FEDERAL INTERNATIONAL (2000) LTD
Incorporated in the Republic of Singapore
Company Registration No. 199907113K

PROPOSED DISPOSAL OF A SINGAPORE PROPERTY BY A WHOLLY-OWNED SUBSIDIARY – WAIVER FROM REQUIREMENT TO COMPLY WITH RULE 1014(2) OF THE LISTING MANUAL OF THE SGX-ST

1. INTRODUCTION

1.1 The Board of Directors ("**Board**") of Federal International (2000) Ltd (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 3 January 2022 (the "**Announcement**") in relation to the proposed disposal of the property at Lot 1383C of Mukim 7 and known as 11 Tuas Avenue 1 Singapore 639496 (the "**Property**") by the Company's wholly-owned subsidiary, Federal Hardware Engineering Co Ltd ("**Federal Hardware**"), pursuant to the sale and purchase agreement entered into with United Machinery & Trading Pte. Ltd., an independent third party, (the "**Purchaser**"), on 3 January 2022 ("**SPA**"), upon the terms and conditions set out in the SPA (the "**Proposed Disposal**").

1.2 The Proposed Disposal will constitute a major transaction under Chapter 10 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") ("**Listing Manual**"). Accordingly, the Proposed Disposal is subject to the approval of the shareholders of the Company ("**Shareholders**") under Rule 1014 of the Listing Manual by way of an ordinary resolution.

1.3 Further to the Announcement, the Board wishes to update the Shareholders that the Company had on 3 January 2022 applied to the SGX-ST for a waiver from compliance with Rule 1014(2) of the Listing Manual (the "**Waiver**") in relation to the Proposed Disposal, in lieu of seeking approval of its Shareholders for the Proposed Disposal at an extraordinary general meeting ("**EGM**") to be convened.

1.4 All capitalised terms used in this announcement where are not defined herein shall bear the respective meaning given to them in the Announcement.

2. WAIVER FROM THE REQUIREMENT TO COMPLY WITH RULE 1014(2) OF THE LISTING MANUAL

2.1 In SGX-ST's reply dated 14 April 2022, following the Company's submissions of responses to queries from SGX-ST, SGX-ST informed the Company that it has no objection to the Company's application for the Waiver, subject to the following:

(a) the Company announcing the Waiver granted, the reasons for seeking the Waiver, the conditions as required under Rule 107 of the Listing Manual and if the Waiver conditions ("**Waiver Conditions**") have been satisfied. If the Waiver Conditions have not been met on the date of the announcement, the Company must make an update announcement when the conditions have all been met; and

(b) the submission of a written confirmation from the Company that the Waiver does not contravene any laws and regulations governing the Company and the articles of association of the Company.

2.2 As of 26 April 2022, Shareholders collectively holding 40.5% of the total issued share capital (excluding treasury shares) of the Company provided undertakings to vote in favour of the Proposed Disposal at an EGM, if required.

3. REASONS FOR WAIVER APPLICATION

The reasons for the Company's application for Waiver are as follows:

3.1 <u>No material change in risk profile</u>: The Board is of the opinion that the Proposed Disposal will not result in material change of risk profile of the Group. The Proposed Disposal will also reduce the Group's bank borrowings (please see paragraph 3.3 below). The Property is a non-core asset (please see paragraph 3.2 below) and the Proposed Disposal will not affect the Group's existing core business.

The property at 12 Chin Bee Drive, Singapore 619868 owned by the Group (the "**Chin Bee Drive Property**") supports the Group's principal trading business segment comprising the sale and provision of flowline control products and services as well as the distribution of fire protection and detection systems. As at 31 December 2020, the businesses housed at the Chin Bee Drive Property generated more than 70% of the Group's revenue.

The Property, which supports the Group's trading segment, was used for the purpose of storage of valves and was partially rented out. In November 2021, the Group vacated the Property, and consolidated its operations and warehousing into its current premises at the Chin Bee Drive Property. As the Group is no longer utilizing the Property, the Proposed Disposal does not have a significant effect on the existing operations of the Group and will not affect the nature of the Group's main business.

Further, the Proposed Disposal also does not have a significant effect on the Group's existing business. As set out in the Announcement, assuming that the Proposed Disposal had been effected on 31 December 2021 (being the end of the latest audited financial year for the Group), there is a marginal decrease in the NTA per share from 42.83 Singapore cents to 42.79 Singapore cents after the Proposed Disposal.

