



## CHINA ESSENCE GROUP LTD.

(Incorporated in the Cayman Islands with registration number CT-152302)

### THIRD QUARTER FINANCIAL STATEMENT ANNOUNCEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013

#### PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY AND FULL YEAR RESULTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group					
	Three months ended 31.12.2013 (Unaudited) RMB'000	Three months ended 31.12.2012 (Unaudited) RMB'000	Increase/ (Decrease) %	Nine months ended 31.12.2013 (Unaudited) RMB'000	Nine months ended 31.12.2012 (Unaudited) RMB'000	Increase/ (Decrease) %
Revenue	22,198	246,228	(91)	32,753	384,876	(91)
Cost of sales	(29,743)	(346,422)	(91)	(42,630)	(492,374)	(91)
Gross Loss	(7,545)	(100,194)	(93)	(9,877)	(107,498)	(91)
Other income and gains	170	679	(75)	241	983	(76)
Selling and distribution costs	(1,390)	(37,692)	(96)	(2,012)	(48,988)	(96)
Administrative expenses	(18,581)	(61,910)	(70)	(50,042)	(99,238)	(50)
Loss from operations	(27,346)	(199,117)	(86)	(61,691)	(254,741)	(76)
Finance costs	(12,181)	(12,726)	(4)	(42,191)	(38,716)	9
Loss before income tax	(39,527)	(211,843)	(81)	(103,881)	(293,457)	(65)
Income tax credit	-	-	-	-	9,604	(100)
Loss for the period	(39,527)	(211,843)	(81)	(103,881)	(283,853)	(63)
Exchange gain on translation of financial statements of foreign operations	5,508	3,261	69	9,888	2,841	248
<b>Total comprehensive income for the period, net of tax</b>	<b>(34,019)</b>	<b>(208,582)</b>	<b>(84)</b>	<b>(93,993)</b>	<b>(281,012)</b>	<b>(67)</b>

Note: The Company was incorporated in the Cayman Islands on 15 August 2005 under the Companies Law of the Cayman Islands as an exempted company with limited liability and was listed on the Main Board of the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 13 February 2006. The principal activities of the Company is that of an investment holding company.

The Group's loss before income tax is arrived at after charging/(crediting):

	<b>Group</b>			
	<b>Three months ended 31.12.2013 (Unaudited) RMB'000</b>	Three months ended 31.12.2012 (Unaudited) RMB'000	<b>Nine months ended 31.12.2013 (Unaudited) RMB'000</b>	Nine months ended 31.12.2012 (Unaudited) RMB'000
Amortisation of land use rights	<b>1,449</b>	1,733	<b>4,261</b>	4,218
Depreciation of property, plant and equipment	<b>19,209</b>	20,378	<b>57,924</b>	62,778
Research and development costs	-	41	-	165
Interest expense on convertible bonds	<b>1,888</b>	1,783	<b>5,981</b>	6,755
Loss on disposal of damaged raw materials	-	39,704	-	39,704
Write-back of provision for inventories	-	(4,349)	-	(11,789)
Write-back of provision for impairment of trade receivables	-	(580)	-	(580)

