Far East Group Limited

(Registration No. 196400096C)
(Incorporated in the Republic of Singapore on 18 March 1964)

## Corporate and Business Update

The Board of Directors (the "Board") of Far East Group Limited ("Far East Group", "FEG" or the "Company", together with its subsidiaries, the "Group") has conducted a major strategic review and wishes to provide a corporate and business update.

I. **Review of Current Core Business And Operating Environment**

The Group supplies a comprehensive range of refrigeration, cooling and ventilation systems for the commercial and light industrial, residential and commercial as well as the marine oil and gas sectors. It manufactures energy-efficient heat-exchangers and condensing units under the "Eden" brand, and distributes third-party heating, ventilation, air-conditioning and refrigeration ("HVAC&R") products. Its products are used across various sectors such as retail (e.g. Carrefour, Tesco), hospitality (e.g. Resorts World Sentosa and Marina Bay Sands Hotel), food processing (e.g. Lucky Food Processing, MacFood Services), pharmaceutical (e.g. Health Sciences Authority) and logistics (e.g. CIAS Flight Kitchen).

With approximately 210 staff, FEG owns subsidiaries in Singapore, Malaysia, Hong Kong, Vietnam and China and has a representative office in Indonesia. It has over 20 distributors and dealers in South East Asia, Mauritius and Sri Lanka.

The HVAC&R industry continues to grow as urbanisation lifts demand for cooling systems and cold-chain logistics for food storage by hypermarts, hotels, logistics hubs, distributors and retailers. Customers also seek more specialised engineering, research and development ("R&D") and total solutions from consulting to manufacturing and after-sales support.

II. **Acquisition of Eden Manufacturing in China**

FEG had acquired a 84.25% stake in Eden Refrigeration Manufacturing (Jiangsu) Co., Ltd. ("ERM") – which manufactures the "Eden" (逸腾) brand of heat-exchangers and condensing units – in July 2013. It has spent the past 12 months building up the capabilities and increasing the marketing activities of ERM. The acquisition – FEG's most significant corporate action since its listing on the SGX Catalist in August 2011 – has positioned the Group with a sizeable manufacturing presence and brand recognition of ERM as one of China's leading providers of quality heat-exchangers.

III. **Outline of Three-Pronged Strategy**

A year after the acquisition, ERM has served as a major factor in the review of the Group's strategy. The Directors have identified three key strategies:

1. Expand manufacturing operations and increase revenue in China via higher-value products and new distribution businesses;

2. Move up the HVAC&R value chain by strengthening engineering consultancy services and R&D; and
3. Develop economies of scale and scalability via distribution of ERM and third-party products, principally in China and South East Asia.

IV. **#1: Expanding China Operations and Revenue via ERM**

FEG intends to raise production capacity and utilisation rate of ERM's 31,961-square meter centre in Changzhou city, Jiangsu, which currently houses two manufacturing facilities, occupying two-thirds of the area, and an administration building.

ERM targets to complete its R&D centre there by 2016 to support the commercial and industrial refrigeration segments by way of:

(i) Development and extension of new range of products;
(ii) Continuous improvement in the quality and performance of existing range and models of Eden products; and
(iii) Exploration and testing of new raw materials to improve product quality and derive cost savings to maintain competitiveness in the market.

The Group aims to raise the utilisation rate of the enlarged ERM facility from approximately 40% as at end 2013 in the next 3 years. Due to the capital expenditure incurred in FY2012 and FY2013 of approximately RMB15 million, investments in the next two years are expected to be significantly lower compared to the last two years.

ERM is expanding at a time when international hypermarts such as Walmart are competing directly with local players in China. Increasing urban affluence is also raising demand for cooling solutions for homes and offices and cold-chain logistics to keep food fresh. To tap China's market potential, the Group intends to:

(i) Increase partnerships with key contractors servicing the hypermarts, hotels, logistics hubs, distributors and retailers; and
(ii) Provide consultancy and value-added services and supply to larger-scale projects requiring higher-value products and services.

**#2: Moving Up The HVAC&R Value Chain**

The Group is emphasising R&D (in its new centre being built) and engineering, consultancy and project management. It has in the past year undertook a consultancy project – with fees valued at RMB1.5 million (S$300,900) – for a foreign multinational company in China which is 80% completed to-date.

ERM is also negotiating for specialised large-scale projects in China such as smart farms (to grow mushrooms or herbs) which require FEG's specialised solutions and products for micro climate control.

**#3: Develop New Distribution Business In China and SE Asia**
The acquisition of ERM serves as a major catalyst to improve R&D, enlarge capacity and develop economies of scale. The Group is in discussions to collaborate with or possibly acquire companies with existing distribution networks in China to distribute heat exchangers under the Eden brand and third-party products. It also intends to build up its distribution network within South East Asia (where it currently has presence in Singapore, Malaysia, Hong Kong and Vietnam).

The Company will provide updates to shareholders on any material developments with regards to the Group's above-mentioned three-pronged strategy.

## V. Outlook

The Directors believe that the Group will see higher contribution in revenue with the increased activities from China. China – including first-time contribution of six months' revenue from ERM – accounted for approximately 12% of the Group's revenue in FY2013.

While the first half of the financial year is seasonally slower than the second, the Group expects that:

a) Despite slower growth in the non-ERM business (principally in Singapore and Malaysia), FEG's revenue in the six months ending 30 June 2014 ("1H2014") is expected to be stronger than the six months ended 31 December 2013 ("2H2013") due to ERM's inclusion to the Group since July 2013; and

b) ERM's gross profit is expected to increase in 1H2014 year-on-year (compared to RMB3.8 million in 1H2013) due to more efficient use of raw materials as well as lower tool management costs.

As the Group continues to increase ERM's revenue and R&D activities, it is also looking out for mergers and acquisitions to expand both its geographical presence in China and South East Asia.

**BY ORDER OF THE BOARD**

Steven Loh Mun Yew
Chief Executive Officer and Executive Director
30 July 2014

*This notice has been prepared by the Company and its contents have been reviewed by the Company's sponsor ("Sponsor"), Canaccord Genuity Singapore Pte. Ltd., for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST").*

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