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

REPLY TO SGX QUERIES REGARDING THE COMPANY'S ANNOUNCEMENT DATED 18 OCTOBER 2021 TITLED "REPLY TO SGX QUERIES REGARDING THE COMPANY'S ANNOUNCEMENTS DATED 24 SEPTEMBER 2021 TITLED "FEDERAL SIGNS PROCUREMENT AGREEMENT WITH PT GUNANUSA UTAMA FABRICATORS", THE COMPANY'S HALF YEAR FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 ("1HFY21") AND THE COMPANY'S RESPONSES TO SGX QUERIES ON ITS 1HFY21 FINANCIAL STATEMENTS"

The Board of Directors (the "Board") of Federal International (2000) Ltd (the "Company", together with its subsidiaries, the "Group") would like to provide the following information in response to the queries from the SGX-ST.

Query 1:
Please disclose the role and obligations of the Company under the procurement agreement with PTG.

Company's response:

The Group's role is to execute and complete the defined procurement works in accordance with the provisions of the procurement agreement. The Group shall provide all superintendence, labour, materials, plant and equipment required in and for the design, execution, completion and remedy of any defects in accordance with the procurement agreement.

Procurement works include procurement and supply of specified procurement items and ensuring delivery and transportation of the items to the designated fabrication yards in accordance with the project time schedule.

Query 2:
It was disclosed that PTG will receive payments for the procurement scope by way of remittance to a designated bank account jointly controlled with the Group. In this regard, please provide the following information: -

i. Who has control of this designated bank account?
ii. What's the approval matrix of this designated bank account?
iii. Who the payments are from.
iv. How are payments being carefully managed in a progressive manner?
v. Details of the Audit Committee's oversight over the exposure to PTG.

Company's response:

i) The designated bank account is in the name of PTG and the signing mandate is by any two authorized signatories. Authorized signatories include only one representative from PTG and three from Federal as such Federal has control of the designated bank account.

ii. Please refer to (i) the above. It is also important to note that the designated bank account includes a mandated sweeping mechanism where money is transferred to Federal's bank account in Singapore at the end of each banking day.

iii. PTG's customer is an oil company in Southeast Asia ("Project owner").

iv. Federal will invoice PTG for milestone achieved under the procurement agreement. Upon receipt of Federal's invoice, PTG will raise the same milestone claims to Project Owner for approval. PTG's milestone invoice will comprise segregated claims for Federal's procurement and PTG's other claims. Upon approval, Project Owner will update both PTG and Federal on expected remittance date. Federal will monitor the progress, project schedule as well as milestone invoice and collection for its procurement scope.

v. The Audit Committee (AC) is presented with periodic updates of PTG including: -

a) Financial performance of PTG;
b) PTG bank borrowings;
c) PTG's order book and project prospect;
d) The Group's exposure to PTG including the loan to Pak Azmil.

A valuation exercise is also conducted to assess the need for impairment of the Group's investment in PTG and the loan to Pak Azmil as Pak Azmil's shares are pledged as security for the loan.

Query 3:
Please disclose the steps management is taking to control and mitigate the existing trade receivables position.

Company's response:

The net carrying amount of the Group's trade receivables as at 30 June 2021 that were more than 120 days due amounted to $11.6 million.

	30 Jun 2021 (S$'m)
Amount due from PTG who is committed to make repayment from surplus cash generated from project secured	8.4
Amount due from Indonesian companies – with agreed repayment plans	1.3
Amount due from a major customer – relates to retention amount in accordance with contract terms and awaits final completion of documentation	0.9
Others – Include companies that are established customers that continues to trade with the Group with managed credit granted	1.0
Amounts that were more than 120 days past due	**11.6**

Included in the amount that are more than 120 days past due is amount due from one major customer, PTG, which is also an investee company. PTG is committed to make repayment from surplus cash generated from its project secured. We continue to monitor PTG's financial position and performance on a periodic basis to manage the Group's exposure to PTG.

The Group continues to engage its customers and manages collections on the agreed terms of payments. For customers affected by the Covid-19 pandemic or financial difficulties, the Group continues to work with established customers on agreed settlement terms after evaluation of each case.

On the Indonesian trading business, recovery works are on-going and legal actions have commenced on certain debtors. In addition, the Group has tightened the credit control and implemented requirements of more secured payment assurance over this Indonesian trading business that incurred a significant trade receivable impairment in FY2020.

Query 4:
It was disclosed that payments are relatively secured where receipts of milestone payment for the procurement scope to be credited into a designated bank account jointly controlled. In this regard: -

i. Please provide an explanation as to why the Board is of the view that payments are relatively secured.
ii. Please clarify who jointly controls the bank account.

Company's response:

i. Milestone invoices for the procurement scope from PTG to Project Owner are separately and clearly presented to the Project Owner for approval of payment. Project Owner notifies the working team of approved payment and schedule of remittance. Remittance from Project Owner is received in the designated bank account with sweeping mandate to transfer all money in the designated account to the Federal's bank account in Singapore at the end of each banking day.

ii. The designated bank account is controlled by Federal in accordance with the procurement agreement. Please refer to response for 2 (i) & (ii).

Query 5:
Please disclose the bases for the Board's assessment that no impairment on trade receivables is necessary.

