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

QUARTERLY UPDATE PURSUANT TO RULE 1313(2) OF THE LISTING MANUAL FOR THE THREE MONTHS ENDED 31 DECEMBER 2013

The Company was placed on the Watch-List pursuant to Rule 1311 of the SGX-ST Listing Manual on 5 March 2012.

Pursuant to Rule 1313(2) of the SGX-ST Listing Manual, the Board of Directors of the Company wishes to provide the following updates. Please also refer to the Group's announcement on 28 February 2014 on the unaudited results for the fourth quarter ("**4QFY2013**") and financial year ended 31 December 2013 ("**FY2013**").

1 Update on Performance, Financial Position and Cash Flow

1.1 Consolidated income statement

In 2012, the Group focused on restructuring the non-core businesses and made impairments for non-performing investments and assets. The restructuring was part of a concerted strategy to turnaround the Group and to focus on the Group's core competency in the Trading business. For FY2013, the Group recorded a net profit before tax of $5.0 million.

However, results in 4QFY2013 were weighed down by the following impairment losses amounting to S$13.6 million made in 4QFY2013.

a. Impairment loss on plant, property and equipment (S$6,389,000)

   The impairment relates to the expected loss arising from the disposal of *Federal II* upon completion of the conversion works due to costs overrun.

b. Provision for probable penalty for late delivery of vessel (S$4,384,000)

   The provision of S$4.4 million relates to maximum penalty due to delay in delivery of *Federal II*.

c. Impairment loss on financial receivables (S$1,955,000)

   This relates to further impairment of the investment (which is accounted for as financial receivables in accordance with INT FRS 112) relating to the Chengdu waterplant by S$2.0 million due to lower than expected volume of water produced.

d. Impairment of goodwill (S$863,000)

   This relates to impairment of the goodwill relating to the Group's investment in KVC (UK) Ltd.

The impairments were partly offset by a writeback of impairment loss on doubtful receivables of S$8.5 million and a reversal of allowance for slow moving inventories of S$0.6 million in 4QFY2013.

A summary of the key financial indicators of the Group's consolidated income statement for 4QFY2013 and FY2013 are as shown below.

KEY FINANCIAL INDICATORS	Group 3 Months Ended 31.12.13	Group 3 Months Ended 31.12.12	Changes	Group 12 Months Ended 31.12.13	Group 12 Months Ended 31.12.12	Changes
	S$'000	S$'000	%	S$'000	S$'000	%
Revenue	46,642	17,224	+170.8	128,167	123,464	+3.8
Gross profit	7,683	7,108	+8.1	31,958	26,586	+20.2
Gross profit margin	16.5%	41.3%		24.9%	21.5%	
(Loss) / Profit before tax	(953)	(3,541)	N.M.	5,009	(36,915)	N.M.
Profit after tax	(2,283)	(6,004)	+62.0	3,361	(39,805)	+108.4
Profit attributable to:						
Owners of the Company	(1,562)	1,309	N.M.	4,741	(31,176)	-115.2
Non-controlling interests	(721)	(7,313)	-90.1	(1,380)	(8,629)	-84.0
	(2,283)	**(6,004)**	**-62.0**	**3,361**	**(39,805)**	**-108.4**
Earnings per share (EPS, in cents)	**(0.11)**	**0.13**	**N.M.**	**0.37**	**(3.07)**	**+112.1**

Notes:
N.M. denotes not meaningful
EPS as computed based on weighted average number of ordinary shares in issue and fully diluted basis.

Overview

In FY2013, turnover increased by 4% to S$128.2 million. The Trading business contributed 97% of the total turnover. Turnover increased by 171% (+S$29.4 million) in 4QFY2013 due mainly to higher sales to customers in China.

The Group recorded a net profit before tax of S$5.0 million for FY2013 as compared with a loss before tax of S$36.9 million in FY2012. The results of the Group were weighed down in 4QFY2013 by the impairment of *Federal II* of S$6.4 million due to costs overrun and the provision for the maximum penalty relating to the late delivery of the vessel of S$4.4 million. In 4QFY2013, the Group further impaired the investment (which is accounted for as financial receivables in accordance with INT FRS 112) relating to the Chengdu waterplant by S$2.0 million due to lower than expected volume of water produced and also, made an impairment of goodwill of S$0.9 million.

Excluding the impairment losses and the writeback of impairment loss on doubtful receivables of S$10.7 million and the reversal of allowance for slow moving inventories of S$0.2 million, the Group would have reported a profit before tax of S$7.8 million for the full year.

Gross profit ("GP") margins

Overall GP margin was 24.9% in FY2013 compared with a GP margin of 21.5% in FY2012. The lower margin noted in FY2012 was due mainly to low GP margin associated with the large scale Pearl Oil project.