**1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.**

	<u>Group</u>		<u>Company</u>	
	As at 31.12.2013 (Unaudited) RMB'000	As at 31.3.2013 (Audited) RMB'000	As at 31.12.2013 (Unaudited) RMB'000	As at 31.3.2013 (Audited) RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	695,679	747,835	-	-
Land use rights	247,412	251,673	-	-
Long term deposits	16,030	16,030	-	-
Interests in subsidiaries	-	-	35,475	36,331
Deferred tax assets	11,577	11,577	-	-
	<b>970,698</b>	1,027,115	<b>35,475</b>	36,331
<b>Current assets</b>				
Inventories	34,477	30,196	-	-
Trade receivables	292,933	280,159	-	-
Amounts due from subsidiaries	-	-	500,180	512,865
Prepayments and other receivables	80,456	50,530	-	-
Cash at bank and in hand	1,864	1,348	38	38
	<b>409,730</b>	362,233	<b>500,218</b>	512,903
<b>Total assets</b>	<b>1,380,428</b>	1,389,348	<b>535,693</b>	549,234
<b>EQUITY AND LIABILITIES</b>				
Share capital	207,047	207,047	207,047	207,047
Reserves	239,625	333,618	(96,757)	(74,660)
<b>Total equity</b>	<b>446,672</b>	540,665	<b>110,290</b>	132,387
<b>Current liabilities</b>				
Trade payables	644	3,913	-	-
Accrued liabilities and other payables	32,932	21,141	25,215	13,210
Amount due to a subsidiary	-	-	8	8
Convertible bonds	165,831	163,708	165,831	163,708
Interest-bearing bank borrowings and overdrafts	734,100	659,672	234,100	239,672
Derivative financial instrument	249	249	249	249
	<b>933,756</b>	848,683	<b>425,403</b>	416,847
<b>Total equity and liabilities</b>	<b>1,380,428</b>	1,389,348	<b>535,693</b>	549,234

**1(b)(ii) Aggregate amount of group's borrowings and debt securities.****Amount repayable in one year or less, or on demand**

As at 31.12.2013		As at 31.3.2013	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
665,831	234,100	583,708	239,672

**Amount repayable after one year**

As at 31.12.2013		As at 31.3.2013	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	-	-	-

**Details of any Collateral**

The unsecured borrowings represent the bank borrowings and overdrafts of the Group.

The secured borrowings represent the liability component of the convertible bonds issued by the Company on 20 December 2006, of which the terms were amended on 16 December 2011, and the onshore bank borrowings amounting to RMB500,000,000. The convertible bonds of the Group are charged over shares of Honour Wealth International Limited and Huge Glory Holding Limited, which are wholly owned subsidiaries of the Group. The onshore bank borrowings are secured by the property, plant and equipments and land use rights of the respective onshore subsidiaries with total of RMB677,882,000 net book value as at 31 December 2013.

Details of the convertible bonds are set out in paragraph 1(d)(ii).

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	<b>Group</b>	
	<b>Nine months ended 31.12.2013 (Unaudited) RMB'000</b>	<b>Nine months ended 31.12.2012 (Unaudited) RMB'000</b>
<b>Cash flows from operating activities</b>		
Loss before income tax	(103,881)	(293,457)
Adjustments for:		
Interest income	(41)	(272)
Interest expense	42,191	38,716
Amortisation of land use rights	4,261	4,218
Depreciation	57,924	62,778
Write-back of provision for inventories	-	(11,789)
Write-back of provision for impairment of trade receivables	-	(580)
Operating profit/(loss) before working capital changes	454	(200,386)
(Increase)/Decrease in inventories	(4,281)	59,414
(Increase)/Decrease in trade receivables	(12,774)	211,601
Increase in prepayment and other receivables	(29,926)	(6,695)
Decrease in trade payables	(3,269)	(502)
Increase/(Decrease) in accrued liabilities and other payables	7,608	(43,359)
Cash (used in)/generated from operations	(42,188)	20,073
Interest paid	(36,002)	(33,535)
Income tax refunded	-	17,749
Net cash (used in)/generated from operating activities	(78,190)	4,287
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(5,768)	(10,500)
Increase in long-term deposit	-	(3,000)
Interest received	41	272
Net cash used in investing activities	(5,727)	(13,228)
<b>Cash flows from financing activities</b>		
Bank borrowings raised	380,000	420,000
Repayment to convertible bonds	-	(24,119)
Repayment of bank borrowings	(300,000)	(420,000)
Net cash generated from/(used in) financing activities	80,000	(24,119)
<b>Net decrease in cash and cash equivalents</b>	(3,917)	(33,060)
<b>Cash and cash equivalents at beginning of period</b>	1,144	35,054
<b>Effect of foreign exchange rate changes</b>	4,433	(781)
<b>Cash and cash equivalents at end of period</b>	1,660	1,213
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	1,864	1,235
Bank overdrafts	(204)	(22)
	1,660	1,213

- 1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or  
(ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