3.2 <u>Non-core Asset</u>: The Proposed Disposal is a disposal of a non-core asset and will not affect the nature of the Group's main business. The Property was being used for the purpose of storage of valves and partially rented out. Since November 2021, the Group has consolidated its operations and warehousing into the Chin Bee Drive Property. The Property meets all the following criteria as set out in paragraph 7.3(b) of Practice Note 10.1 of the Listing Manual:

(a) it is not critical to the principal business activity of the Company;

(b) it is ancillary to the principal business activity of the Company; and

(c) it is not an existing principal business of the Company.

3.3 <u>Reduction of Bank Loans Exposure</u>: The Proposed Disposal will help to reduce Group's bank loans exposure. The Property has been mortgaged to United Overseas Bank Limited ("**UOB**") under a mortgage executed by Federal Hardware in favour of UOB ("**Mortgage**"), as part of securities for credit granted to Federal Hardware. The net proceeds of approximately S$3,987,000 from the Proposed Disposal will be fully utilised to pay down part of the facilities granted by UOB to secure the discharge of the Mortgage. After the discharge of the Mortgage on the Property, the total value of assets pledged to UOB would be reduced accordingly, and UOB may adjust the total facilities granted in line with the prevailing loan to value of assets pledged, thereby also reducing the Group's reliance on bank borrowings. Following the Proposed Disposal, the liquidity of the Group is expected to improve with the annual interest cost savings (S$169,000), which is higher than the annual net cash inflow of S$85,000 generated from partially renting out the Property (i.e. rental income less cost of rental) as calculated below:

	S$'000
Rental income	216
Less:	
Property tax	(43)
Lease payment to JTC [1]	(88)
Annual net cash inflow from Property	**85**

Note (1):
At the commencement date of lease, all future unpaid lease payments are discounted to present value, recognized as right-of-use assets and lease liabilities in the statement of financial position.

Subsequently, right-of-use assets are depreciated and interest on lease liabilities are computed. While monthly lease payment is made to JTC, depreciation of right-of-use assets and interest on lease liabilities are recorded as expenses in the Income Statement correspondingly.

The Board believes that the Proposed Disposal is in the best interests of the Group and Shareholders, as it will allow the Group to realise its non-core asset, redeem the Mortgage over the Property and improve the liquidity of the Group.

3.4 Terms of the SPA are favourable: The Company is of the view that the salient terms of the SPA are favourable, and it is in the interests of the Company for Federal Hardware to proceed with the Proposed Disposal, for the following reasons:

(a) The Consideration of S$4,030,000 is close to the valuation of S$4,100,000 conducted by TEHO Property Consultants Pte. Ltd., an independent valuer.

(b) The Company had been attempting to solicit offers from potential buyers for an extended period, from on or about February 2021. The offer from the Purchaser was the best offer made to date after undertaking several rounds of negotiations with the Purchaser and other offerors.

(c) The Company is of the view that the terms set out in the SPA are not unfavourable to the Company, being generally in line with market practice. The SPA was also the subject of several rounds of negotiations between the parties and their respective legal counsel. The SPA also accounts for the existing tenancy in respect of part of the Property, and that the Purchaser shall take vacant possession of the Property in the event that such tenancy has expired (and not been renewed) at Completion. Further, the Property is being sold on an as is where is basis as of the date of the signing date of the SPA and as at Completion Date.

3.5 Financial Benefit to the Group: Notwithstanding that the Proposed Disposal shall result in a disposal loss of S$70,000 (before deducting transactional expenses) based on the book value of the Property as at 31 December 2021, as stated in the Group's latest audited consolidated financial statements for the financial year ended 31 December 2021, the Board is of the view that the Proposed Disposal of the Property is in the best interests of the Group given the following:

(a) The Proposed Disposal will enable the Group to realize the value of the Property. In addition, it is in line with the Group's strategy to manage costs by consolidating its warehousing operations.

(b) There was no other firm alternative offer for the Property and the Consideration was the best price offered for the Property.

Further, the Proposed Disposal is in the best interests of the Shareholders, including the minority Shareholders for the following reasons:

(a) The expected recurring net loss before tax attributable to the Property can be avoided and reduced after the Proposed Disposal;

(b) With the Proposed Disposal, the Group will be able to unlock part of its non-current asset value and improve its leverage with the receipt of approximately S$3,987,000 in net proceeds from the Proposed Disposal now instead of selling at a lower price at a later time. The Property has only a remaining lease period of approximately 13 years until year 2034, and the diminishing leasehold period will put further downward pressure on the future valuation of the Property; and

(c) The proceeds will be used to reduce the Group's bank borrowings and thereby reduce interest costs. The current weighted average interest rate for certain facilities granted to Federal Hardware is 4.2% p.a., translating to annualized savings of S$169,000.