Company's response:

The Management have examined the recoverability of trade receivables individually and collectively based on the age of debts to identify any expected credit losses. The Management also estimates the expected credit loss rates for each category of past due status of the trade receivables based on historical credit loss experience. Based on these assessments, no further impairment on trade receivables is necessary. The Board accepted management's assessment.

Query 6:
Please disclose the roles of President Commissioner and Commissioner of PTG.

Company's response:

PTG has a 4-member Board of Directors responsible for running the day-to-day operations and business of PTG. None of the directors are related to the Group and its directors.

PTG has a 4-member Board of Commissioners responsible for supervising the Board of Directors in performing its duties and responsibilities. The 4 members of the Board of Commissioner include Mr. Koh Kian Kiong, Mr. Don Koh, Pak Azmil and a Malaysian national who controls approximately 28% of PTG.

Duties & Responsibilities of Board of Commissioner for PTG:

- The main duties & responsibilities of the Board of Commissioners as the PTG's corporate body are to supervise the Board of Directors in the running operation of PTG.
- The Board of Commissioners is prohibited to be involved in the decision-making process pertaining to PTG's operating activities, except for other matters as prescribed in its Articles of Association or prevailing regulation, particularly for the following actions:

  (a) Borrow or lend money (excluding from withdrawing money from Bank); and/or
  (b) Incorporate a business or participate in other company either in home country or overseas.

- The Board of Commissioners shall be entitled to audit all bookkeeping, letters, and other evidences, audit and cross check cash position and other matters;
- The Board of Commissioners shall be entitled to know any actions taken by the Board of Directors, and the Board of Directors shall provide any clarification concerning any matter inquired by the Board of Commissioners.

The President Commissioner role is to coordinate activities for the Board of Commissioners.

Query 7:
In regard to the Company's loan to Pak Azmil Rahman ("Pak Azmil"), please provide the following information: -

i. What is Pak Azmil's designation in PTG?
ii. When was the loan provided and why was there an impairment of 2mil made?

iii. When is Pak Azmil expected to repay the loan?
iv. Has there been any repayment by Pak Azmil on the loan and if so, please provide details.
v. Please provide salient terms of the loan disclosed.
vi. Did Pak Azmil disclose details of what the loan will be used for? If not, why did the Company think it's in their best interest to provide the loan?
vii. What sort of credit checks were performed on Pak Azmil before performing the loan?
viii. Why was an impairment of 2mil necessary?

Company's response:

i. Pak Azmil is a member of the Board of Commissioner.

ii. The Company extended shareholder's loan to PTG during year 2015 and 2016, amounting to S$13 million. On 7 December 2016, a loan agreement was entered with Pak Azmil whereby the Company novated its loan to PTG of S$13 million to Pak Azmil that was converted to shares in PTG. The loan amount is secured by the Pak Azmil's shares in PTG. An impairment of S$2 million was made in FY2019. The management assessed impairment by taking into consideration the fair value of the pledged shares, which is determined by reference to the equity value of PTG based on valuation performed by an independent external valuer (BDO Advisory Pte Ltd, as disclosed in previous announcement dated 18 October 2021).

iii. The loan is due in December 2023.

iv. Pak Azmil has not made any repayment on the loan as at to-date.

v. The Loan include terms as follows: -

- The loan is denominated in Singapore Dollar;
- Interest shall accrue at 7% or otherwise agreed upon between the parties;
- Settlement of principal and interest upon maturity of the loan;
- 90,000 shares of PTG are pledged as security.

vi. PTG, Pak Azmil and the Group entered into a novation agreement where amount owing from PTG to the Group was novated to Pak Azmil and Pak Azmil in return received shares of PTG as settlement by PTG.

As Pak Azmil has been a long business associate of Mr Koh Kian Kiong and both shares the same vision to develop and grow PTG into a regional EPC player. The Group provide its expertise in procurement management to support PTG in tenders and joint tenders for regional projects where PTG is an approved vendors for regional oil majors. It is a mutually beneficial relationship

In addition, the Indonesian regulation limits the equity interest of foreign participation in PTG. Furthermore, adhering to a cap on foreign ownership allows PTG to retain its local status and continues to remain competitive in tenders for local projects. It is therefore beneficial to the Group that PTG retain its status as a locally controlled entity. Having a partner who shared the same vision for PTG will benefit the Group in the longer term where the Group can participate in project tenders.

vii. Mr. Koh Kian Kiong has been a long business associate of Pak Azmil and knows Pak Azmil personal background and professional profile. These, coupled with the loan fully secured with PTG shares, the loan was novated to Pak Azmil.

viii. Please refer to "ii" above.

Query 8:
Please disclose the net tangible asset value of PTG for FY2017, FY2018, FY2019 and FY2020.

Company's response:

	FY2017 USD'000	FY2018 USD'000	FY2019 USD'000	FY2020 USD'000
Net tangible assets	18,546	18,732	12,698	10,864

Query 9:

Please also clarify if the key financial information of PTG previously disclosed were audited.

Company's response:

The key financial information of PTG previously disclosed were audited in accordance with Standards on Auditing established by Indonesian Institute of Certified Public Accountants.

By order of the Board

Koh Kian Kiong
Executive Chairman and CEO
29 October 2021

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.