling shareholder of a subsidiary	65,540	50,461	–	–
Accruals	1,239,561	1,281,460	299,329	218,975
Other payables	202,459	651,022	24,591	44,443
GST payables	379,961	187,985	49,581	47,510
Provision for warranty	23,121	23,121	–	–
Advance deposits received	–	11,599	–	–
Advances from customer	1,781,870	–	–	–
	3,692,512	2,205,648	596,631	3,597,416

The amounts due to subsidiaries and non-controlling shareholder of a subsidiary are non-trade in nature, unsecured, interest-free and repayable on demand.

The provision for warranty represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's warranty program for heat exchangers. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

26 Share capital

	Group and Company			
	2019		2018	
	Number of issued shares	Total share capital	Number of issued shares	Total share capital
		$		$
Issued and fully paid up				
– Ordinary shares with no par value				
Balance at 1 January and 31 December	122,959,345	11,554,627	122,959,345	11,554,627

All issued shares are fully paid ordinary shares with no par value.

The holder of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

NOTES TO THE FINANCIAL STATEMENTS

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27 Reserves

	Group		Company	
	2019	2018	2019	2018
	$	$	$	$
Other reserve [(a)]	221,206	221,206	–	–
Translation reserve [(b)]	(123,490)	(87,259)	–	–
Merger reserve [(c)]	(3,913,614)	(3,913,614)	–	–
Share options reserve [(d)]	69,690	69,690	69,690	69,690
Retained earnings/(accumulated losses)	6,056,927	8,508,203	(1,076,898)	756,959
	2,310,719	4,798,226	(1,007,208)	826,649

(a) Other reserve

Put option liability arose as a result of the acquisition of subsidiaries whereby the vendors of the subsidiaries have been granted the right to sell a portion of their remaining shares to Heatec Jietong Pte. Ltd.. The put option represents 19% of the issued share capital ("Put Option Shares") in each of Chem-Grow Pte. Ltd. and Chem Grow Engineering Pte. Ltd. (collectively, "Chem Grow Entities") for a total consideration of $1,078,820. The put option may only be exercised in respect of all (and not some only) of the Put Option Shares at any time during the twelve-month period commencing from 1 January 2012, failing which the put option will lapse if it remains unexercised.

On 31 October 2012, the vendors of the subsidiaries exercised the put option for Heatec Jietong Pte. Ltd. to purchase the Put Option Shares for a cash consideration of $1,078,820. Following the exercise of put option, the Group's shareholdings increase from 51% to 70% each in Chem-Grow Pte. Ltd. and Chem Grow Engineering Pte. Ltd.. The carrying amount and fair value of Chem Grow Entities' net assets in the Group's financial statements on the date of acquisition was $6,842,243. Consequently, the Group reversed the gross obligations under the put option recognised as current liability and other reserve in 2011. The difference between the fair value of the consideration paid and the non-controlling interests amounted to $221,206, was recognised directly in equity.

(b) Translation reserve

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into Singapore Dollars are brought to account by recognising those exchange differences in other comprehensive income and accumulating them in a separate component in equity under the header of translation reserve.

Movement in translation reserve:

	Group	
	2019	2018
	$	$
Balance at 1 January	(87,259)	(50,384)
Changes during the financial year in other comprehensive income	(36,231)	(36,875)
Balance at 31 December	(123,490)	(87,259)

27 Reserves (continued)

(c) Merger reserve

Merger reserve represents the difference between the amount of the share capital of the subsidiaries at the date on which it was acquired by the Group and the amount of the share capital issued as consideration for the acquisition. The merger reserve amounted to a debit balance of $3,913,614 as at 31 December 2019 and 2018.

(d) Share options reserve

The share option reserve arises due to the grant of share options to employees under the employee share option plan.

Further information about share-based payments to employees is disclosed in Note 28.

28 Share-based payments

Equity-settled share option scheme

The Company has a share option scheme for certain employees of the Company. The scheme is administered by the Remuneration Committee. Options are exercisable at a price based on the average of the last dealt prices for the shares of the Company on the Singapore Exchange Securities Trading Limited for the five consecutive trading days preceding the date of grant. The Remuneration Committee may at its discretion fix the exercise price at a discount not exceeding 20% to the above price. The vesting period is 1 year. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the financial year are as follows:

	Group and Company			
	2019		2018	
	Number of share options	Weighted average exercise price $	Number of share options	Weighted average exercise price $
Outstanding at the beginning of the financial year	3,000,000	0.076	4,800,000	0.085
Granted during the financial year [(a)]	–	–	1,200,000	0.062
Forfeited during the financial year	–	–	(3,000,000)	0.085
Outstanding at the end of the financial year	3,000,000	0.076	3,000,000	0.076
Exercisable at the end of the financial year	3,000,000	0.076	3,000,000	0.076

The options outstanding at the end of the financial year have a weighted average remaining contractual life of 7.80 (2018: 8.80) years.

(a) The options were granted on 16 April 2018. The estimated fair value of the options granted on that day was $0.062.

28 Share-based payments (continued)

Equity-settled share option scheme (continued)

These fair values for share options granted in 2018 were calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

	Chief Executive Officer and Employees
Weighted average share price	$0.062
Weighted average exercise price	$0.062
Expected volatility	37.41%
Expected life	10 years
Risk free rate	2.20%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

In 2018, the Group and the Company recognised total expenses of $23,000 related to equity-settled share-based payment transactions during the financial year, and transferred $52,300 from share options reserve to retained earnings due to the forfeiture of options after the vesting date of those options.

29 Lease commitments

The Group and the Company lease residential premises, equipment and leasehold land from non-related parties under non-cancellable operating lease agreements. The leases have an average tenure of between 1 to 60 years. Renewals of leases are subject to approval by lessor. No restrictions are imposed on dividends or further leasing.

Commitments in relation to non-cancellable operating leases contracted for as at 31 December 2018, but not recognised as liabilities, are as follows:

	Group 2018 $	Company 2018 $
Within 1 financial year	466,398	164,392
Between 2 to 5 financial years	829,539	657,566
Over 5 financial years	2,522,945	1,150,740
	3,818,882	1,972,698

As disclosed in Note 3, the Group and the Company have adopted SFRS(I) 16 on 1 January 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the statements of financial position as at 31 December 2019, except for short term and low value assets leases.

30 Corporate guarantees

The Company has provided corporate guarantees of $15,485,060 (2018: $9,500,000) to financial institutions for bank borrowings of $6,339,348 (2018: $7,222,996) and letters of guarantee of $4,945,629 (2018: $1,183,865) taken by its subsidiaries. At the end of the reporting period, the directors are of the opinion that no material losses is expected under these financial guarantees.

The financial effects of SFRS(I) 9 relating to financial guarantee contracts issued by the Company are not material to the financial statements of the Company and therefore are not recognised.

31 Related party transactions

(a) In addition to information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties, who are not members of the Group during the financial year on terms agreed by the parties concerned:

	Group	
	2019	2018
	$	$
With associated companies		
Rendering of services	–	1,680
With non-controlling shareholder of subsidiary		
Dividend paid	44,460	29,640
With shareholders		
Rendering of services	372,124	163,467
Provision of consultancy services	226,536	288,960

(b) Key management personnel compensation

Key management personnel are Directors and those person having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly. Remuneration for key management personnel, including amounts paid to the Company's Directors are disclosed in Note 10.

The amounts do not include compensation of any of the key management personnel and Directors who received compensation from related corporations outside the Group in their capacity as Directors and/or Executives of those related corporations.

32 Financial instruments

Categories of financial instruments

Financial instruments at their carrying amounts at the end of the reporting period are as follows:

	Group		Company	
	2019	2018	2019	2018
	$	$	$	$
Financial assets				
At amortised cost	11,683,472	11,004,789	1,317,246	4,541,911
Financial liabilities				
At amortised cost	11,494,001	13,452,108	1,842,138	3,549,906

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

32 Financial instruments (continued)

Financial risk management

The Group is exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall financial risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group does not hold derivative financial instruments for trading purposes.

Foreign exchange risk

The Group has currency exposures arising from transactions, assets and liabilities that are denominated in currencies other than the respective functional currencies of entities in the Group. The foreign currencies in which the Group's currency risk arises are mainly United States Dollar ("USD"). The Group does not hedge against foreign exchange exposure as the currency risk is not expected to be significant.

At the end of reporting period, the Group has the following financial assets and financial liabilities denominated in foreign currencies based on information provided to key management:

Denominated in:

	USD
	S$
At 31 December 2019	
Financial assets	
Cash and bank balances	921,220
Trade receivables	2,023,457
	2,944,677
Financial liabilities	
Trade payables	223,545
Net financial assets denominated in USD	2,721,132
At 31 December 2018	
Financial assets	
Cash and bank balances	652,468
Trade receivables	1,620,962
	2,273,430
Financial liabilities	
Trade payables	1,442,884
Net financial assets denominated in USD	830,546

32 Financial instruments (continued)

Financial risk management (continued)

Foreign exchange risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rates against the respective functional currencies of the Group's entities, with all other variables held constant, of the Group's loss after tax:

		Group Increase/(decrease) in loss after tax	
		2019	**2018**
		$	**$**
USD/SGD	– strengthened 10% (2018: 10%)	(225,854)	(68,935)
	– weakened 10% (2018: 10%)	225,854	68,935

Interest rate risk

The Group's exposure to interest rate risk arises primarily from their borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk (ie. the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates). Borrowings at fixed rates expose the Group to fair value interest rate risk (ie. the risk that the value of a financial instrument will fluctuate due to changes in market rates). The Group's policy is to obtain most favourable interest rate available whenever the Group obtains additional financing through bank borrowings. The interest rates and terms of maturity and repayment of borrowings of the Group are disclosed in Note 21. The Group does not utilise derivatives to mitigate its interest rate risk.

As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in market interest rates.

Sensitivity analysis for interest rate risk

The sensitivity analysis below have been determined based on the exposure to interest rates for borrowings at the end of reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of borrowings that have floating rates.