**GROUP**

	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Other reserves RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 April 2012	207,047	97,081	5,264	65,289	(130,045)	70,804	775,950	1,091,390
Loss for the period	-	-	-	-	-	-	(283,853)	(283,853)
Other comprehensive loss								
- Exchange loss on translation of financial statements of foreign operations	-	-	-	-	-	2,841	-	2,841
Total comprehensive income for the period	-	-	-	-	-	2,841	(283,853)	(281,012)
Transfer to other reserves	-	-	-	516	-	-	(516)	-
Share options expired	-	-	(613)	-	-	-	613	-
<b>Balance at 31 December 2012</b>	<b>207,047</b>	<b>97,081</b>	<b>4,651</b>	<b>65,805</b>	<b>(130,045)</b>	<b>73,645</b>	<b>492,194</b>	<b>810,378</b>
Balance at 1 April 2013	207,047	97,081	4,652	65,805	(130,045)	75,765	220,360	540,665
Loss for the period	-	-	-	-	-	-	(103,881)	(103,881)
Other comprehensive loss								
- Exchange loss on translation of financial statements of foreign operations	-	-	-	-	-	9,888	-	9,888
Total comprehensive income for the period	-	-	-	-	-	9,888	(103,881)	(93,993)
<b>Balance at 31 December 2013</b>	<b>207,047</b>	<b>97,081</b>	<b>4,652</b>	<b>65,805</b>	<b>(130,045)</b>	<b>85,653</b>	<b>116,479</b>	<b>446,672</b>

**COMPANY**

	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits/ (Accumulated losses) RMB'000	Total RMB'000
Balance at 1 April 2012	207,047	158,056	5,264	(83,130)	21,874	309,111
Loss for the period	-	-	-	-	(21,141)	(21,142)
Other comprehensive loss						
- Currency translation differences	-	-	-	(2,629)	-	(2,628)
Total comprehensive loss for the period	-	-	-	(2,629)	(21,141)	(23,770)
Share option expired	-	-	(613)	-	613	-
<b>Balance at 31 December 2012</b>	<b>207,047</b>	<b>158,056</b>	<b>4,651</b>	<b>(85,759)</b>	<b>1,346</b>	<b>285,341</b>
Balance at 1 April 2013	207,047	158,056	4,652	(87,418)	(149,950)	132,387
Loss for the period	-	-	-	-	(18,972)	(18,972)
Other comprehensive income						
- Currency translation differences	-	-	-	(3,125)	-	(3,125)
Total comprehensive income for the period	-	-	-	(3,125)	(18,972)	(22,097)
<b>Balance at 31 December 2013</b>	<b>207,047</b>	<b>158,056</b>	<b>4,652</b>	<b>(90,543)</b>	<b>(168,922)</b>	<b>110,290</b>

**1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

Ordinary shares of HK\$0.5 each	Number of issued shares	Issued share capital
As at 1 April 2013 and as at 31 December 2013	<u>392,211,636</u>	<u>HK\$196,105,818</u>

#### Share capital

There were no movements in the Company's share capital during the nine months ended 31 December 2013.

#### Share options

The Company has a share option scheme known as China Essence Employee Share Option Scheme (the "Scheme") which was approved by members of the Company on 22 November 2005. The Scheme complies with the relevant rules as set out in Chapter 8 of the Listing Manual of Singapore Exchange Securities Trading Limited.

On 30 June 2006, the Company granted options to certain employees under the Scheme which would entitle the grantees to subscribe for a total of 9,400,000 ordinary shares of the Company at any time during the period from 30 June 2007 to 1 July 2016 (other than share options granted to non-executive directors) or at any time during the period from 30 June 2007 to 1 July 2011 (share options granted to non-executive directors). The subscription price per share payable upon the exercise of each option is S\$0.54, subject to adjustment, being the average last dealt price per share for the five consecutive market days immediately preceding 31 May 2006, the date of the offer of the options. During FY2013, FY2011 and FY2009, 1,000,000, 1,000,000 and 500,000 share options were forfeited respectively as the directors of the Company resigned. During year ended 31 March 2012, 500,000 share options were expired.

