



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

RESPONSE TO QUESTIONS FROM SIAS AND SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS FOR THE ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2021

The Board of Directors (the “**Board**” or “**Directors**”) of Federal International (2000) Limited (“**Federal**” or the “**Company**”, and together with its subsidiaries, the “**Group**”) would like to provide responses to the questions raised by Securities Investors Association (Singapore) (“**SIAS**”) and substantial and relevant questions raised by shareholders for the Company’s Annual General Meeting to be held on 28 April 2021 as follows:

A) Questions from SIAS

	Question	Response
1	Despite the pandemic, the group’s revenue in FY2020 increased by 8.9% to \$68.1 million in FY2020. This was mainly attributed to higher sales from trading business in China, Thailand, and Vietnam. As disclosed in the business and financial review (page 11), revenue contribution from China rose by 44.6% from \$19.5 million in FY2019 to \$28.2 million in FY2020 as a result of increased demand for ship scrubbers. Vessels have to be retrofitted with scrubbers to comply with International Maritime Organization (“IMO”) 2020 regulations which limit sulphur in shipping fuels to 0.5%.	
(i)	For the benefit of shareholders, can management provide greater clarity on the group’s core competency as a “procurement specialist” serving the offshore marine, oil and gas industry? What value-add does the group provide?	As a procurement specialist, our activities include the handling and procuring of goods and raw materials on behalf of our customers. We assist our customers to monitor and expedite the movement of goods and raw materials with their manufacturers and suppliers. In addition, we provide progress updates and assistance in arranging for third-party inspection at either the manufacturer or supplier’s port of loading or in Singapore before shipment.

		<p>In addition, we undertake technical sourcing for products for our clients in the oil and gas industry. Technical sourcing involves discussions with our clients to gain a good understanding of their technical requirements on product specifications as well as their concerns on product cost and the delivery lead-time. These discussions enable us to source for suitable products to match their needs and to assist them in terms of budget control and project schedule management.</p> <p>We also offer tailored-made solutions to suit customers' specifications and requirements.</p>
	(ii) With greater digitalisation by suppliers and manufacturers, will the group's position in the value-chain be eroded as customers and manufacturers bypass the middleman?	Given the nature and complexity of these value-add services, the Group is less impacted by greater digitalisation.
	(iii) How much visibility does the group have in relation to the underlying demand by PT Gunanusa Utama Fabricators ("PTG")?	PTG updates the Group of its prospects regularly. Through the prospect updates, the Group work together with PTG to provide solutions for procurement scope of the respective project tenders.
	(iv) Can management help shareholders understand if the group's experience in procurement for the oil & gas segment is transferable to infrastructure (land) projects?	We highlighted the prospect of infrastructure (land) projects. These projects include fabrication of bridges and supply of aggregates as part of the toll road projects. PTG has expanded into fabrication of onshore land projects since 2019. This has opened up opportunities for the Group to act as procurement agents for such infrastructure projects leveraging on the Group's supply chain network.
	(v) As at 31 December 2020, the group's inventories increased to \$16.7 million from \$10.1 million a year ago. Can management help shareholders understand how it manages inventory/obsolescence risks?	<p>Inventory increased to \$16.7 million from \$10.1 million a year ago. The increase in inventory as at 31 December 2020 was due to products received by the Group for value-add services pending delivery to customers with regards to the Thailand projects.</p> <p>Group is a distributor of various brands of flow control products. The Group strive to maintain an adequate level of inventories to service customers who requires replacement of parts / component. The Group mitigates obsolescence risk by regularly managing the level of inventory against market demand.</p>
2.	As noted in the letter to shareholders, the group recognised net impairment loss on financial assets of \$(4.8) million in FY2020 and in FY2019. For FY2020, the impairment loss of \$(4.8) million was mainly due to defaults by several customers from the Indonesian trading business segment. For FY2019, the \$(4.8) million impairment loss was	