The Group's borrowings at variable rates on which effective hedges have not been entered into, are denominated mainly in Singapore Dollars ("SGD"). If the SGD interest rates increase/decrease by 50 (2018: 50) basis points with all other variables including tax rate being held constant, the profit after tax of the Group and the Company will be lower/ higher by $17,159 (2018: $22,224) as a result of higher/lower interest expense on these borrowings.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

32 Financial instruments (continued)

Financial risk management (continued)

Credit risk (continued)

The Group develops and maintains its credit risk gradings to categorise exposures according to their degree of risk of default. The Group uses publicly available financial information and its own trading records to rate its major customers and other receivables.

Concentration of credit risk and maximum exposure

The Group does not have significant credit exposure except that the Group's 5 (2018: 4) largest trade receivables represented 79% (2018: 65%) of total trade receivables.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk is the carrying amount of each class of financial instruments presented on the statements of financial position and the amount of $11,284,977 (2018: $8,406,861) (Note 30) relating to corporate guarantees given by the Company to banks for the subsidiaries' credit facilities.

The following sets out the Group's internal credit evaluation practices and basis for recognition and measurement of expected credit losses ("ECL"):

Description of evaluation of financial assets	Basis for recognition and measurement of ECL
Counterparty has a low risk of default and does not have any past due amounts	12-month ECL
Contractual payments are more than 3 years past due for major shipyards and more than 1 year past due for other counterparties or there has been a significant increase in credit risk since initial recognition. The presumption of significant increase in credit risk after 30 days past due is not suitable for application in the industries that the Group operates in.	Lifetime ECL – not credit-impaired
Contractual payments are more than 4 years past due for major shipyards and more than 3 years past due for other counterparties or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
There is evidence indicating that the Group has no reasonable expectation of recovery of payments such as when the debtor has been placed under liquidation or has entered into bankruptcy proceedings or when the trade receivables are over 5 years past due, whichever occurs earlier	Write-off

32 Financial instruments (continued)

Financial risk management (continued)

Credit risk (continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information, such as future economic and industry outlook, that is available without undue cost or effort.

In particular, the Group considers the following information when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the operating results/key financial performance ratios of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Regardless of the evaluation of the above factors, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 3 years past due for major shipyards or more than 1 year past due for other counterparties unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group also assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if it has an internal or external credit rating of "investment grade" as per globally understood definition, or the financial asset has a low risk of default; the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Definition of default

The Group also assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial asset has a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 4 years past due for major shipyards or 3 years past due for other counterparties unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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32 Financial instruments (continued)

Financial risk management (continued)

Credit risk (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred such as evidence that the borrower is in significant financial difficulty, there is a breach of contract such as default or past due event; there is information that it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Estimation techniques and significant assumptions

There has been no change in the estimation techniques or significant assumptions made during the current financial year for recognition and measurement of credit loss allowance.

Movements in credit loss allowance are as follows:

	Trade receivables and contract assets $	Other receivables $	Total $
Group			
Balance at 1 January 2018	398,198	491,697	889,895
Loss allowance measured:			
Lifetime ECL			
– simplified approach	103,054	–	103,054
Receivables recovered	(12,074)	–	(12,074)
Receivables written off as uncollectable	(234,205)	(1,829)	(236,034)
Exchange translation	(1,682)	–	(1,682)
Balance at 31 December 2018	253,291	489,868	743,159
Loss allowance measured/(reversed):			
Lifetime ECL			
– simplified approach	45,964	–	45,964
Receivables recovered	(45,001)	–	(45,001)
Receivables written off as uncollectable	(134,522)	(3,630)	(138,152)
Balance at 31 December 2019	119,732	486,238	605,970

32 Financial instruments (continued)

Financial risk management (continued)

Credit risk (continued)

Trade receivables and contract assets

The Group has applied the simplified approach by using a provision matrix to measure the lifetime expected credit loss allowance for trade receivables and contract assets.

The contract assets relate to unbilled work-in-progress, which have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. Trade receivables and contract assets that shared the same credit risk characteristics and days past due are grouped together in measuring the expected credit losses.

The Group estimates the expected credit loss rates for each category of past due status of the debtors based on historical credit loss experience adjusted as appropriate to reflect current conditions and forecasts of future economic conditions.

There has been no change in the estimation techniques or significant assumptions made during the current financial year.

The Group has recognised a loss allowance of 100% against all trade receivables over more than 5 years past because historical experience has indicated that these receivables are generally not recoverable. A trade receivable is written off when there is information indicating that there is no realistic prospect of recovery from the debtor.

The Group's credit risk exposure in relation to trade receivables and contract assets under SFRS(I) 9 as at 31 December 2019 and 2018 are set out in the provision matrix below:

	Debts aging:					
	Not past due	< 1 year	>1 – 3 years	>3 – 4 years	>4 – 5 years	> 5 years
Customers that are major shipyards	Category A	Category B	Category B	Category C	Category D	Category E
Other customers	Category A	Category B	Category C	Category D	Category D	Category E

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

32 Financial instruments (continued)

Financial risk management (continued)

Credit risk (continued)

Trade receivables and contract assets (continued)

	Debts category:						
	Category A $	Category B $	Category C $	Category D $	Category E $	Others [(1)] $	Total $
2019							
Expected credit loss rate	0%	0.5%	1%	1.5%	100%	100%	
Estimated total gross carrying amount at default	9,093,921	2,584,863	142,813	3,837	1,830	103,492	11,930,756
Lifetime ECL	–	(12,924)	(1,428)	(58)	(1,830)	(103,492)	(119,732)
							11,811,024
2018							
Expected credit loss rate	0%	0.5%	1%	1.5%	100%	100%	
Estimated total gross carrying amount at default	8,401,503	8,240,200	159,200	15,400	–	210,267	17,026,570
Lifetime ECL	–	(41,201)	(1,592)	(231)	–	(210,267)	(253,291)
							16,773,279

(1) A loss allowance of 100% is recognised on certain receivables that are deemed to be not recoverable.

Other financial assets at amortised cost

Other financial assets at amortised costs include other receivables (excluding prepayments, GST recoverable and advance payment to supplier) and cash and bank balances. The table below details the credit quality of the Group's and the Company's other financial assets at amortised cost:

2019	12-month or lifetime ECL	Gross carrying amount $	Loss allowance $	Net carrying amount $
Group				
Amount due from associates (non-trade)	Lifetime ECL	486,238	(486,238)	–
Other receivables (excluding prepayments, GST recoverable and advance payment to supplier)	12-month ECL	455,702	–	455,702
Cash and bank balances	N.A. Exposure Limited	3,554,390	–	3,554,390
Company				
Other receivables (excluding prepayments)	12-month ECL	1,301,352	–	1,301,352
Cash and bank balances	N.A. Exposure Limited	15,894	–	15,894

32 Financial instruments (continued)

Financial risk management (continued)

Credit risk (continued)

Other financial assets at amortised cost (continued)

2018	12-month or lifetime ECL	Gross carrying amount $	Loss allowance $	Net carrying amount $
Group				
Amount due from associates (non-trade)	Lifetime ECL	486,238	(486,238)	–
Other receivables (excluding prepayments and GST recoverable)	12-month ECL	420,364	(3,630)	416,734
Cash and bank balances	N.A. Exposure Limited	2,434,254	–	2,434,254
Company				
Other receivables (excluding prepayments)	12-month ECL	4,528,138	–	4,528,138
Cash and bank balances	N.A. Exposure Limited	13,773	–	13,773

The credit loss exposure for cash and bank balances are immaterial as at 31 December 2019 and 2018.

Financial guarantee

The Company has issued financial guarantees to banks for borrowings of its subsidiaries. These guarantees are subject to the impairment requirements of SFRS(I) 9. The Company has assessed that its subsidiaries have the financial capacity to meet the contractual cash flow obligations and does not expect significant credit losses arising from these guarantees.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group manage the liquidity risk by maintaining sufficient cash to enable them to meet their normal operating commitments and having an adequate amount of committed credit facilities (Note 21).

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

32 Financial instruments (continued)

Financial risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's and Company's non-derivative financial liabilities at end of the reporting period based on contractual undiscounted repayment obligations.

	1 year or less $	1 to 5 year $	Over 5 years $	Total $
Group				
2019				
Trade payables	1,638,438	–	–	1,638,438
Other payables	1,507,560	–	–	1,507,560
Borrowings	7,297,799	–	–	7,297,799
Lease liabilities	220,285	834,912	2,315,560	3,370,757
	10,664,082	834,912	2,315,560	13,814,554
2018				
Trade payables	3,930,368	–	–	3,930,368
Other payables	1,982,943	–	–	1,982,943
Borrowings	8,556,135	92,895	–	8,649,030
Finance lease liabilities	38,748	59,139	–	97,887
	14,508,194	152,034	–	14,660,228
Company				
2019				
Other payables	547,050	–	–	547,050
Lease liabilities	164,391	657,566	986,349	1,808,306
Financial guarantees*	11,284,977	–	–	11,284,977
	11,996,418	657,566	986,349	13,640,333
2018				
Other payables	3,549,906	–	–	3,549,906
Financial guarantees*	8,406,861	–	–	8,406,861
	11,956,767	–	–	11,956,767

* At the end of the reporting period, the maximum exposure of the Company in respect of the intra-group financial guarantees (Note 30) based on facilities drawn down by the subsidiaries is $11,284,977 (2018: $8,406,861). The Company does not consider it probable that a claim will be made against the Company under the intragroup financial guarantees.

33 Fair value of assets and liabilities

(a) Fair value hierarchy

The Group analyse the fair value measurements by the levels in the fair value hierarchy based on the inputs to the valuation techniques. The different levels are defined as follows:

(a) Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. derived from prices); and

(c) Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(b) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of the financial assets and financial liabilities recorded in the financial statements of the Group approximate their fair values due to their short-term nature and where the effect of discounting is immaterial.

(c) Determination of fair values

Borrowings and finance lease liabilities

The basis of determining fair value for disclosure at end of the financial period is disclosed in Note 21 and Note 22 respectively.