On 16 December 2009, the Company granted options to non-executive directors under the Scheme which would entitle the grantees to subscribe for a total of 1,000,000 ordinary shares of the Company at any time during the period from 16 December 2010 to 15 December 2014. The subscription price per share payable upon the exercise of each option is S\$0.289, subject to adjustment, being the average last dealt price per share for the five consecutive market days immediately preceding 16 December 2009, the date of the offer of the options.

No options on ordinary shares of the Company had been exercised since the commencement of the Scheme. Apart from these 7,400,000 (31 March 2013: 8,400,000) share options, the Company had no other outstanding options as at 31 December 2013.

#### Convertible bonds

On 20 December 2006, the Company issued zero coupon convertible bonds maturing 5 years from the issue date (the "Bonds") at an issue price of 100% of the principal amount of HK\$250,000,000. The Bonds may be converted into fully paid ordinary shares of the Company, at the option of the holders, at any time on and after thirty days after 20 December 2006 up to the close of business on a date seven business days prior to 20 December 2011 or if such Bond shall have been called for redemption before 20 December 2011, then up to the close of business on a date no later than seven business days prior to the date fixed for redemption thereof.

Pursuant to a written resolution of holders of the Bonds (the "Bondholders") passed on 15 December 2011, the Bondholders approved inter alia the entering into by the Trustee of a

supplemental trust deed (the "Supplemental Trust Deed") to be made between the Company, to effect, amongst others, the following amendments to the original trust deed and the conditions on the terms set out in the Supplemental Trust Deed:

- a) the total outstanding principal amount of the Bonds be restated and agreed to be HK\$260,000,000;
- b) the maturity date of the Bonds be postponed to 31 December 2014 and the Bonds to be redeemed in instalments on various specified dates.
- c) The reduction of the redemption amount from 150.7149% to 100% of the principal amount of Bonds to be redeemed in accordance with paragraph (b) above;
- d) the change in the rate of interest payable on the Bonds, specifically, the Bonds will bear interest at 4.5% per annum on the outstanding principal amount of the Bonds, such interest to be payable in arrears on each specified dates;
- e) the conversion period of the Bonds be extended to the close of business on a date seven business days prior to 31 December 2014;
- f) the initial conversion price be lowered from S\$0.7775 to S\$0.7 per conversion share;
- g) (i) a change in the Issuer's right to early redemption to enable the Issuer to exercise its right to early redeem all or any of the Bonds by serving at least 30 days' (but not more than 60 days') prior written notice at any time during the conversion period and (ii) the early redemption amount payable upon such early redemption at the option of the Issuer is revised to 100% of the principal amount of the Bonds to be redeemed, together with interest on the Bonds to be redeemed;
- h) the addition of a cash settlement provision whereby in the event the number of Shares deliverable upon conversion of any Bond, aggregated with the total number of Shares delivered by the Issuer in respect of Bonds which have been previously converted, exceed the total number of Shares approved (the "Approved Limit") for listing and quotation on Singapore Exchange Securities Trading Limited (the "SGX-ST") in the Approval In-Principle (such number of Shares in excess, the "Excess Shares"), the Issuer shall deliver Shares to the relevant Bondholder which has delivered the Conversion Notice, in such number that will not cause the Approved Limit to be exceeded, and the Issuer shall pay to such Bondholder an amount of cash in HKD equal to the Cash Settlement Amount in order to satisfy such Conversion Right in full. For the purpose of this new provision:

"Approval In-Principle" means the approval in-principle granted by the SGX-ST on 19 December 2006 in respect of the Issuer's application for the listing and quotation of up to 64,153,430 Shares upon conversion of the Bonds; and

"Cash Settlement Amount" means an amount in HKD (converted at the Spot Exchange Rate on the day on which payment is made) equal to the product of (i) the number of Excess Shares and (ii) the average of the daily trading volume weighted average price of the Shares on the SGX-ST for the twenty consecutive Trading Days ending on and including the Trading Day immediately prior to the relevant Conversion Date.