	<p>the result of an impairment loss on non-current other receivables of \$(2.0) million and net impairment loss on current receivables of \$(2.8) million. The non-current other receivables relate to the loan made to a shareholder of an investee company after taking into consideration the fair value of pledged shares. The group's credit risk policy states that it trades only with recognised and creditworthy third parties and customers are subject to credit verification procedures.</p>	
2 (i)	<p>Has the board reviewed the group's compliance with its credit risk policies?</p>	<p>The Group has in place credit risk policies where significant transactions are reviewed for operational as well as credit risks.</p>
2 (ii)	<p>Given the heightened uncertainty in the global economy, has the group tightened its credit policy, especially for new customers and even old customers who might be in financial distress?</p>	<p>The heightened uncertainty in the global economy has certainly affected businesses around the world. The Group is mindful of the risks and participants in the supply chain it operates and increased review of credit policies and associated credit risks.</p> <p>As part of its sustainability strategy, we strive to mitigate risks with longstanding customers whom the Group has established strong relationship. Continued support to and from these customers in viable projects is crucial in this challenging time.</p>
2 (iii)	<p>As shown in Note 40(a) (page 137 – Financial risk management objectives and policies), other than Indonesia (which is the group's traditional market), the group has significant trade receivables from customers in Thailand. The amount of \$8.2 million is nearly 30% of all outstanding trade receivables as at 31 December 2020.</p> <p>Can management help shareholders understand if the outstanding trade receivables from its Thai customers is current?</p>	<p>The increased in trade receivables from its customers in Thailand was due to billings for deliveries under the recent projects secured. These are current and collections from these customers are expected to be largely on schedule.</p>
2. (iv)	<p>How is management working with customers to collect on the long outstanding receivables?</p>	<p>The Group is continuously working with these customers to work out schedule payments.</p>
3.	<p>The board comprises seven directors, four of whom are deemed independent. The biographies of the board directors can be found on pages 6 to 8 of the annual report. The independent directors are Mr Yee Kee Shian, Leon (lead independent director), Mr. Mr Khoo Boo Yeow, Andrew, Mr Loh Eu Tse, Derek and Mr Hoon Tai Meng. All four independent directors have formal legal training. Mr Koh Kian Kiong, Ms Maggie Koh and Mr Koh Beng Guan, Don, being the executive directors of the company, are immediate family members.</p>	

3. (i)	Can the board elaborate further on how the current board, as a group provide an appropriate balance and mix of skills, knowledge, experience, and other aspects of diversity such as gender and age, so as to avoid groupthink and foster constructive debate?	<p>I refer you to the Corporate Governance Statement principle 1.4. To facilitate effective management, certain functions have been delegated to various Board Committees.</p> <p>The Board of Directors' profiles are disclosed on page 6 to page 8 of the annual report.</p> <p>Mr Koh Kian Kiong is a co-founder of the Group and oversees the Group's strategy and expansion plan. He has more than 46 years of experience in the oil and gas.</p> <p>Ms Maggie Koh joined the Group in 1993 and has more than 26 years of experience in the oil and gas industry. Ms Koh oversees the trading business of the Group.</p> <p>Mr Don Koh has more than 21 years of experience in the oil and gas industry. He is responsible for international businesses and overseas projects such as the Zawtika Phase 1C project in 2016 to 2018. He oversees international tender exercises with consortium partners such as PT Gunanusa and other EPC companies.</p>
3. (ii)	What is the level of industry knowledge and familiarity of the oil and gas, energy and marine industries of the independent directors?	<p>The Group's independent directors' profiles are listed in pages 6 to 8 as well.</p> <p>Mr Hoon joined the Group after the IPO then stepped down in 2010. In 2020 Mr Hoon joined the Group and lead the Audit Committee.</p> <p>Mr Leon Yee joined the Group since 2010. He is the Chairman of Duane Morris & Selvam LLP and heads the Banking and Finance and Energy Practice Group.</p> <p>Mr Andrew Khoo joined the Group since 2012. He is the Chairman and CEO of MUI Group.</p> <p>Mr Derek Loh joined the Group in 2018. He is a partner with TSMP Law Corporation and sits on the Board of several listed entities.</p>

	Given the diverse background and majority of independent directors in the Board, no individual or group of individuals dominates the Board's decision-making.
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B) Questions from Shareholder