34 Segment information

The Group is organised into business units based on its services for management purposes. The reportable segments are piping, heat exchanger and chemical cleaning. Management monitors the operating results of its business units separately for making decisions about allocation of resources and assessment of performances of each segment.

NOTES TO THE FINANCIAL STATEMENTS

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34 Segment information (continued)

The segment information provided to management for the reportable segments are as follows:

	Piping $	Heat exchanger $	Chemical cleaning $	Unallocated $	Consolidated $
2019					
Segment revenue:					
Sales to external customers, representing total revenue	7,521,967	13,623,986	2,563,027	–	23,708,980
Segment results	(445,069)	(1,114,588)	(422,408)	–	(1,982,065)
Other significant non-cash expenses					
Depreciation of property, plant and equipment	44,172	235,529	353,585	578,167	1,211,453
Loss allowance from trade receivables	(4,337)	41,071	(15,127)	(20,644)	963
Share of results of associates	–	–	–	–	44,566
Write-off of trade and other receivables	–	26,314	–	–	26,314
Segment assets	5,742,360	11,588,589	5,265,742	7,330,768	29,927,459
Segment assets includes					
Additions to non-current assets	–	110,082	114,272	–	224,354
Segment liabilities	638,861	10,395,152	1,354,023	1,668,589	14,056,625

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34 Segment information (continued)

	Piping $	Heat exchanger $	Chemical cleaning $	Unallocated $	Consolidated $
2018					
Segment revenue:					
Sales to external customers, representing total revenue	7,935,847	16,855,704	2,681,836	–	27,473,387
Segment results	(841,063)	(1,987,637)	(361,122)	–	(3,189,822)
Other significant non-cash expenses					
Depreciation of property, plant and equipment	47,966	293,778	316,149	467,281	1,125,174
Loss allowance from trade receivables	9,769	36,009	57,276	–	103,054
Impairment loss on property, plant and equipment	–	40,769	–	–	40,769
Property, plant and equipment written off	–	2,376	–	–	2,376
Impairment loss on goodwill	–	–	288,000	–	288,000
Loss on striking off of a subsidiary	–	–	–	23,667	23,667
Share of results of associates	–	–	–	–	51,890
Write down of inventories	–	16,295	–	–	16,295
Write-off of trade and other receivables	94,301	3,317	–	12,062	109,680
Segment assets	8,236,869	12,069,955	5,202,515	6,867,758	32,377,097
Segment assets includes					
Additions to non-current assets	23,947	93,523	131,365	22,148	270,983
Segment liabilities	510,403	12,199,919	668,379	608,902	13,987,603

Segment results

Segment revenue represents revenue generated from external and internal customers. Segment results represents the profit earned by each segment without allocation of general and central administration expenses and income, share of profit/loss of associates, finance costs and income tax expense. This is the measure reported to the chief operating decision makers for the purpose of resource allocation and assessment of segment performance.

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34 Segment information (continued)

Segment results (continued)

A reconciliation of segment results to the consolidated loss before tax is as follows:

	2019 $	2018 $
Segment results	(1,982,065)	(3,189,822)
Other income	12,288	135,798
Other expenses	–	(356,486)
Share of results of associates	44,566	51,890
Impairment gain/(loss) on financial assets	20,644	(12,062)
Finance costs	(518,003)	(338,010)
Loss before tax	(2,422,570)	(3,708,692)

Segment assets

The amounts provided to the management with respect to total assets are measured in a manner consistent with that of the financial statements. Management monitors the assets attributable to each segment for the purposes of monitoring segment performance and for allocating resources between segments. All assets are allocated to reportable segments.

Segment liabilities

The amounts provided to the management with respect to total liabilities are measured in a manner consistent with that of the financial statements. All liabilities are allocated to the reportable segments based on the operations of the segments.

Geographical information

The Group's operations are primarily carried out in Singapore. Accordingly, no geographical segment assets and revenue from external customers' information are presented.

Information about major customer

Revenue is derived from 2 external customers who individually contributed 10% or more of the Group's revenue and are attributable to the segments as detailed below:

		Group	
	Attributable segments	**2019**	**2018**
Customer A	Piping segment	6,251,008	5,989,176
Customer B	Heat exchanger segment	2,565,022	3,786,574
		8,816,030	9,775,750

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

35 Leases

Nature of the Group's leasing activities

The Group's activities comprise the following:

(i) The Group leases leasehold land from non-related parties. The leases have an average tenure of between 18 to 60 years;

(ii) In addition, the Group leases staff accommodation and equipment with contractual terms of an average of one year. These leases are short-term. The Group has elected not to recognised right-of-use assets and lease liabilities for these leases.

The maturity analysis of the lease liabilities is disclosed in Note 32.

Information about leases for which the Group is a lessee is presented below:

Carrying amount of right-of-use assets

The carrying amount of right-of-use assets are as follows:

	Group		Company	
	31.12.2019	1.1.2019	31.12.2019	1.1.2019
	$	$	$	$
Classified within property, plant and equipment				
Leasehold properties	1,848,532	1,979,426	1,259,402	1,373,893

Amounts recognised in profit or loss

	Group	Company
	2019	2019
	$	$
Depreciation charge for the financial year of right-of-use assets (Note 13)	130,894	114,491
Lease expense not included in the measurement of lease liabilities		
Lease expense – short term leases	1,026,439	–
Lease expense – low value assets leases	6,000	–
Total	1,032,439	–
Interest expense on lease liabilities	127,617	85,761

Total cash flows for the Group's and the Company's leases amounted to $1,317,194 and $164,566 respectively.

As at 31 December 2019, the Group and the Company are committed to $167,460 and $Nil respectively for short-term leases.

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36 Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on a gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings, finance lease liabilities plus trade and other payables less cash and bank balances. Total capital is calculated as equity plus net debt.

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Net debt	10,124,563	11,240,559	1,875,825	3,583,643
Total equity	15,870,834	18,389,494	10,547,419	12,381,276
Total capital	25,995,397	29,630,053	12,423,244	15,964,919
Gearing ratio	39%	38%	15%	22%

The Group is required to maintain net worth of a specified amount in order to comply with covenants in loan agreements with banks. The Group breached a loan covenant for the financial years ended 31 December 2019 and 31 December 2018 and details of the breach is disclosed in Note 21.

37 Subsequent event

Impact of coronavirus disease ("COVID-19")

The emergence of COVID-19 since early 2020 has brought about uncertainties to the Group's operating environment and has impacted the Group's operations in People's Republic of China ("PRC") and its financial position subsequent to the financial year end. The Group is cognizant of the challenges posed by these developing events and the potential impact they have on our business sector. The Group will continuously assess the situation, work closely with the local authorities in PRC to support their efforts in containing the spread of COVID-19, and put in place measures to minimise impact to our business. As the situation is still evolving, the full effect of the outbreak is subject to uncertainty and could not be ascertained yet.

38 Comparative figures

(a) The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2018 were audited by another independent auditor whose report dated 4 April 2019 expressed an unmodified opinion on those financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

38 Comparative figures (continued)

(b) At 31 December 2018 and 1 January 2018, the Group recognised unbilled receivables amounting to $3,029,494 and $5,592,269 respectively as trade receivables instead of contract assets.

As a result, certain line items have been amended on the Group's statements of financial position and the related notes to the financial statements for the previous financial year ended 31 December 2018 and 1 January 2018. The items were reclassified as follows:

	Group As previously reported $	Amount reclassified $	As reclassified $
Statement of Financial Position as at 31 December 2018			
Contract assets	5,589,984	3,029,494	8,619,478
Trade receivables	11,183,295	(3,029,494)	8,153,801
Statement of Financial Position as at 1 January 2018			
Contract assets	1,981,660	5,592,269	7,573,929
Trade receivables	13,169,694	(5,592,269)	7,577,425

The reclassification did not have any effect on the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows for the financial year ended 31 December 2018.

39 Authorisation of financial statements

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors dated 18 March 2020.

SUSTAINABILITY REPORT

INTRODUCTION

WHAT IS THIS REPORT ABOUT?

We are pleased to present Heatec Jietong Holdings Ltd.'s ("**Heatec**" or the "**Company**", and together with its subsidiaries, the "**Group**") annual Sustainability Report for the financial year ended 31 December 2019 ("**FY2019**"). This report is set out on a "comply or explain" basis in accordance with Rule 711B and Practice Note 7F of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist. We are guided by the Global Reporting Initiative ("**GRI**") Standards reporting guidelines, at Core level. Heatec has chosen the GRI framework as it is the most established international sustainability reporting standard. In accordance with the GRI Standard's emphasis on materiality, this report highlights key environmental, social and governance ("**ESG**") related initiatives carried out throughout FY2019, from 1 January to 31 December 2019.

In defining our reporting content, we applied GRI's principles defining report content by considering the Group's activities, impact and substantive expectations and interests of its stakeholders. We observed a total of four principles, including materiality, stakeholder inclusiveness, sustainability index and completeness. For reporting quality, we observed principles of balance, comparability, accuracy, timeliness, clarity and reliability.

The ESG data and information provided have not been verified by an independent third party. We have relied on internal data monitoring and verification to ensure accuracy.

We welcome feedback from our stakeholders with regards to our sustainability efforts as this enables us to improve our policies, systems and results. Please send your comments and suggestions to info@heatec.com.sg because engaging with each of you is essential to operate our business responsibly.

BOARD STATEMENT ON SUSTAINABILITY

The Chief Executive Officer of the Company ("**CEO**") leads sustainability efforts of the Group to recognise the importance of sustainability. The CEO reports directly to the Board to consider sustainability issues as part of its strategic formulation, determine the material ESG factors and oversee the management and monitoring of these factors.

Companies are increasingly aware of the impact on ESG affecting long-term continuation of businesses, hence sustainability reporting has gained greater significance to investors. Today it is widely accepted that good ESG practices contributes to the overall long-term success of a company and plays an important part in the competition for investment.