The Group has not made payment of third principal redemption amount of HK\$30,000,000 and the coupon interest of approximately HK\$4,562,000 falling due on 31 December 2012. These amounts together with default interest of approximately HK\$932,000 remain unpaid as at 30 June 2013. The Group also has not made payment of forth principal redemption amount of HK\$30,000,000 and the coupon interest of approximately HK\$3,752,000 falling due on 30 June 2013.



As a result of this, the Trustee has the rights to serve a notice that the remaining revised Bonds of HK\$140,000,000 as at 30 June 2013 are and have become immediately due and payable. Accordingly, the portion of the remaining revised Bonds that are redeemable after 30 June 2014 pursuant to the redemption schedule of HK\$100,000,000 is classified as current liabilities as at 31 December 2013.

Except as disclosed above, the Company had no other outstanding convertibles as at 31 December 2013 and 31 March 2013.

The Company did not hold any of its issued shares as treasury shares as at 31 December 2013 and 31 March 2013.

**1(d)(iii) To show the total number of issued shares excluding treasury shares as at end of the current financial period and as at the end of the immediately preceding year.**

	<b>As at 31 December 2013</b>	<b>As at 31 March 2013</b>
Total number of issued shares	392,211,636	392,211,636
Less: Treasury shares	-	-
Total number of issued shares excluding treasury shares	<u>392,211,636</u>	<u>392,211,636</u>

**1(d)(iv) A statement showing all sales, transfer, disposal, cancellation and/or use of treasury shares as at end of the current financial period reported on.**

Not applicable.

**2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have neither been audited nor reviewed by the auditors.

**3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

Except as disclosed in item 5 below, the Group has adopted the same accounting policies and methods of computation in the financial statements for the current period compared with those of the audited financial statements for the year ended 31 March 2013.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

The Group has adopted the applicable new/revised International Financial Reporting Standards ("IFRS") that are mandatory for financial year beginning on 1 April 2013.

**6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	<b>Group</b>			
	<b>Three months ended 31.12.2013 (Unaudited)</b>	Three months ended 31.12.2012 (Unaudited)	<b>Nine months ended 31.12.2013 (Unaudited)</b>	Nine Months ended 31.12.2012 (Unaudited)
	<b>RMB</b>	RMB	<b>RMB</b>	RMB
Basic - note (1)	<b>(0.101)</b>	(0.540)	<b>(0.265)</b>	(0.724)
Diluted - note (2)	<b>(0.101)</b>	(0.540)	<b>(0.265)</b>	(0.724)

Notes:

- The calculation of basic earnings per share is based on the loss of the Company for the three months ended 31 December 2013 of approximately RMB39,527,000 (loss for the three months ended 31 December 2012: RMB211,843,000) and the nine months ended 31 December 2013 of approximately RMB103,881,000 (loss for the nine months ended 31 December 2012: RMB283,853,000) divided by the weighted average number of share capital of 392,211,636 ordinary shares (three months and nine months ended 31 December 2012: 392,211,636 ordinary shares).
- In calculating the diluted earnings per share attributable to the owners of the Company for the three months ended 31 December 2013 and for the three months ended 31 December 2012, the potential issue of shares arising from the conversion of convertible bonds and exercise of share options would decrease the earnings per share attributable to the owners of the Company and is not taken into account as they have an anti-dilutive effect. Therefore, the diluted earnings per share attributable to the owners of the Company for the three months ended 31 December 2013 is based on the loss attributable to the owners of the Company of approximately RMB39,527,000 (loss for the three months ended 31 December 2012: RMB211,843,000) and the nine months ended 31 December 2013 of approximately RMB103,881,000 (loss for the nine months ended 31 December 2012: RMB283,853,000) divided by the weighted average number of share capital of 392,211,636 ordinary shares (three months and nine months ended 31 December 2012: 392,211,636 ordinary shares), which are the amounts used in calculating the basic earnings per share for the period.

**7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-**

- current financial period reported on; and
- immediately preceding financial year.