	Question	Response																																																
1	Remuneration of Executive Directors																																																	
1 (a) (i)	What was the annual base salary of each executive director for the last 2 financial years and what will be the annual base salary of each director for FY2021?	<p>PRINCIPLE 7: LEVEL AND MIX OF REMUNERATION on page 49 of the Annual Report The Company adopts a remuneration policy for Executive Directors and Key Management Personnel of the Group that comprise a fixed component and a variable component. The fixed component is in the form of a base salary. The variable component is in the form of profit-sharing or a variable bonus that is linked to the performance of the Group and the individual performance for the preceding financial year.</p> <p>PRINCIPLE 8: DISCLOSURE ON REMUNERATION on page 50 of the Annual Report In view of confidentiality and sensitivity attached to remuneration matters, the Board is of the opinion that it is in the best interests of the Group not to disclose exact remuneration received by each Executive Director of the Company, but in the bands of S\$250,000 as disclosed.</p> <p>FY2020</p> <table border="1"> <thead> <tr> <th>Name</th> <th>Salary range</th> <th>Fess</th> <th>Salary</th> <th>Bonus</th> <th>Other Benefits</th> </tr> </thead> <tbody> <tr> <td>Mr Koh Kian Kiong</td> <td>S\$500,000 to \$750,000</td> <td>Nil</td> <td>95%</td> <td>Nil</td> <td>5%</td> </tr> <tr> <td>Ms Maggie Koh</td> <td>S\$250,000 to S\$499,000</td> <td>Nil</td> <td>92%</td> <td>Nil</td> <td>8%</td> </tr> <tr> <td>Mr Koh Beng Guan, Don</td> <td>S\$250,000 to S\$499,000</td> <td>Nil</td> <td>93%</td> <td>Nil</td> <td>7%</td> </tr> </tbody> </table> <p>FY2019</p> <table border="1"> <thead> <tr> <th>Name</th> <th>Salary range</th> <th>Fess</th> <th>Salary</th> <th>Bonus</th> <th>Other Benefits</th> </tr> </thead> <tbody> <tr> <td>Mr Koh Kian Kiong</td> <td>S\$500,000 to \$750,000</td> <td>Nil</td> <td>95%</td> <td>Nil</td> <td>5%</td> </tr> <tr> <td>Ms Maggie Koh</td> <td>S\$250,000 to S\$499,000</td> <td>Nil</td> <td>94%</td> <td>Nil</td> <td>6%</td> </tr> <tr> <td>Mr Koh Beng Guan, Don</td> <td>S\$250,000 to S\$499,000</td> <td>Nil</td> <td>94%</td> <td>Nil</td> <td>6%</td> </tr> </tbody> </table>	Name	Salary range	Fess	Salary	Bonus	Other Benefits	Mr Koh Kian Kiong	S\$500,000 to \$750,000	Nil	95%	Nil	5%	Ms Maggie Koh	S\$250,000 to S\$499,000	Nil	92%	Nil	8%	Mr Koh Beng Guan, Don	S\$250,000 to S\$499,000	Nil	93%	Nil	7%	Name	Salary range	Fess	Salary	Bonus	Other Benefits	Mr Koh Kian Kiong	S\$500,000 to \$750,000	Nil	95%	Nil	5%	Ms Maggie Koh	S\$250,000 to S\$499,000	Nil	94%	Nil	6%	Mr Koh Beng Guan, Don	S\$250,000 to S\$499,000	Nil	94%	Nil	6%
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1 (a) (ii)	What percentage of revenue was paid to all executive directors' salaries for the last 2 financial years.?	<p><u>Under Note 34 - EMPLOYEE BENEFITS on page 127 of the Annual Report</u></p> <p>As we do not disclose individual director's remuneration, we extracted the breakdown of employee benefits expense (including directors) is as follows:</p> <table border="1" data-bbox="943 277 1962 536"> <thead> <tr> <th></th> <th>FY2020</th> <th>FY2019</th> </tr> </thead> <tbody> <tr> <td>Salaries and bonuses</td> <td>7,438</td> <td>7,835</td> </tr> <tr> <td>Employer's contribution to defined contribution plans including Central Provident Fund in Singapore</td> <td>618</td> <td>862</td> </tr> <tr> <td>Total employee benefits</td> <td>8,056</td> <td>8,697</td> </tr> <tr> <td>Total revenue</td> <td>68,142</td> <td>62,599</td> </tr> <tr> <td>Total employee benefits as a % of total revenue</td> <td>11.8%</td> <td>13.9%</td> </tr> </tbody> </table>		FY2020	FY2019	Salaries and bonuses	7,438	7,835	Employer's contribution to defined contribution plans including Central Provident Fund in Singapore	618	862	Total employee benefits	8,056	8,697	Total revenue	68,142	62,599	Total employee benefits as a % of total revenue	11.8%	13.9%
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1(b)	What was the amount of bonus paid to each executive director for the last 2 financial years.?	Nil. Please refer to remuneration paid to executive directors in 1 (a) (i) above.																		
1 (c)	How is the performance of each executive director assessed? Who assesses the performance of such executive director?	<p><u>PRINCIPLE 5: BOARD PERFORMANCE on page 47</u></p> <p>The NC has put in place a performance evaluation process where the effectiveness of the Board as a whole, of each Board Committee separately, and the contribution by the Chairman and each individual Director of the Board is carried out on annual basis following the conclusion of each financial year.</p>																		
2	Cost cutting measures																			
	What cost reduction measures can be undertaken for FY2021 to make the Group profitable?	Cost reduction measures includes salary cut for Directors (both executive and independent directors' fees) as well as key executives. In addition, non- performing entities' businesses are subjected to periodic review to ensure economic viability and relevance. The Group has liquidated 3 subsidiaries and associates to reduce costs.																		
3	Loss-making businesses																			
	Which are the business divisions of the company that have been making losses? What has been done to rectify this?	<p>As announced, in the Groups 1H2020 and 2H2020 results, the Group's land drilling rig remain unemployed throughout FY2020 and its Indonesia trading businesses were affected by the Covid-19 pandemic. On-shore oil and gas activities, government and business investment in land infrastructure sectors were postponed due to the Covid-19 pandemic.</p> <p>With our extensive networks and years of experience in Indonesia, we hope to capture some opportunities in the rapid infrastructure build-up of the country post-Covid.</p>																		