Businesses must be quick to adapt to key stakeholders' concerns, close any potential gaps and capitalise on given opportunities. Amid today's rapid business environment, the Board of Directors of Heatec is fully committed in supporting the management to uphold governance and sustainability practices to achieve long-term success and value for stakeholders.

18 March 2020

"Doing the Right Thing Right, First Time, Everytime"

OUR APPROACH TO SUSTAINABILITY

WHAT IS HEATEC'S APPROACH?

SUSTAINABILITY VISION

At Heatec, we believe that sustainability coupled with innovative and economical initiatives implemented will ensure the growth of the Company and protect the environment in the long term.

Maintain safety

Safety is paramount and this is reflected in our safety policy which begins by saying, "Safety is the responsibility of everyone". The Company expects a high level of integrity from all our staff at all levels and a clearly defined whistleblowing policy is in place. A confidential contact point is available to anyone who wishes to express his/her concerns.

Product and market diversification

Heatec's strategy focuses on overall business diversification through product diversification and market diversification.

Establish Sustainability Committee

Heatec has built up in-house expertise to run sustainability reporting capabilities.

"Doing the Right Thing Right, First Time, Everytime"

Our Company motto, "Doing the Right Thing Right, First Time, Everytime", is displayed prominently on a banner across the entire workshop and embedded in processes as an integral part of our working culture.

Manage costs effectively

Heatec strives to reduce costs while maintaining quality. We will continually carry out cost reduction initiatives through use of multiple suppliers and through finding new vendors to continue to provide ever higher quality services at reasonable prices.

As a good and responsible corporate citizen, we have a strong commitment in sustainability and part of that is to ensure the commitment is conveyed to our stakeholders in term of ESG criteria.

Heatec has a clearly defined whistleblowing policy for staff to raise concerns in confidence with financial reporting or other matters. The whistleblowing email and telephone number are maintained by Heatec's internal auditors. Issues are then elevated to the internal audit committee, forensic professionals or law enforcement as appropriate. While the current policy focuses primarily on economic and safety issues, going forward, the whistleblowing policy will be revised to explicitly include issues of sustainability.

Heatec sets out to meet and exceed all legal requirements and industry expectations and have implemented a number of benchmarks and Key Performance Indicators (KPIs) to achieve that goal.

SUSTAINABILITY REPORT

The following are the initiatives we intend to work on:

1. Enhancing safety standards of operations
2. Continued training of workers
3. HR-related processes such as training, payroll and recruitment
4. Further enhancing its Enterprise Risk Management (ERM) framework and processes

KPIs which are tracked monthly, quarterly and annually are as follows:

1. Get the basics right by establishing better safety and risk management practices
2. Drive higher productivity in all our staff
3. Promote environmental sustainability in our business
4. Lead in setting industry standards
5. Ensure adequate safety infrastructure
6. Ensure a conducive environment for all employees
7. Strengthen relationship with customers and suppliers
8. Ensure effective implementation of relevant regulations
9. Enhance strategic outreach and engagement

SUSTAINABILITY REPORTING PROCESS

A summary of our sustainability reporting process is as set out below:

SUSTAINABILITY REPORT

MATERIAL ASPECTS ASSESSMENT

Our sustainability process begins with the identification of relevant aspects. Relevant aspects are then prioritised as material factors which are then validated. The end result of this process is a list of material factors disclosed in the sustainability report.

We conducted a materiality assessment during the year and adopt a matrix-based approach based on likelihood and impact to address the Company's sustainability risk profile and priorities issues. We used this method to monitor our risk profile on regular basis. We reviewed the materiality reported last year incorporating inputs from stakeholder engagements.

In order to determine if an aspect is material, we will assess its potential impact on the economy, environment and society and the influence on the stakeholders.

1 **IDENTIFICATION**
Identification of the material factors that are of relevance to the Group's activities

2 **PRIORITISATION**
Prioritisation of the material factors and identification of key sustainability factors to be reported upon

3 **VALIDATION**
Validation of the completeness of key sustainability factors identified to finalise the sustainability report content

4 **REVIEW**
Review focuses on the material factors in previous reporting period and also considers stakeholders' feedbacks, changing business landscape and emerging trend

Material aspects were identified and prioritised through internal workshops together with senior management. Peer reviews and social impact assessments were performed at site level. Applying the guidance from GRI Standards, we have identified the following material aspects:

ECONOMIC
Economic Performance
Anti-corruption

ENVIRONMENTAL
Energy
Effluents and Waste
Environmental Compliance

SOCIAL
Occupational Health and Safety
Labour Practices
Training and Education
Diversity and Equal Opportunity
Local Communities

GOVERNANCE
Corporate Governance
Enterprise Risk Management

SUSTAINABILITY REPORT

ECONOMIC

HOW DOES HEATEC OPERATE IN A COMPETITIVE ENVIRONMENT?

ECONOMIC PERFORMANCE

Heatec's core business activities are in the provision of piping services, and heat exchanger servicing and fabrication with a focus on the marine and oil & gas industries.

Our extensive experience in these fields gives us the edge in offering our customers high quality products and timely delivery of services. For detailed financial results of the Group, please refer to the Financial Review section in our Annual Report for FY2019, pages 8 to 10.

Our objective is to establish ourselves to be a market leader with high quality products and timely delivery of services.

Market Presence

Heatec provides piping services for all types of process pipes and systems to shipyards in Singapore, specializing in exotic materials and high pressure systems used on-board FPSO and oil rigs. Our scope of works includes turnkey project management, ranging from engineering, procurement, fabrication, installation and commissioning. Over the years, our piping division have been receiving multiple accolades by major shipyards in Singapore.

Under our Heat Exchangers segment, our Design & Build Division designs and manufactures heat exchangers from our headquarter in Singapore. Our products are deployed in operations on-board FPSOs and in refineries, petrochemical plants and power stations etc situated all over the world, including Europe, Middle East, Australia, Asia, South America etc.

Heatec also services various types of heat exchangers that are utilised on board marine vessels. Our heat exchanger services include on-site inspection, engineering, consultancy, fabrication and restoration of main engine charge-air coolers, condensers, heaters, fresh water generators and other heat transfer applications.

In FY2019, 95% of our Group's senior management are Singaporeans, similar to in FY2018.

Overview of Supply Chain

While our major materials commonly purchased and used, such as tubes, plates, gaskets, forging materials, remain the same; in FY2019, as part of our efforts in the enterprise risk management, we have increased our suppliers to a total of 480 as compared to 395 in FY2018. We have also extended our buying outreach to suppliers from more countries such as Korea, China, India, US and Singapore. Depending on specific requirement, quantity required and pricing, we decide on the supplier on a project to project basis.

Given the nature of our job and our industry, our procurement team practices "Just in time" purchasing. We categorise our vendors into Critical and Non-Critical accordingly to their specific characteristic of supply. Critical material and services are related to our products that require stringent requirement of any Third-party certification or International Standards.

ANTI-CORRUPTION

Similar to FY2018, there were no significant fines or non-monetary sanctions for non-compliance with laws and regulations in FY2019. Here at Heatec, we do not tolerate corruption in any form. This has been made clear to all of our employees, our suppliers and our business partners. Any reports of corruption are escalated to the attention of the Board. There have also been no reported incidents of corruption during the reporting period. We will regularly review policies on whistleblowing and anti-corruption.

"Safety is the Responsibility of Everyone"

SOCIAL

HOW DOES HEATEC MAINTAIN SAFETY IN A COMPETITIVE ENVIRONMENT?

OCCUPATIONAL HEALTH AND SAFETY

The Company has established an Occupational Health and Safety (OH&S) policy in accordance with the requirement of OHSAS 18001:2007 and ISO 9001 QMS. Heatec is certified OHSAS 18001:2007 compliant.

FY2019 Workplace Incidents – Total Man Hours 1,500,000

4 MOM REPORTABLE CASES

Heatec is committed to creating and maintaining an OH&S system where management and staff work together to ensure a safe and healthy workplace for all employees, contractors, visitors and relevant interested parties.

The Company aims to continually improve OH&S performance by reducing, minimising, and preventing health and safety breaches associated with work-related injury and ill health.

In FY2019, 4 cases (FY2018: 3) of Ministry of Manpower ("**MOM**")-reportable incidents were recorded and majority of the incidents originated from our subsidiary company. Moving forward, the Company will build up the safety awareness in our subsidiary company by getting them more involved in our safety related programs and training. As a Group, we will work towards a safer working environment for everyone.

Moving forward, OHSAS 18001 will be replaced by ISO45001 pending official publication from ISO. Heatec is ready to implement ISO45001 in FY2020.

Target:
To have less than 3 MOM reportable incidents for FY2020.

HUMAN RIGHTS

DO YOU ADHERE TO THE HUMAN RIGHTS POLICY TO DO BUSINESS?

LABOUR PRACTICES

At Heatec, we recognise that our employees are one of our most valued assets. The continuing training and development of our employees helps them grow professionally and achieve our business goals in return.

SUSTAINABILITY REPORT

LABOUR-MANAGEMENT RELATIONS

The importance of business ethics is communicated to all our heads of business units regularly and they fully understand that compliance with rules and regulations is a key part of running a responsible business. Heatec regularly updates key staff with developments in international and local regulations. Heatec complies with all applicable environmental rules and regulations, anti-competitive behaviour laws and requirements on health and safety. We prohibit corruption in all forms, including extortion and bribery.

