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

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 clarify as to when the procurement agreement was signed with PT Gunanusa Utama Fabricators ("PTG").

Company's response:
The Agreement was signed on the 24th September 2021.

Query 2:
Please disclose the salient terms of the procurement agreement with PTG.

Company's response:
Payment will be based on milestone achieved. PTG's terms with Federal and other subcontractors for the same project may differ and therefore there is an understanding that contractual terms be kept confidential.

Query 3:
Please disclose the breakdown of the Group's total exposure to PTG and its shareholders.

Company's response:

	As at 30 June 2021
	SGD'000
Trade receivable	9,338
Other receivables	1,468
Loan to a shareholder of PTG (net of impairment loss)	11,022
	21,828

Query 4:
It was disclosed that 72.4% of the Group's trade receivables that are more than 120 days past due are due from PTG. In this regard, please disclose the following:-

i. Actions taken to recover the S$8.4mil due from PTG;
ii. The Board's assessment as to how entering into a procurement agreement with PTG is in the best interests of the Company and its shareholders when the Group has a substantial outstanding amount from PTG that is more than 120 days past due.
iii. Any agreed repayment plans with PTG and if so, please disclose the details of the repayment plans. Please also clarify as to whether PTG has adhered to these agreed repayment plans, if any.
iv. The Board's assessment of collectability risk associated with PTG and why it continues to transact with PTG.
v. Please disclose a breakdown of the revenue attributable to PTC in 2017, 2018, 2019 and year-to-date and collections received from PTG for sales made in the respective periods;
vi. Please provide the detailed bases as to how the Board has satisfied itself that Management's assessment and estimates on the outstanding trade receivables and Management's assessment that no impairment is necessary are reasonable;
vii. Please clarify as to how the expected credit loss rates for each category are determined.

Company's response:

i. The Group is an exclusive procurement agent for PTG and continues to support PTG on its projects secured. PTG is expected to repay the amount due progressively as it delivers its projects on hand.

ii. The procurement agreement increases the Group's current order book to about SGD 100 million and is expected to contribute to the Group's performance upon fulfilment of the procurement scope scheduled in FY 2021 and FY2022. In addition, PTG under terms of its contract with its customer will receive payments for the procurement scope upon satisfaction of the milestone performed by the Group. Such payments will be remitted to a designated bank account jointly controlled with the Group. Money in this designated bank account will be remitted directly into the Group's project bank account. Based on representations from management, the Board is of the view that this procurement agreement will not negatively impact the trade receivables position of the Group because payments will be carefully managed in a progressive manner. Further, management is taking active steps to control and mitigate the existing trade receivables position.

iii. There is no fixed repayment schedule for the amount due. While there is no fixed repayment plan, the Group monitors PTG financial position periodically and is taking active steps to control and mitigate the existing trade receivables position.

iv. On collectability, PTG has a net asset value of US$11.0 million as at 31 December 2020 and has several projects on hand. PTG has made progressive payments to Federal during the past years and we expect PTG to be able to settle the amount outstanding.

PTG has been profitable during 2017 and 2018 when it secured similar size projects. Payments are relatively secured where receipts of milestone payment for the procurement scope to be credited into a designated bank account jointly controlled.

v. Breakdown as follows:

	FY2017 SGD'000	FY2018 SGD'000	FY2019 SGD'000	FY2020 SGD'000	YTD Jun 2021 SGD'000
Sales to PTG	91,417	2,124	7,197	6,736	888
Collections received from PTG for sales made in the respective periods	(88,457)	(2,115)	(7,147)	(2,539)	-

vi. The Management has examined the recoverability of trade receivables individually and collectively based on the age of debts to identify any expected credit losses. In particular, long outstanding trade receivables impairment assessment and basis are provided to justify that no impairment is necessary. Such details are presented to the Board on a quarterly basis for evaluation of impairment.

vii. The Management has 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.