4	Composition of the Board of Directors	
	For a company of the size of the Group, I believe the number of directors is excessive. There are 7 directors, 3 executive directors and 4 independent directors.	<p><u>PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE on page 41 of the Annual Report</u></p> <p>The composition of the Board is reviewed annually by the NC and the Board to ensure that there is an appropriate mix of expertise, knowledge and experience to enable the Management to benefit from a diverse perspective of issues that are brought before the Board. Given the diverse qualifications, experience, background, gender and profile of the Directors, including the Independent Directors, the NC is of the view that the current Board members as a group provides an appropriate balance and diversity of relevant skills, experience and expertise required for effective management of the Group.</p> <p>The Board is of the view that the current size, composition, range of experience and the varied expertise of the current Board members provides core competencies in business, investment, industry knowledge, legal, regulatory matters, audit, accounting and tax matters which are necessary to meet the Group's needs.</p>
4 (a)	I notice that all 3 executive directors are related family members. How do we ensure that there is diversity of views and discussions at the board level be constructive?	
4 (b)	Having 4 independent directors increases the cost to the company. Please explain why we need that numbers of independent directors.	
4 (c)	Previously, there used to be only 3 independent directors. Why was this increased? And what have these 4 independent directors have done to ensure the progress the company?	
5	Payment Guarantee Bonds by insurance companies	
	I noticed the company's response to SGX Query dated 15 Mar. 2021, "the Group is also making claims against certain insurance companies that had provided Payment Guarantee Bond as security for the relevant Debtors."	
5 (a)	Please provide the names of these insurance companies and are these well-reputed and rated insurance companies?	In response to SGX's query, the Group announced that the debts impaired (amounting to \$4,951K) during the year had been past due for more than 120 days and were reported as sales in the years prior to financial year 2020.
5 (b)	The amount defaulted S\$5,030k is huge, were these Payment Guarantee Bonds provided by these insurance companies reviewed and checked by any parties prior to their acceptance?	The Group tried to recover these receivables by taking legal action against the customers ("Debtors") that had defaulted on payments. In addition, the Group is also making claims against certain insurance companies that had provided Payment Guarantee Bond (Surety Bond) to the Group as security for the relevant Debtors.
	If there is no professional party advising on these Payment Guarantee Bonds, which department should be responsible for the review and acceptance of such instruments of payment?	We wish to reiterate that the Group is taking all actions necessary in its effort to recover the amount due.

6	Proposal of cost cutting measures	
i)	To review the board size and remunerations	We thank you for your input and suggestion. We are mindful of business costs and constantly keep them in check in its pursuit for business opportunities and activities. The Board has taken initiative to cut its remuneration and wishes to thank key management in accepting pay cut to lighten the Group's burden with added demand to pursue potential projects.
ii)	To review Group's structure and improve efficiency	

By order of the Board

Mr Koh Kian Kiong
Executive Chairman and Chief Executive Officer
Date: 27 April 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.