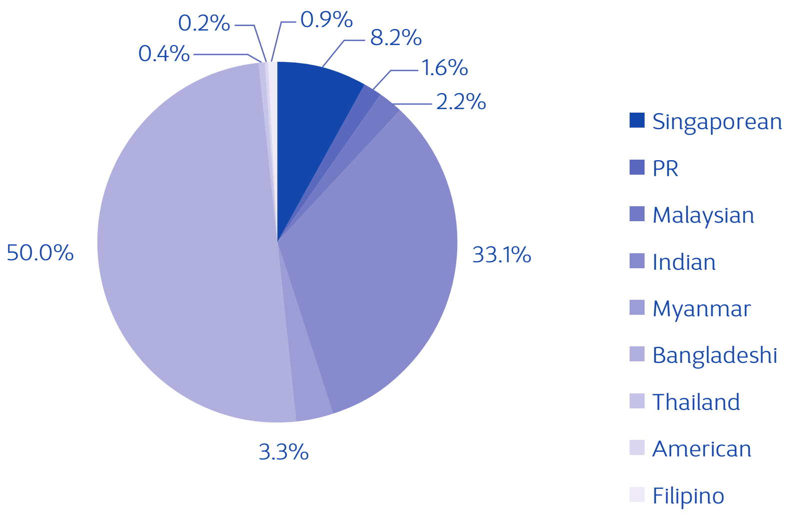
HUMAN RIGHTS

Heatec provides competitive remuneration based on merit to our employees. Our employees are not covered by collective bargaining agreements, but are given the right to exercise freedom of association. Employees are given a minimum of one month's notice prior to any implementation of significant operational changes that could substantially affect them.

NON-DISCRIMINATION

When it comes to hiring, we take seriously any possibility of conflict of interest. Our code of conduct clearly spells out Heatec's expectations from our staff and the consequences, if any, if the rules are violated or standards are not met. We also have clear and fair grievance procedures.

NATIONALITY



CHILD LABOUR/FORCED OR COMPULSORY LABOUR

We respect human rights, support the elimination of all forms of forced and compulsory labour, especially child labour, and do not tolerate any discrimination in respect of employment and occupation.

PRODUCT RESPONSIBILITY

Heatec has set a target of 85% partner customer satisfaction and no more than one customer reject a month. This target was met in FY2017, FY2018 and FY2019. In FY2019, our customer satisfaction is 85%.

For FY2019, the Company recorded 10 non-compliance cases, as compared to 24 in FY2018. This is a great improvement and we will continue to do our best by minimizing the non-compliance rate.

Target:

To achieve 85% customer satisfaction.
To have less than 10 non-compliance cases for FY2020.

INFORMAL SESSIONS WITH STAFF

Heatec's human resource department conducts informal sessions with staff on a regular basis to determine the level of satisfaction and to gather feedback. Employees' inputs are taken into account in the formulation of human resource practices and programmes such as Corporate Social Responsibility (CSR) or Workplace Health Promotion (WHP) activities.

SUPPLIER ASSESSMENT FOR ENVIRONMENTAL ASSESSMENT

Heatec has a 9-step supplier pre-assessment procedure which currently focuses on economic criteria as well as an internal survey to rate suppliers. Going forward, labour practices will be included in the criteria so that we only do business with partners who share our commitment to the environment.

OUR PEOPLE AND ETHICS

WHAT IS HEATEC DOING TO DEVELOP SKILLS OF OUR EMPLOYEES?

TRAINING AND EDUCATION

In order to enable the Company to attract and retain talent, Heatec offers educational sponsorship, job related workshops, training sessions and seminars. All employees are subject to annual performance review and performance target setting sessions with their superiors.

For FY2019, Heatec has offered all management staffs to undergo the Excel Marco course to widen their Excel knowledge and increase their productivity and reduce the time spent on any report submission using Excel. Total of 11 management staffs had enrolled for Excel Marco course, each staff had undergone 16 hours of training for the Excel Marco course.

Existing employees received an average of 8 hours (2018: 8 hours) training in FY2019. New employees received 44 hours (2018: 44 hours) training before they could commence work in FY2019.

Target:
To provide 44 hours of training to new employees before commencing work and 8 hours of training to existing employees. Heatec targets to provide more management training programs in FY2020.

DIVERSITY AND EQUAL OPPORTUNITY

At Heatec, we offer workplace diversity and equal opportunities to our employees. For workplace diversity, we value everyone's differences. We learn from each other regardless of cultural background and bring those differences into the workplace to broaden experience and knowledge. Diversity includes not only race but gender ethnicity, personality, age, education and background.

For equal opportunities, all employees are treated equally and not disadvantaged by prejudices or bias. The well performing employees will qualifying for promotion or rewards regardless of their race, gender, ethnicity, personality, age, education and background.

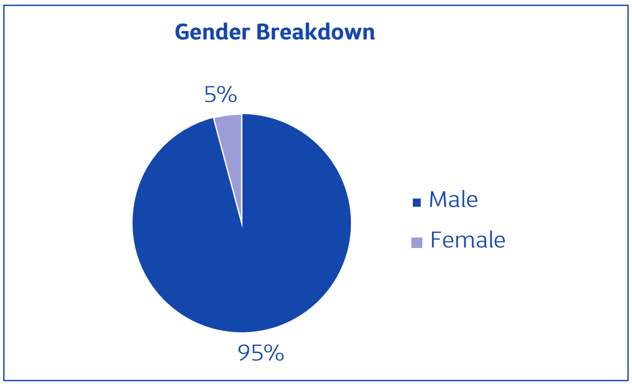
In Singapore, while female representation at the Board level is relatively low, in Heatec, we appointed Ms Lie Ly @ Liely Lee on 27 July 2018 to be part of the Board of Directors.

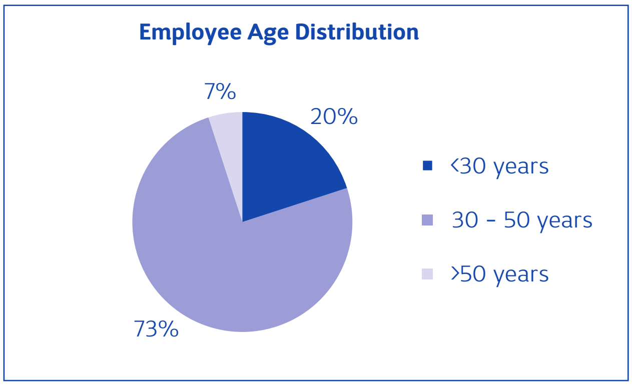
Heatec employs staff and provide equal opportunity to staff based on merit and performances.

From 615 employees in FY2018, our workforce reduced to 450 employees in FY2019.

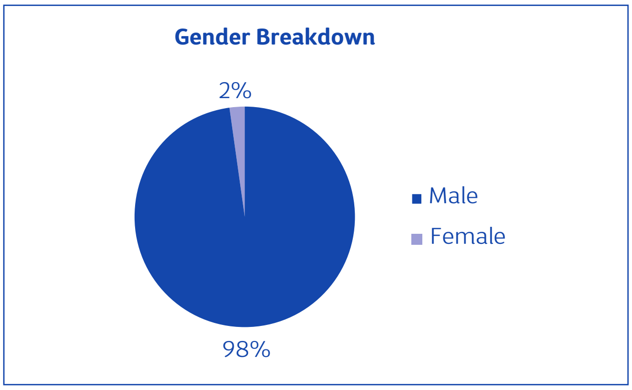
SUSTAINABILITY REPORT

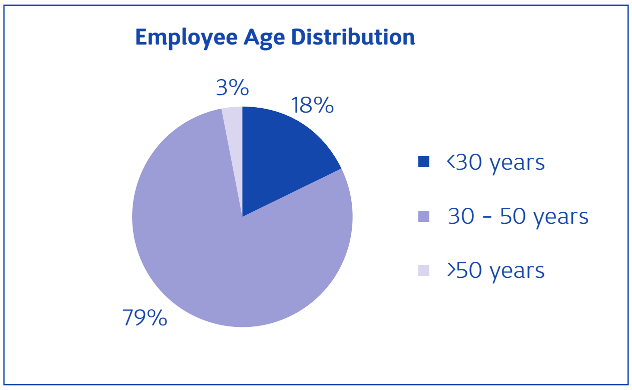
FY2018





FY2019





There is a high percentage of male as compared to female due to the nature of the job and the industry.

VALUE TO SOCIETY

WHAT DO YOU BRING TO THE LOCAL COMMUNITIES?

LOCAL COMMUNITIES

At Heatec, we assume the responsibility to ensure that the Company's activities positively impact communities in and around the areas in which we operate. We aim to develop training programmes in all locations we operate to transfer knowledge to local communities.

Our Group offers Industrial Attachment opportunities to students from tertiary institutions. In 2019, the Group has provided 2 students from Ngee Ann Polytechnic the chance to work with the Group.

Heatec aims to continue the relationship with Ngee Ann Polytechnic and the internship program provided by them as the internship programme is beneficial to both the company and the students. As a company, we provide training road maps and their supervisors are required to review on their work every three months. This not only helps facilitate the students' learning curve, it also provides feedbacks to the students on their progress; and thus get them mentality prepared for their future career.

In FY2019, the Company completed the following activities:

- Meal-on-wheels volunteer programme in association with In-Touch Homes
- 7 A-Side Soccer competition for management and workers
- BBQ event in Heatec Jietong Pte Ltd premise
- Company annual party/dinner
- Collaborated with Ngee Ann Polytechnic, Marine and Offshore Technology for the internship program once every 6 months.

In addition, all employees are entitled to claim half a day off for approved charitable volunteer events.