In 4QFY2013, GP margin was lower at 16.5% due mainly to lower net margins associated with the sales to customers in China. GP margin was higher for 4QFY2012 due to reclassification of costs of sales relating to the Panzhihua and Chengdu waterplants to administrative and general costs.

Profit before tax

In 4QFY2013, the Group reported a net loss before tax of S$953,000. The loss was due mainly to the impairments and provision made. Excluding the impairments, provision, writeback and reversal of impairment, the Group's core business would have reported a profit before tax of S$3.6 million.

For the full year, the Group reported a net profit before tax of S$5.0 million.

Profit after tax

On an after tax basis, the Group reported a loss after tax of S$2.3 million for 4QFY2013 and a profit after tax of S$3.4 million for FY2013.

Earnings per share ("EPS")

The earnings / (loss) per share for FY2013 and 4QFY2013 were 0.37 cents and (0.11 cents) respectively.

1.2 Statement of financial position

A summary of the key financial indicators of the Group's financial position as at 31 December 2013 is as shown below.

Statement of financial position of the Group	Group		
	As at 31.12.13	**As at 31.12.12**	**Changes**
	S$'000	**S$'000** **Restated**	**S$'000**
Non-current assets	91,340	80,923	+10,417
Current assets	116,501	82,233	+34,268
Current liabilities	135,333	108,764	+26,569
Net current liabilities	18,832	26,531	-7,699
Non-current liabilities	5,222	5,836	-614
Equity attributable to:			
- Owners of the Company	81,085	61,255	+19,830
- Non-controlling interests	(13,799)	(12,699)	-1,100
Net assets/equity	**67,286**	**48,556**	**+18,730**
Net asset value per share (In cents)	**5.76**	**6.69**	**-0.93**

Net assets attributable to owners of the Company

Overall net assets attributable to owners of the Company increased from $61.3 million as of 31 December 2012 to $81.1 million as of 31 December 2013. The net asset value per share as of 31 December 2013 was 5.76 cents, lower than the 6.69 cents as of 31 December 2012. The decrease was due mainly to the increase in the number of ordinary shares after the completion of the rights issue in April 2013 in which a total of 458,021,745 new ordinary shares were issued.

Non-current assets

Non-current assets increased by $10.4 million to S$91.3 million as of 31 December 2013. The increase was due mainly to:

- Increase in Property, plant and equiment ("**PPE**") (+$39.6 million) due to:
    - capitalisation of the costs incurred in the on-going conversion of the vessel, *Federal II*, from a tanker into a floating, storage and offloading ("**FSO**") vessel, offset by an impairment loss of S$6.4 million (+S$24.6 million);
    - acquisition of a land rig in 4QFY2013 (+S$10.0 million);and
    - gain from revaluation of properties (+S$5.0 million).

The increase in PPE was partly offset by a decrease in Financial receivables of S$24.9 million due to the reclassification of the investments in the Panzhihua wastewater treatment plant under "Assets of disposal group classified as held for sale".

Current assets

Current assets increased by S$34.3 million to S$116.5 million as at 31 December 2013. The increase was due mainly to:

- Increase in trade and other receivables (+S$7.8 million) due to higher sales in 4QFY2013;
- Increase in fixed deposits, cash and bank balances (+$14.9 million); and
- Increase in "Assets of disposal group classified as held for sale" (+S$27.2 million) due to the classification of the Group's investment in FEE Water (China-PZH) Ltd and Federal Environmental (Panzhihua) Co., Ltd as being held for sale.

The increase was partly offset by a decrease in inventories of S$2.2 million, decrease in prepayments of S$11.9 million and decrease in financial receivables of S$2.3 million. The decrease in prepayments was due mainly to the capitalisation of the prepayments relating to the conversion of *Federal II*.

Current liabilities

Current liabilities increased by $26.6 million to $135.3 million as of 31 December 2013. The increase was due mainly to:

- Increase in amounts due to bankers (+$5.2 million) due mainly to utilisation of facilities for the conversion of *Federal II* (+$7.6 million), increase in trade related financing (+$2.4 million) and partly offset by a reduction in overdraft facilities (-$4.6 million); and
- Increase in "Liabilities directly associated with disposal group classified as held for sale" of S$30.8 million arising from the classification of the Group's investments in FEE Water (China-PZH) Ltd and Federal Environmental (Panzhihua) Co., Ltd as being held for sale

The increase was partly offset by a decrease in term loans (-S$8.3 million) due to reclassification of the borrowings of S$18.5 million under Federal Environmental (Panzhihua) Co., Ltd under "Liabilities directly associated with disposal group classified as held for sale" and decrease in Trade and other payables of S$1.5 million.

Net current liabilities

Net current liabilities decreased by $7.7 million to $18.8 million. The decrease was due mainly to the reclassification of the Financial receivables from non-current assets under "Assets of disposal group classified as held for sale".