	<b>Group</b>		<b>Company</b>	
	<b>As at 31.12.2013</b>	As at 31.3.2013	<b>As at 31.12.2013</b>	As at 31.3.2013
	<b>RMB</b>	RMB	<b>RMB</b>	RMB
Net asset value per ordinary share	<b>1.139</b>	1.379	<b>0.281</b>	0.338

Net asset value of the Company per ordinary share was calculated based on:

- the equity of our Group/Company as at 31 December 2013 and 31 March 2013; and
- the issued ordinary shares at 31 December 2013 of 392,211,636 ordinary shares (31 March 2013: 392,211,636 ordinary shares).

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**

(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

**Review of the Group's Performance for the nine months ended 31 December 2013 as compared to the nine months ended 31 December 2012**

**Revenue**

The Group's revenue dipped 91.0% from RMB246.2 million for the three months ended 31 December 2012 ("3Q FY2013") to RMB22.2 million for the three months ended 31 December 2013 ("3Q FY2014"). For the first nine months ended 31 December 2013 ("9M FY2014"), the Group's revenue decreased 91.5% to RMB32.8 million, from RMB384.9 million in the nine months ended 31 December 2012 ("9M FY2013").

The decrease in revenue was mainly due to the fall in sales volumes of potato starch. Furthermore, the Group did not sell any starch-based products in 9M FY2014.

- Revenue from potato starch decreased by 92.8% from RMB332.5 million in 9M FY2013 to RMB23.8 million in 9M FY2014. This is mainly due to the decrease in sales volumes.
- There is no revenue from potato starch-based products in 9M FY2014 as compared to RMB52.2 million in 9M FY2013. The Company has temporarily suspended the production due to working capital constraint.
- Protein and animal feed contributed total of RMB8.9 million of revenue in 9M FY2014 as compared to RMB0.1 million in 9M FY2013. The Company make a clearance of these relatively aged stocks during the reporting period.

**Revenue by products**

	<b>Three months ended 31.12.2013 (Unaudited)</b>	Three months ended 31.12.2012 (Unaudited)	Increase/ (Decrease)	<b>Nine months ended 31.12.2013 (Unaudited)</b>	Nine months ended 31.12.2012 (Unaudited)	Increase/ (Decrease)
	<b>RMB'000</b>	RMB'000	%	<b>RMB'000</b>	RMB'000	%
Potato starch	<b>13,250</b>	235,098	(94.4)	<b>23,805</b>	332,522	(92.8)
Potato starch-based products (comprising starch strips, vermicelli, five-grain noodles)	-	11,130	(100.0)	-	52,200	(100.0)
Protein	<b>3,991</b>	-	N.M.	<b>3,991</b>	-	N.M.
Animal Feed	<b>4,957</b>	-	N.M.	<b>4,957</b>	154	3,125
<b>Total Sales</b>	<b>22,198</b>	246,228		<b>32,753</b>	384,876	

N.M. : Not meaningful

N.A. : Not applicable

Percentage increase/(decrease) in sales volume/average selling price ("ASP")

	Three months ended 31.12.2013 vs three months ended 31.12.2012		Nine months ended 31.12.2013 vs six months ended 31.12.2012	
	Sales volume %	ASP %	Sales volume %	ASP %
Potato starch	(95.1)	15.1	(93.6)	12.7
Potato starch-based products (comprising starch strips, vermicelli, five-grain noodles)	(100.0)	N.A.	(100.0)	N.A.
Protein	N.A.	N.A.	N.A.	N.A.
Animal Feed	N.A.	N.A.	2,665	16.6

N.A. : Not applicable

**Gross Profit and Margin**

The Company reported overall gross loss of RMB7.5 million, or 30.2% gross loss margin for the nine months ended 31 December 2013. This is mainly due to the low utilisation rates and the resulting allocation of higher fixed overheads.