Meals-on-Wheels is a meal delivery programme to meet the daily needs of the home-bound elderly.
The elderly, who usually live alone, depend on volunteers from TOUCH Home Care's Meals-on-Wheels to deliver their meals every day. This year, we encourage staffs who are volunteering to bring their kids along for this voluntary event

Meals on Wheels 2019 (Date: 16 May 2019)

7 A Side Soccer competition for management and workers (Date: 14 June 2019)

BBQ event for in Heatec Jietong Pte Ltd premises (Date: 2 August 2019)

SUSTAINABILITY
REPORT


Company annual party/dinner 2019 (Date: 13 December 2019)

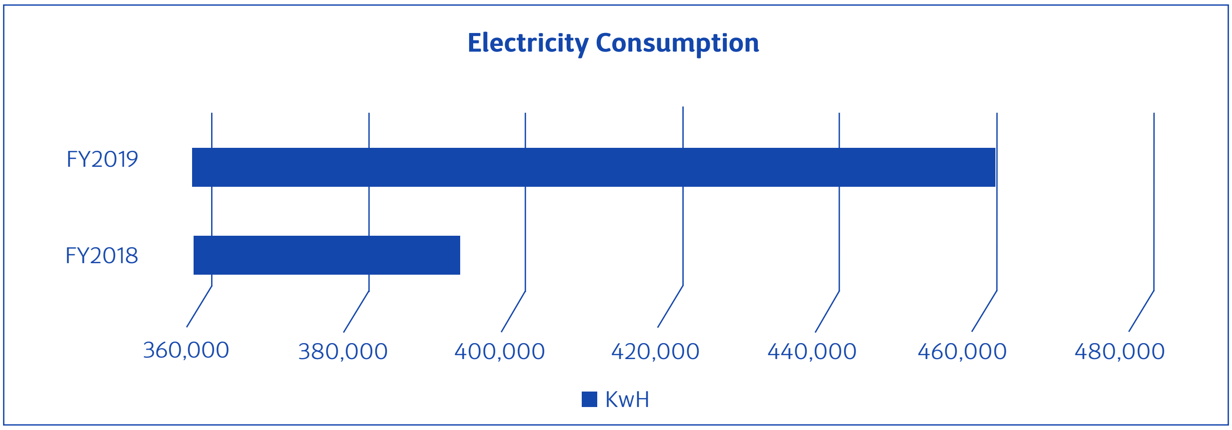
Target:
To have at least 4 local communities' events per annum.

ENVIRONMENT

WHAT ARE YOUR TOP ENVIRONMENT ISSUES AT A LOCAL LEVEL?

ENERGY

As electricity consumption is extensive in our operations. The Group is fully aware of its responsibility for nurturing the environment and lessening negative environmental consequences at our worksites and the environment where we operate. We monitor our energy at our work places to ensure that we use our resources economically, meaningfully and responsibly.



Increase in usage compared to last year mainly due to an increase in work activities in the workshop, which is in tandem with the increase in revenue for FY2019.

For office operations, Heatec has consolidated from three to two floors with corresponding savings in energy use.

Target:
To reduce electric consumption by 10-20%.

EFFLUENTS AND WASTE

Our Group has round-the-clock monitoring through a National Environmental Agency-approved waste affluent system.

Chemical waste as a byproduct of operations are recycled where possible. Whatever left over is responsibly treated by our waste affluent system before safe disposal. On-site job waste will be by NEA licensed third-party contractor. In FY2019, our third-party service providers disposed a total of 55,840 kg of acid and alkaline.

The Company uses a 3-R approach advocating minimisation of segregation of production waste to minimise resource use, using them again and again instead of passing it on to the waste stream as recycling the materials goes a long way in achieving the goals of sustainability. It reduces pressure on our resources as well as reduces waste generation and pollution.

Office operations have implemented two-sided printing to save paper.

ENVIRONMENTAL COMPLIANCE

In FY2019, there were no incidence of non-compliance with laws and regulations resulting in significant fines or sanctions, and we endeavor to maintain this track record.

GOVERNANCE AND RISK

WHAT ROLE DOES THE BOARD PLAY IN LEADING HEATEC TOWARDS A SUSTAINABLE FUTURE?

SUSTAINABILITY COMMITTEE

In order to achieve sustainability, the Company has formed a Sustainability Committee for better management and direction. The Sustainability Committee's members comprise the Chief Executive Officer ("**CEO**"), Financial Controller ("**FC**"), and various Heads of Department.

We aim to develop some effective programs in reduction of resource use to promote sustainability in progressive milestones over the next 3 years. Committee members will assist in data collection for reporting and dissemination of the Sustainability Reporting to stakeholders. We aim to have a monthly Sustainability Committee Member's meeting to discuss, review and set targets for the Company's sustainability issues. Any targets behind schedule will be closely monitored and will be brought to the attention of all members to resolve any such issues.

SUSTAINABILITY GOVERNANCE

At Heatec, we believe that strong governance is key to a sustainable business. Throughout FY2019, we continue to comply with the Code of Corporate Governance. Please refer to the Annual Report for FY2019, pages 13 to 58 on the details of the Code of Corporate Governance we adhere to.

It is a continual challenge to successfully manage environmental and social issues. Heatec is working continuously to incorporate these issues into our business model and infuse it into our company culture. Our products and services meet all the requirements demanded by our customers and the regulatory bodies. We meet all environmental and safety standards to operate effectively.

Heatec pays close attention to enforce good labour practices in all our operations. The company provides many training opportunities for continued employee development and this is reflected in the quality and delivery of our products and solutions. We value our relationships with our clients and the wider community in which we operate as these relationships have helped us through challenging times in the past and see us into the future. Heatec strongly believes that in the long run, these efforts will have a positive impact on our economic performance.

SUSTAINABILITY REPORT

ENTERPRISE RISK MANAGEMENT (ERM)

The Group has an Enterprise Risk Management Framework in place to manage its exposure to risks that are associated with the conduct of its business. The Board will continue its risk assessment, which is an on-going process, with a view to improve the Group's internal control system.

CUSTOMER PRIVACY

Cyber security and data privacy are important not just for compliance but to safeguard both our data and that of our customers. Heatec takes measures to guard against cyber risks for both our internal and external stakeholders. We comply with the Personal Data Protection Act Policy. This policy also applies to our employment process where the privacy of all applicants is safeguarded, securely backed-up and access to personal data is restricted to authorised persons and senior management on a need-to-know basis.

STAKEHOLDERS

STAKEHOLDER ENGAGEMENT

An important starting point in our sustainability journey is to identify our stakeholders and material aspects relevant to our business. The interests and requirements of key stakeholders are also taken into account when formulating corporate strategies. These key stakeholders include, but not limited to, customers, suppliers, employees, investors, and regulators. We adopt both formal and informal channels of communication to understand the needs of key stakeholders, and incorporate these into our corporate strategies to achieve mutually beneficial relationships.

Heatec currently engages with our shareholders regularly via multiple channels such as annual general meetings, SGX-ST announcements, press releases and the company website.

Internally, strategies and initiatives are disseminated through the hierarchy through meetings such as our monthly management meetings, project meetings, safety meetings and daily toolbox meetings. Internal memos are also circulated via email and hard copies posted on noticeboards.

Key external suppliers are also audited annually for quality and quality performance as we recognise the importance of stakeholders' engagement and strive for continual improvement.

Heatec looks forward to more suggestion and improvements during the sustainability reporting implementation process, especially with the advice of professional consultants. We have ensured all necessary compliance with regulators such as the BCA, SCDF, NEA and SGX. We regularly engage with the Ministry of Manpower (MOM) on manpower related issues including foreign workers' documentation and keeping up to date with regulatory changes. We work with the NEA and have implemented a 24-hour monitoring system for waste effluent system. We are also active members of a number of trade associations and work closely with agencies such as Enterprise Singapore, Singapore Business Federation, ASMI and ASPRI.

Our engagement with our stakeholders is set out below:

Stakeholders	Engagement Platforms	Frequency of Engagement	Key concerns raised
EMPLOYEES	Townhall sessions Open dialogues among teams Induction and orientation program Comprehensive trainings Staff appraisal Employee survey	Once a year	Company's plans and goals for next 3 years Benefits of employees
INVESTORS/ SHAREHOLDERS	Annual Report Annual General Meeting Investor meetings/Roadshows for investors Teleconferences SGX Corporate Announcements Press releases Company website	Once a year	Financial performance
CUSTOMERS AND CONSUMERS	Frontline interaction by sales staff Hotline Email queries Customer feedback Customer surveys	Often	Value to society Risk assessment
LOCAL COMMUNITIES	Donations Face-to-face meetings Collaborate with Ngee Ann Polytechnic for industrial attachment internship program with the school of Marine and Offshore Technology.	Every six months	How the Group's operations impact to the society Working hours
SUPPLIERS AND SERVICE PROVIDERS	Face-to-face meetings Annual audit review on quality and feedback sessions	Often	Prompt payment
GOVERNMENT AND REGULATORS	Face-to-face meetings Regular reports Participation in discussions	As needed	Compliance

SUSTAINABILITY **REPORT**

To promote for sustainability, we aim to commit the following to our various stakeholders:

Stakeholders	Commitments
Shareholders	To maximise the return on investment for shareholders.
Employees	To provide training for staff development and safe working environment.
Customers	To achieve and enhance customer satisfaction through on-time delivery of quality products, services and solutions.
Suppliers	To collaborate with the suppliers to ensure that they have met the Sustainability standard in the industry.
Community	To contribute to the community.

GRI STANDARDS CONTENT INDEX

GRI Standard	Disclosure		Reference/Description
GRI 101: Foundation 2016			
GENERAL DISCLOSURE			
GRI 102: General Disclosures	102-1	Name of organisation	Heatec Jietong Holdings Ltd.
	102-2	Activities, brands, products and services	AR: 01
	102-3	Location of headquarters	AR: 76
	102-4	Location of operations	AR: 102-107
	102-5	Ownership and legal form	AR: 102-107
	102-6	Markets served	AR: 02-03
	102-7	Scale of the organisation	AR: 08-10, 143-144
	102-8	Information on employees and other workers	SR: 142-144
	102-9	Supply chain	SR: 140
	102-10	Significant changes to the organisation and its supply chain	None
	102-11	Precautionary Principle or approach	Heatec supports the intent of the Precautionary Principle, but has not expressed a specific commitment.
	102-12	External initiatives	None
	102-13	Membership of associations	SR: 148
	102-14	Statement from senior decision maker	SR: 02-03, 136
	102-16	Values, principles, standards and norms of behaviour	Content Page
	102-18	Governance structure	AR: 13-58
	102-40	List of stakeholder groups	SR: 148-149
	102-41	Collective bargaining agreements	None