The expected recurring net loss before tax attributable to the Property is expected to be S$208,000 per year, calculated based on rental income net of depreciation expenses and related costs incurred in FY2021, on the assumption that the Property continues to be in use, as follows:

	FY2021 **S$'000**
Rental income	216
Less:	
Property tax	(43)
Depreciation of properties, plant and equipment	(277)
Depreciation of rights-of-use assets	(61)
Interest on lease liabilities	(43)
Net loss attributable to Property	**(208)**

The key financial information over the past 3 years in relation to (i) Rental income from the Property, (ii) profit/loss before tax, (iii) Net Asset Value, (iv) Working Capital, (v) Net cash generated from/used in operating activities, (vi) Net Tangible Assets, (vii) Net Assets/Net Liabilities is set out below:

		FY2019	FY2020	FY2021
Rental income from the Property	**S$'000**	216	216	216
Profit / (loss) before tax	**S$'000**	(1,158)	(6,003)	826
Net Asset Value	**cents**	59.17	55.35	56.89
Working Capital (net current assets)	**S$'000**	25,952	20,457	13,808
Net cash generated from/(used in) operating activities	**S$'000**	178	(8,689)	19,562
Net Tangible Assets	**S$'000**	68,571	61,473	60,248
Net Assets	**S$'000**	70,094	62,155	60,793

3.6 Independent Third Party: The Purchaser is an independent third party who was introduced to the Group by an independent agent. The Waiver will provide increased deal certainty and reduce the number of conditions precedent required for the completion of the Proposed Disposal.

An earlier Completion Date would enable Federal Hardware to effect its repayment to UOB earlier, thereby reducing the Group's bank borrowings and reducing interest costs earlier. Given that the current weighted average interest rate for certain facilities granted to Federal Hardware is 4.2% p.a., this would translate to significant annualized savings of S$169,000.

3.7 Time is of the Essence: As highlighted in paragraphs 3.3 and 3.5 above, an earlier Completion Date would be in the interests of the Group, as it would enable Federal Hardware to effect its repayment to UOB earlier, thereby reducing the Group's bank borrowings and reducing interest costs earlier. This would be aligned with the parties' preferred commercial intentions for Completion to be effected as soon as possible.

4. UPDATED RELATIVE FIGURES COMPUTED PURSUANT TO RULE 1006 OF THE LISTING MANUAL

4.1 The relative figures in relation to the Proposed Disposal computed on the applicable basis set out in Rule 1006 of the Listing Manual and based on the latest audited consolidated financial statements of the Group for the financial year ended 31 December 2021 ("**FY2021**") are as follows:

Rule 1006	Listing Rule	Relative Figures (%)
(a)	The net asset value of the assets to be disposed of, compared with the group's net asset value. This basis is not applicable to an acquisition of assets.	6.66%[(1)]
(b)	The net profits / losses attributable to the assets acquired or disposed of, compared with the group's net profits / losses.	-25.19%[(2)]
(c)	The aggregate value of the consideration given or received, compared with the issuer's market capitalisation based on the total number of issued shares excluding treasury shares.	27.03%[(3)]
(d)	The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue.	N/A[(4)]
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets. If the reserves are not directly comparable, the Exchange may permit valuations to be used instead of volume or amount.	N/A[(5)]

Notes:

(1) Computed based on the net asset value of the Property of S$4,049,000 and net asset value of the Group of S$60,793,000 as of 31 December 2021.

(2) Computed based on the net losses attributable to the Property of S$208,000 for FY2021 pertaining to rental income net of depreciation expenses and related cost and net profit of the Group of S$826,000 for FY2021.

(3) Computed based on Consideration of S$4,030,000, and the Company's market capitalisation of S$14,911,000. The Company's market capitalisation is determined by multiplying the 140,667,484 shares by the volume weighted average price of S$0.106 on 31 December 2021, being the last traded market day immediately preceding the date of the SPA.

(4) This basis is not applicable as there will be no issuance of equity securities by the Company in relation to the Proposed Disposal.