Query 5:
In regard to the Company's loan to a shareholder of PTG, please disclose the following: -

i. The identity of the shareholder of PTG.
ii. The identity of the external valuer; profile information of the valuer; the key parameters applied in determining the valuation of PTG and the valuation standards adopted;
iii. Key financial information of PTG.
iv. Elaboration of the income approach used.
v. Fair value of the pledged shares;
vi. The percentage of PTG shares held by the Company including the pledged shares;
vii. The relationship, direct and indirect, between the Company, its directors and substantial shareholders with PTG, its directors and substantial shareholders.
viii. The rationale for providing the loan to the shareholder of PTG and the Board's assessment as to whether providing the loan is in the best interests of the Company and its shareholders.

Company's response:

i. Pak Azmil Rahman.

ii. The valuation was performed by BDO Advisory Pte Ltd (the "Valuer"). BDO is a network of firms with 1,658 offices spanning across 167 countries, with more than 91,054 people who are committed to delivering quality in assurance, tax and advisory services. In the valuation space, BDO Singapore's Corporate Advisory meets regional and local business' valuation needs with provision of services including valuing businesses, joint ventures and equity interests, and specific assets such as intangible assets like trademarks, and customer relationships. In the recent years, BDO's valuation professionals (accredited with the Institute of Valuers and Appraisers of Singapore ("IVAS") have worked on a range of business requirements, including: mergers, acquisitions and divestments, business planning and transaction support, support for tax planning and advisory, expert witness for litigation support and financial reporting.

BDO conducted a valuation as at 31 December 2020 and applied the Income Approach as a primary approach to derive the equity value range of PTG as at the Valuation Date using the discounted cash flow ("DCF") methodology. The reason is that the value proposition of the operating business is primarily income driven, underpinned by the prospects of, primarily, the oil and gas industry in Indonesia. The DCF methodology will better reflect a valuation that is based on income derived from PTG's operating business. Among others, the DCF analysis included applying the following key parameters:

1) a discount rate of 15% discount rate (weighted average cost of capital or WACC) as at the Valuation Date, with reference to Capital Asset Pricing Model; and
2) terminal growth rate of 1.4% with reference to the 2020 OPEC World Oil Outlook published on 8 October 2020.

As a cross check, the Valuer has adopted the Market Approach by referring to comparable companies' trading multiples (EV/EBITDA) to cross-check the valuation derived from the primary approach. The Valuer has referred to SFRS(I) -13 Fair Value Measurement in performing the valuation. Accordingly, the basis of value that was adopted is Fair Value defined in SFRS(I) – 13 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

The Group then subsequently engaged BDO to compute the discount rate of PTG as at 30 June 2021, and based on the Valuer's analysis, the estimated WACC was lower at 12.5%.

iii. Key financial information of PTG:

	FY2017 USD'000	FY2018 USD'000	FY2019 USD'000	FY2020 USD'000
Revenue	226,239	90,842	39,530	26,365
Profit/(loss) before tax	3,288	537	(4,805)	(1,062)
Income tax expenses	(488)	(132)	(1,267)	(874)
Profit/(loss) after tax	2,800	405	(6,072)[1]	(1,936)
Note[1] Included an $14.9m impairment due to shortfall between book receivable and arbitration awards from a past project in FY2014/FY2015.				
Net assets	18,684	18,861	12,819	10,976

iv. Please refer to "ii" above.

v. Fair value of the pledged shares as at 30 June 2021 was USD 10.46 million.

vi. The percentage of PTG shares held by the Company including the pledged shares is 65.05%.

vii. The Company owns 2.58% shares in PTG. It has also provided a loan to Pak Azmil Rahman, a substantial shareholder of PTG. Mr Koh Kian Kiong and Mr Don Koh are President Commissioner and commissioner of PTG respectively.

viii. The rationale for providing the loan is primarily based on the long-term strategic benefits of developing and growing PTG as a regional EPC player. Pak Azmil Rahman has been a long business associate of Mr. Koh Kian Kiong and both share the common belief and vision that there are synergistic opportunities for Federal and PTG to work closely together. By providing expertise in procurement management to support PTG in tenders and joint tenders for regional projects, where PTG is an approved vendor for regional oil majors, it is anticipated that the Group can drive significant revenue growth. On balance, the loan is therefore in the best interests if the Company and its shareholders.

By order of the Board

Koh Kian Kiong
Executive Chairman and CEO
18 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.