GRI Standard	Disclosure		Reference/Description
	102-42	Identifying and selecting stakeholders	SR: 148-149
	102-43	Approach to stakeholder engagement	SR: 148-149
	102-44	Key topics and concerns raised	SR: 139-147
	102-45	Entities included in the consolidated financial statements	AR: 102-107
	102-46	Defining report content and topic boundaries	SR: 136
	102-47	List of material topics	SR: 139
	102-48	Restatement of information	Not applicable
	102-49	Changes in reporting	None
	102-50	Reporting period	SR: 136
	102-51	Date of most recent previous report	04 April 2019
	102-52	Reporting cycle	Annual
	102-53	Contact point for questions about the report	SR: 136
	102-54	Claims if reporting in accordance with the GRI Standards	This report has been guided by the GRI Standards (Core option)
	102-55	GRI content index	SR: 150-152
	102-56	External Assurance	We may seek external assurance in the future.
MATERIAL TOPICS			
GRI 201: Economic performance	103-1	Explanation and reporting boundary	SR: 140
	201-1	Direct economic value generated and distributed	SR: 08-10, 68-75, 140
Anti-corruption			
GRI 302: Energy	103-1	Explanation and reporting boundary	SR: 146
	302-1	Energy consumption within the organisation	SR: 146
GRI 306: Effluents and Waste	103-1	Explanation and reporting boundary	SR: 147
	306-2	Waste by type and disposal method	SR: 147
GRI 307: Environmental compliance	103-1	Explanation and reporting boundary	SR: 147
	307-1	Non-compliance with environmental laws and regulations	SR: 147
GRI 404: Training and Education	103-1	Explanation and reporting boundary	SR: 143
	404-1	Average hours of training per year per employee	SR: 143
GRI 403: Occupational health and safety	103-1	Explanation and reporting boundary	SR: 141
	403-2	Types of injury and rates of injury: occupational diseases: lost	SR: 141

SUSTAINABILITY REPORT

GRI Standard	Disclosure		Reference/Description
GRI 405: Diversity and equal opportunity	103-1	Explanation and reporting boundary	SR: 143-144
	405-1	Diversity of governance bodies and employees	SR: 143-144
GRI 406: Non-discrimination	103-1	Explanation and reporting boundary	SR: 142
	406-1	Incidents of discrimination and corrective actions taken	SR: 142
GRI 413: Local Communities	103-1	Explanation and reporting boundary	SR: 144-146
	413-2	Operations with local community engagement, impact assessments, and development programs	SR: 144-146

STATISTICS OF SHAREHOLDINGS

AS AT 9 MARCH 2020

Issued and fully paid-up share capital	:	S$12,192,447
Number of issued shares (excluding treasury shares and subsidiary holdings)	:	122,959,345
Number of treasury shares	:	Nil
Number of subsidiary holdings held	:	Nil
Class of shares	:	Ordinary shares
Voting rights	:	One vote for each ordinary share

Zero per centum (0%) of the aggregate number of treasury shares and subsidiary holdings held against the total number of issued shares (excluding treasury shares and subsidiary holdings)

ANALYSIS OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 – 99	0	0.00	0	0.00
100 – 1,000	17	5.92	11,545	0.01
1,001 – 10,000	55	19.16	378,600	0.31
10,001 – 1,000,000	206	71.78	22,212,823	18.06
1,000,001 and above	9	3.14	100,356,377	81.62
	287	**100.00**	**122,959,345**	**100.00**

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

Name of Substantial Shareholders	No. of shares (Direct Interest)	Percentage (%)	No. of shares (Deemed Interest)	Percentage (%)
Tru-Marine Pte. Ltd.	32,030,678	26.05	–	–
Loke Weng Seng[1]	–	–	32,030,678	26.05
Loke Yuen Kong[2]	–	–	32,030,678	26.05
Chan Hon Sing[3]	–	–	32,030,678	26.05
Johnny Soon Yeow Kwee[4]	22,273,599	18.11	4,816,078	3.92
Yong Yeow Sin[5]	27,214,599	22.13	4,816,078	3.92

Notes:

(1) Mr Loke Weng Seng is deemed to have an interest in the 32,030,678 shares in the capital of the Company which is held by Tru-Marine Pte. Ltd. by virtue of Section 7 of the Companies Act, Cap. 50.

(2) Mr Loke Yuen Kong is deemed to have an interest in the 32,030,678 shares in the capital of the Company which is held by Tru-Marine Pte. Ltd. by virtue of Section 7 of the Companies Act, Cap. 50.

(3) Mr Chan Hon Sing is deemed to have an interest in the 32,030,678 shares in the capital of the Company which is held by Tru-Marine Pte. Ltd. by virtue of Section 7 of the Companies Act, Cap. 50.

(4) Mr Johnny Soon Yeow Kwee is deemed to have an interest in the 4,816,078 shares in the capital of the Company which is held by his spouse, Madam Jasmine Ow Ah Foong.

(5) Mr Yong Yeow Sin is deemed to have an interest in the 4,816,078 shares in the capital of the Company which is held by his spouse, Madam Ng Guick Kim.

STATISTICS OF **SHAREHOLDINGS**

AS AT 9 MARCH 2020

TWENTY LARGEST SHAREHOLDERS

NO.	NAME OF SHAREHOLDERS	NUMBER OF SHARES	%
1.	Tru-Marine Pte Ltd	32,030,678	26.05
2.	Yong Yeow Sin	27,214,599	22.13
3.	Soon Yeow Kwee Johnny	22,273,599	18.11
4.	Ng Guick Kim	4,816,078	3.92
5.	Ow Ah Foong Jasmine	4,816,078	3.92
6.	DBS Nominees (Private) Limited	4,104,245	3.34
7.	Mohamed Abdul Jaleel s/o Muthumaricar Shaik Mohamed	2,000,000	1.63
8.	Goh Guan Siong (Wu Yuanxiang)	1,701,100	1.38
9.	Soon Jeffrey	1,400,000	1.14
10.	Soon Janice	1,000,000	0.81
11.	Soon Jenson	1,000,000	0.81
12.	Soon Jeremy	1,000,000	0.81
13.	Soon Ji Ling Jacqueline (Sun Jieling)	1,000,000	0.81
14.	Wang Jian Guo	928,000	0.75
15.	Raffles Nominees (Pte.) Limited	812,500	0.66
16.	Estate of Leow Sau Ching Helena, Deceased	770,000	0.63
17.	Wee Teow Heng Albert	604,600	0.49
18.	Low Chee Wee	560,965	0.46
19.	Maybank Kim Eng Securities Pte. Ltd.	545,000	0.44
20.	Koh Chin Hwa	482,000	0.39
	TOTAL	**109,059,442**	**88.68**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on information available to the Company as at 9 March 2020, approximately 21.49% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Heatec Jietong Holdings Ltd. (the "**Company**") will be held at 10 Tuas South Street 15, Singapore 637076 on Monday, 20 April 2020, at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2019, together with the Independent Auditor's Report thereon.

   (Resolution 1)

2. To re-elect the following Directors of the Company retiring pursuant to Regulations 98 and 99 of the Company's Constitution and who, being eligible, offer themselves for re-election, as Directors of the Company:

   Mr Anthony Ang Meng Huat **(Resolution 2)**
   Mr Chong Eng Wee (Zhang Yingwei) **(Resolution 3)**

   [See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$151,000 for the financial year ending 31 December 2020, to be paid quarterly in arrears (FY2019: S$151,000).

   (Resolution 4)

4. To re-appoint Messrs Baker Tilly TFW LLP as auditors of the Company, to hold office until the conclusion of the next annual general meeting of the Company and to authorise the Directors of the Company to fix their remuneration.

   (Resolution 5)

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. Authority to issue shares

That pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore (the "**Companies Act"**) and Rule 806 of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist (the "**Catalist Rules**"), the Directors of the Company be authorised and empowered to:

(a) (i) issue shares in the capital of the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares pursuant to any Instruments made or granted by the Directors of the Company while this Resolution was in force,

NOTICE OF
ANNUAL GENERAL MEETING

provided that:

(1) the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed one hundred per centum (100%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments made or granted pursuant to this Resolution) to be issued other than on a *pro-rata* basis to shareholders of the Company shall not exceed fifty per centum (50%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the percentage of issued Shares will be calculated based on the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new Shares arising from the conversion or exercise of any convertible securities;

(b) new Shares arising from exercising share options or vesting of share awards, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules; and

(c) any subsequent bonus issue, consolidation or subdivision of Shares,

Adjustments in accordance with sub-paragraph (2)(a) or sub-paragraph (2)(b) above are only to be made in respect of new Shares arising from convertible securities, share options or share awards which were issued and outstanding or subsisting at the time of the passing of this Resolution.

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Catalist Rules for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force (i) until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such Shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)]

(Resolution 6)

7. Authority to offer and grant options and to allot and issue shares under the Heatec Employee Share Option Scheme

That approval be and is hereby given to the Directors of the Company:

(i) to offer and grant options from time to time in accordance with the provisions of the Heatec Employee Share Option Scheme (the "**Heatec ESOS**");

(ii) pursuant to Section 161 of the Companies Act, to allot and issue from time to time such Shares as may be required to be issued pursuant to the exercise of options granted under the Heatec ESOS, as the case may be, and to do all such acts and things as may be necessary or expedient to carry the same into effect, provided always that the number of Heatec ESOS Shares to be issued, when aggregated together with the number of additional ordinary Shares issued and/or issuable pursuant to the Heatec ESOS and any other existing share schemes of the Company, shall not exceed fifteen per centum (15%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time; and

NOTICE OF
ANNUAL GENERAL MEETING

(iii) (unless revoked or varied by the Company in a general meeting), such authority conferred by this Resolution shall continue in full force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iii)]

(Resolution 7)

8. Authority to offer and grant awards and to allot and issue shares under the Heatec Performance Share Plan

That approval be and is hereby given to the Directors of the Company:

(i) to offer and grant awards from time to time in accordance with the provisions of the Heatec Performance Share Plan ("**Heatec PSP**");

(ii) pursuant to Section 161 of the Companies Act, to allot and issue from time to time such Shares as may be required to be issued pursuant to the vesting of awards granted under the Heatec PSP, as the case may be, and to do all such acts and things as may be necessary or expedient to carry the same into effect, provided always that the number of Heatec PSP Shares to be issued, when aggregated together with the number of additional ordinary Shares issued and/or issuable pursuant to the Heatec PSP and any other existing share schemes of the Company, shall not exceed fifteen per centum (15%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time; and

(iii) (unless revoked or varied by the Company in a general meeting), such authority conferred by this Resolution shall continue in full force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iv)]

(Resolution 8)

By Order of the Board

Kelly Kiar Lee Noi
Secretary
Singapore, 3 April 2020

Explanatory Notes:

(i) Mr Anthony Ang Meng Huat will, upon re-election as a Director of the Company, remain as the Non-Executive and Independent Director of the Company, Chairman of the Remuneration Committee of the Company and a member of the Audit and Risks Management Committee of the Company. He is considered by the Board of Directors of the Company (the "**Board**") to be independent for the purpose of Rule 704(7) of the Catalist Rules.