The net current liabilities position of S$18.8 million as at 31 December 2013 was due mainly to the funding of the *Federal II* conversion works using short term borrowings whereas the corresponding asset item is recorded as a non-current asset. The total borrowings used for the conversion works as at 31 December 2013 amounted to S$17.2 million.

Non-current liabilities

Non-current liabilities reduced by $0.6 million to $5.2 million. The decrease was due mainly to the repayment of term loans.

1.3 Consolidated statement of cash flows

	For 3 months ended 31.12.13	For 12 months ended 31.12.13
	S$'000	**S$'000**
Cash flows generated from operations	13,782	12,519
Interest income received	11	68
Interest expense paid	(400)	(1,789)
Income tax paid, net	(8)	(1,740)
Net cash generated from operating activities	13,385	9,058
Net cash used in investing activities	(2,735)	(17,376)
Net cash generated from financing activities	(2,697)	23,660
Net increase in cash and cash equivalents	**7,953**	**15,342**
Effect of exch rate changes on cash & cash equivalents	175	224
Cash and cash equivalents at beginning of period	11,647	4,209
Cash and cash equivalents at end of period	**19,775**	**19,775**

The Group's available cash and cash equivalents as of 31 December 2013 were $19.8 million. The net increase in cash and cash equivalents for the year ended 31 December 2013 was S$15.3 million. The increase was due mainly to:

- A net increase in net cash generated from operating activities of S$9.1 million; and
- A net increase in net cash received from financing activities of S$23.7 million, which was after taking into account the drawdown of term loans of S$26.3 million and trust receipts of S$9.7 million, net proceeds received from the rights issue of S$9.6 million and after repayment of term loans and secured overdrafts of S$17.4 million and S$4.7 million respectively.

The increase was partly offset by the cash used in investing activities of S$17.4 million, mainly in relation to payments to suppliers for the conversion of *Federal II*.

2 Update on Future Direction

In 2013, the Group's Trading business recorded a segmental profit of S$14.6 million on a turnover of S$123.9 million. To-date, the Group has already secured orders for the Trading business for a total of S$70 million. For 2014, the Trading business is expected to continue to drive growth for the Group.

The Group remains focused on the core trading business in the oil and gas sector and expects a healthy flow of orders for 2014. However, margins for certain projects and product lines are expected to be under pressure from increasing competition.

The Group will also continue its efforts to expand sales in Southeast Asia and the People's Republic of China by expanding its customer base and product range, and also strengthening its engineering and related service capabilities through suitable partnerships and joint ventures.

In 2014, the Group does not expect any significant operating contributions from the Resources, Energy and Utilities, and Marine Logistics business segments. Under the Marine Logistics business segment, the main on-going activity is the conversion and subsequent disposal of the vessel, *Federal II*. The vessel, upon conversion to a floating, storage and offloading vessel ("**FSO**") will be sold to PT Eastern Jason ("PTEJ"), an associate of the Group, which will lease the vessel to China National Offshore Oil Corporation ("**CNOOC**") in Indonesia under a 5-year charter, with an option for renewal for a further 5 years.

Conversion and disposal of *Federal II*

On 20 September 2012, the Group announced that a consortium, comprising amongst other parties, PTEJ, had secured a charter contract to supply an FSO to CNOOC for a period of 5 years and renewable for a further period of 5 years. PTEJ is a company incorporated under the laws of Indonesia and is a joint venture between Eastern Jason Fabriciation Services Pte Ltd ("**EJFS**"), a wholly owned subsidiary of the Group, and PT Pratama Unggul Lestari ("**PTPUL**"). The issued and paid up capital of PTEJ is 70% owned by PTPUL and 30% owned by EJFS.

On 2 November 2012, the Group announced that a memorandum of agreement was signed between PTEJ and EJFS for the sale of the vessel, *Federal II*, by EJFS as an FSO for a purchase consideration of US$52 million. A downpayment of US$10.4 million has been received from PTEJ and the balance consideration of US$41.6 million is secured on a standby letter of credit issued by Bank International Indonesia ("**BII**"). The vessel would be converted to an FSO before the sale. On 8 January 2013, shareholders at an extraordinary general meeting approved the conversion and disposal of the vessel. Due to recent developments, the earliest expected date of legal and physical delivery is now in the first and second quarters of 2014 respectively.

Disposal of 99% shares in FEE Water (China-PZH) Ltd ("FEEW")

At the EGM held on 13 February 2014, shareholders approved the resolution to dispose of 99% shares in FEEW for a cash consideration of S$50,000. The sale and transfer of shares will be completed by 13 March 2014 and an announcement will be made when the transaction is completed.

By Order of the Board
Maggie Koh
Executive Director

28 February 2014