(5) This basis is not applicable as the Proposed Disposal is not of mineral, oil or gas assets.

5. UPDATED FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

5.1 The financial figures set out below are for illustrative purposes only and do not necessarily reflect the actual results and financial performance of the Group after the Proposed Disposal. No representation is made as to the actual financial position and/or results of the Group after the completion of the Proposed Disposal.

The following financial effects of the Proposed Disposal are computed based on the following bases and assumptions:

(a) the financial effect on the net tangible assets ("**NTA**") per Share is computed based on the assumption that the Proposed Disposal had been effected on 31 December 2021 (being the end of the latest audited financial year for the Group); and

(b) the financial effect on the earnings per share ("**EPS**") is computed based on the assumption that the Proposed Disposal had been effected on 1 January 2021 (being the beginning of the latest audited financial year for the Group).

NTA per Share

	Before Proposed Disposal	After Proposed Disposal
NTA (S$'000)	60,248	60,187
Number of issued Shares excluding treasury shares ('000)	140,667	140,667
NTA per Share (cents)	42.83	42.79

EPS

	Before Proposed Disposal	After Proposed Disposal
Profit/(Loss) attributable to Shareholders of the Company (S$'000)	334	(85)
Weighted average number of issued Shares excluding treasury shares ('000)	140,667	140,667
EPS (cents)	0.24	(0.06)

5.2 Book Value of the Property

Based on the Group's latest audited consolidated financial statements for FY2021, the book value of the Property is S$4,100,000.

5.3 NTA of the Property

Based on the Group's latest audited consolidated financial statements for FY2021, the NTA value of the Property is approximately S$4,049,000.

5.4 Net Loss Attributable to the Property

Based on the FY2021 financial statements, the net loss (before tax) attributable to the Property for FY2021 is approximately S$208,000.

5.5 Deficit of Consideration over Book Value

Based on the book value of the Property as set out in paragraph 5.2 above, there is a deficit of approximately S$70,000 of the Consideration over the said book value.

6. NO CONVENING OF EGM

6.1 The Board confirms that the Waiver does not contravene any laws and regulations governing the Company and the articles of association of the Company.

6.2 Following this announcement, the Company confirms that the Waiver Conditions have been satisfied.

6.3 As the SGX-ST has granted the Waiver to the Company, the Company will not be convening an EGM to seek the approval of Shareholders for the Proposed Disposal and accordingly, will not be dispatching a circular to Shareholders in relation thereto.

6.4 The Company will make further announcements in relation the Proposed Disposal as and when there are material developments.

7. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts on the Proposed Disposal, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in this announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this announcement in its proper form and context.

8. CAUTIONARY STATEMENT

Shareholders and potential investors of the Company are advised to read this announcement and the other announcements by the Company carefully. Shareholders are advised to refrain from taking any action in respect of their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. In the event of any doubt, Shareholders should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

BY ORDER OF THE BOARD

Mr Koh Kian Kiong
Executive Chairman and Chief Executive Officer
Date: 28 April 2022

About Federal International (Bloomberg Code: FEDI SP)
Established in 1974 and listed on the mainboard of the Singapore Stock Exchange in 2000, Federal International (2000) Limited ("**Federal**" and together with its subsidiaries, the "**Group**"), is an integrated service provider and procurement specialist in the oil and gas and energy industries. The Group's main trading business contributes over 90% of total turnover.

The Group's strategy for sustainable growth of the trading business is through forming strategic partnerships. One such partnership is with PT Gunanusa Utama Fabricators ("**PTG**"). PTG is an established EPCIC contractor and its customers include oil majors such as TOTAL, Petronas, ONGC, Pertamina and PTTEP. The Group provides procurement services to PTG for the projects secured by PTG.

In addition, the Group has a design and manufacturing facility located in Scotland, the United Kingdom. The facility is American Petroleum Institute (API) Q1, Spec 6D, ISO 9001:2015 and Pressure Equipment Directive 97/23/EC (PED) certified. Products manufactured also meet the Safety Integrity Level (SIL) Qualification independently certified by Exida.

The Group also owns a floating, storage and offloading ("**FSO**") vessel through its 30% interest in an associate. The FSO is chartered to PT Pertamina Hulu Energi OSES. The Group has a 1,200 HP American built land drilling rig. The Group also operates an industrial tap water plant in the People's Republic of China under a 30-year Build, Operate and Transfer agreement with the local Xinjin District, Chengdu government.