Mr Chong Eng Wee (Zhang Yingwei) will, upon re-election as a Director of the Company, remain as the Non-Executive and Lead Independent Director of the Company, Chairman of the Nominating Committee of the Company and a member of the Audit and Risks Management Committee of the Company. He is considered by the Board to be independent for the purpose of Rule 704(7) of the Catalist Rules.

Detailed information on each of the abovementioned Directors of the Company as required pursuant to Rule 720(5) of the Catalist Rules is on page 27 to page 33 of the annual report. There are no relationships (including immediate family relationships) between each of the abovementioned Directors of the Company and the other DIrectors of the Company, the Company, its related corporations, its substantial shareholders or its officers, which may affect his independence.

NOTICE OF ANNUAL GENERAL MEETING

(ii) The Ordinary Resolution 6 in item 6 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue Shares, make or grant Instruments convertible into Shares and to issue Shares pursuant to such Instruments, up to a number not exceeding, in total, one hundred per centum (100%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to fifty per centum (50%) may be issued other than on a pro-rata basis to shareholders of the Company.

For determining the aggregate number of Shares that may be issued, the percentage of issued Shares in the capital of the Company will be calculated based on the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Ordinary Resolution 6 is passed after adjusting for new Shares arising from the conversion or exercise of any convertible securities, or share options or vesting of share awards which were issued and outstanding or subsisting at the time when this Ordinary Resolution 6 is passed and any subsequent bonus issue, consolidation or subdivision of Shares.

(iii) The Ordinary Resolution 7 proposed in item 7 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to offer and grant options under the Heatec ESOS (which were approved at the extraordinary general meeting of the Company held on 18 June 2009 and extended at the annual general meeting of the Company held on 30 April 2019) and to allot and issue Heatec ESOS Shares, pursuant to the exercise of options granted under the Heatec ESOS, provided that the number of Heatec ESOS Shares to be issued under the Heatec ESOS respectively, when aggregated together with the number of additional ordinary Shares issued and/or issuable pursuant to the Heatec ESOS and any other existing share schemes of the Company does not exceed fifteen per centum (15%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company for the time being.

(iv) The Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to offer and grant awards under the Heatec PSP (which were approved at the extraordinary general meeting of the Company held on 18 June 2009 and extended at the annual general meeting of the Company held on 30 April 2019) and to allot and issue Heatec PSP Shares, pursuant to the vesting of awards granted under the Heatec PSP, provided that the number of Heatec PSP Shares to be issued under the Heatec PSP respectively, when aggregated together with the number of additional ordinary Shares issued and/or issuable pursuant to the Heatec PSP and any other existing share schemes of the Company does not exceed fifteen per centum (15%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company for the time being.

Notes:

1. A member of the Company (other than a Relevant Intermediary*) entitled to attend, speak and vote at the Annual General Meeting of the Company is entitled to appoint not more than two (2) proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

2. Where a member of the Company (other than a Relevant Intermediary*) appoints two (2) proxies, he/she shall specify the proportion of his/her shareholding to be represented by each proxy in the instrument appointing the proxies.

3. A Relevant Intermediary* may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him/her (which number and class of shares shall be specified).

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 10 Tuas South Street 15, Singapore 637076 not less than seventy-two (72) hours before the time appointed for holding the Annual General Meeting of the Company.

5. The instrument appointing a proxy or proxies must be signed by the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.

6. This notice has been prepared by the Company and its contents have been reviewed by the Company's sponsor, ZICO Capital Pte. Ltd. ("**Sponsor**"), in accordance with Rule 226(2)(b) of the Catalist Rules.

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

   The contact person for the Sponsor is Ms Alice Ng, Director of Continuing Sponsorship, ZICO Capital Pte. Ltd. at 8 Robinson Road, #09-00 ASO Building, Singapore 048544, telephone (65) 6636 4201.

NOTICE OF
ANNUAL GENERAL MEETING

* A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting of the Company and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting of the Company (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting of the Company (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

MEASURES TO MINIMISE RISKS OF COMMUNITY SPREAD OF COVID-19

In view of the COVID-19 situation, the following steps will be taken for shareholders and others who will attending the Annual General Meeting of the Company in order to minimise the risk of COVID-19 community spread:

1) All persons attending the Annual General Meeting of the Company will be required to undergo a temperature check and sign a health declaration form to provide the travel history on whether during the last 14 days he/she have been travelling to any of the COVID-19 affected countries, regions or areas identified by the Ministry of Health of Singapore's ("**MOH**") travel advisories as places to avoid travelling, prior the date of the Annual General Meeting of the Company (i.e. commencing from and including Monday, 6 April 2020). The health declaration form will be also be used for the purpose of contact tracing, if required.

2) Any person who has recent travel history to the affected countries listed by MOH or has been in contact with a suspected or confirmed COVID-19 patient, irrespective of nationality, during the said 14 days period will not be permitted to attend the Annual General Meeting of the Company.

3) Any person who has fever or exhibits flu-like symptoms will not be permitted to attend the Annual General Meeting of the Company.

4) There will be no food served at the Annual General Meeting of the Company.

Shareholders who are feeling unwell on the date of the Annual General Meeting of the Company are advised not to attend the Annual General Meeting of the Company. Shareholders are also advised to arrive at the venue of the Annual General Meeting of the Company early given that the above-mentioned measures may cause delay in the registration process.

As the COVID-19 situation continues to evolve, the Company will closely monitor the situation and reserves the right to take further measures according to the guidelines issued by MOH in order to minimise any risk to shareholders and others attending the Annual General Meeting of the Company. The Company seeks the understanding and cooperation of all shareholders to minimise the risk of community spread of the COVID-19.

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HEATEC JIETONG HOLDINGS LTD.

(Company Registration No. 200717808Z)

(Incorporated in the Republic of Singapore)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:

1. A relevant intermediary may appoint more than two (2) proxies to attend and vote the annual general meeting ("**AGM**") (please see Note 3 for the definition of "**relevant intermediary**").
2. For investor who holds shares under Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investor**") (as may be applicable), this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS Investors should contact their respective CPF Agent Banks/SRS Operators if they have any queries regarding their appointment as proxies.

*I/We, ______________________________ (Name), ______________________ (NRIC/Passport No.)

of ____ (Address)

being a member/members of **Heatec Jietong Holdings Ltd.** (the "**Company**"), hereby appoint:

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

and/or (delete as appropriate)

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the AGM as my/our* proxy/proxies* to attend and vote for me/us* on my/our* behalf at the AGM to be held at 10, Tuas South Street 15, Singapore 637076 on Monday, 20 April 2020, at 10.00 a.m. and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote for or against, or abstain the Resolutions proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies* will vote or abstain from voting at his/her/their* discretion, as he/she/they* will on any other matter arising at the AGM and at any adjournment thereof.

All resolutions put to the vote at the AGM shall be decided by way of poll.

No.	**Resolutions relating to:**	**Number of Votes For**(1)	**Number of Votes Against**(1)	**Number of Votes Abstain**(1)
1	Directors' Statement and the Audited Financial Statements for the financial year ended 31 December 2019 together with the Independent Auditor's Report			
2	Re-election of Mr Anthony Ang Meng Huat as a Director of the Company			
3	Re-election of Mr Chong Eng Wee (Zhang Yingwei) as a Director of the Company			
4	Approval of Directors' fees of S$151,000 for the financial year ending 31 December 2020, to be paid quarterly in arrears			
5	Re-appointment of Messrs Baker Tilly TFW LLP as auditors of the Company and authority to the Directors of the Company to fix their remuneration			
6	Authority to issue shares			
7	Authority to offer and grant options and to allot and issue shares under the Heatec Employee Share Option Scheme			
8	Authority to offer and grant awards and to allot and issue shares under the Heatec Performance Share Plan			

(1) If you wish to exercise all your votes "For" or "Against" or "Abstain", please tick (√) within the box provided. Alternatively, please indicate the number of votes as appropriate. If you mark the abstain box for a particular resolution, you are directing your proxy not to vote on that resolution on a poll and your votes will not be counted in computing the required majority on a poll.

Dated this ________ day of April, 2020

Total number of Shares in:	**No. of Shares**
(a) CDP Register	
(b) Register of Members	

____

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

** Delete where inapplicable*

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act (Cap. 289)), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company (other than a Relevant Intermediary) entitled to attend and vote at the AGM is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company. Where a Member appoints more than one (1) proxy, he/she shall specify the proportion of his/her shareholding to be represented by each proxy. If no such proportion or number is specified the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named or at the Company's option to treat the instrument of proxy as invalid.

3. A member of the Company who is a Relevant Intermediary entitled to attend the AGM and vote is entitled to appoint more than two (2) proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two (2) proxies, the appointments shall be invalid unless the member specifies the number and class of Shares in relation to which each proxy has been appointed.

   "Relevant intermediary" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Central Provident Fund Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the AGM.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 10 Tuas South Street 15, Singapore 637076 not less than seventy-two (72) hours before the time appointed for the AGM.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, (Cap. 50), and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 3 April 2020.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his/her name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.

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HEATEC JIETONG HOLDINGS LTD.
Company Registration Number: 200717808Z

No. 10 Tuas South Street 15 Singapore 637076
T: +(65) 6861 1433 F: +(65) 6861 1347
Email: admin@heatec.com.sg
Website: www.heatecholdings.com