Gross Margin by products (3Q FY2013 vs 3Q FY2014, 9M FY2013 vs 9M FY2014)

	Three months ended 31.12.2013 (Unaudited)	Three months ended 31.12.2012 (Unaudited)	Nine months ended 31.12.2013 (Unaudited)	Nine months ended 31.12.2012 (Unaudited)
	%	%	%	%
Potato starch	(73.1)	(40.2)	(38.3)	(29.7)
Potato starch-based products (comprising starch strips, vermicelli, five-grain noodles)	N.A.	(50.9)	N.A.	(17.1)
Modified starch	N.A.	N.A.	N.A.	N.A.
Protein	22.5	N.A.	22.5	N.A.
Animal Feed	(33.4)	N.A.	(33.4)	22.4
Overall gross margin	(47.1)	(40.7)	(30.2)	(27.9)

N.A.: Not applicable

**Operating Expenses**

Selling and distribution expenses decreased 95.9% from RMB49.0 million in 9M FY2013 to RMB2.0 million in 9M FY2014. This was mainly due to the decrease in logistics and transportation costs as a result of the decrease in the number of sales transactions.

Administrative expenses, which mainly comprise of depreciation, insurance and staff related expenses decreased 49.6% from RMB99.2 million in 9M FY2014 to RMB50.0 million in 9M FY2013. The decrease was mainly due to the lesser plants in operation as compared to previous corresponding period.

**Finance Costs**

Finance costs mainly comprise interest expenses on the convertible bonds at amortised cost and interest expenses on the bank borrowings. The convertible bonds bear an interest rate of 4.5% per annum on the outstanding principal amount of the convertible bonds.

Finance costs increased 8.9% from RMB38.7 million in 9M FY2013 to RMB42.2 million in 9M FY2014 due to the increase of onshore bank loan.

**Net Loss for the period**

Given the low utilisation rates and challenging market condition, the Group reported net loss of RMB103.9 million for the nine-months ended 31 December 2013 as compared to net loss of RMB283.9 million for the nine-months ended 31 December 2012.

**Review of the Group's Financial Position as at 31 December 2013**

Equity attributable to equity holders of the Company as at 31 December 2013 amounted to RMB446.7 million (31 March 2013: RMB540.7 million), representing a decrease of 17.4%. Based on a total issued ordinary shares of 392.2 million shares as at 31 December 2013 and 31 March 2013, net asset value per ordinary share as at 31 December 2013 slightly decreased to RMB1.139 as compared to RMB1.379 as at 31 March 2013.

Inventories increased by 14.2% to RMB34.5 million at 31 December 2013, compared with RMB30.2 million as at 31 March 2013. At 31 December 2013, inventories mainly comprised finished goods, i.e. potato starch.

Trade receivables increased from RMB280.2 million at 31 March 2013 to RMB292.9 million as at 31 December 2013. Some of the receivables took a longer time to collect due to the challenging market condition during the period. The Company is closely monitoring the collection of trade receivables.

Cash and bank balances remain stable as at 31 December 2013 as compared to as at 31 March 2013.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

No forecast or prospect statement had been previously disclosed to shareholders.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

China Essence continued to face mounting pressures brought on two years ago when operating environment posted severe challenges. These challenges in turn adversely impacted both the revenue and net profit of the Group since August 2011.

Due to the limited working capital available, coupled with the low potato yield and low starch yield caused by the heavy flood in August 2013, the Group had reduced its production level for FY2014.

The Group expects the market and operating environment to remain challenging for the rest of FY2014. Nevertheless, the Group will be monitoring the market situation closely, fine-tuning its production and pricing strategy. At the same time, the Group will remain diligent in managing its cash position and to keep a tight control on operating costs.

**Convertible Bond and Bank Loans**

As at the date of this announcement, part of the convertible bonds of principal amount of HK\$100 million and a bank loan from DBS bank of US\$38.5 million remain overdue. The Group continues to negotiate with the convertible bonds holders and DBS bank to resolve these matters. The Group needs time to settle these matters with the relevant parties as the financial markets continue to be difficult. The Group will provide an update on any material development in due course.

**11. Dividend*****(a) Current Financial Period Reported On***

None

***(b) Corresponding Period of the Immediately Preceding Financial Year***

None

***(c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of the shareholders, this must be stated)***

Not applicable

***(d) The date the dividend is payable***

Not applicable

***(e) The date where Registerable Transfers received by the Company (up to 5:00pm) will be registered before the entitlements to the dividend are determined.***

Not applicable

**12. If no dividend has been declared/recommended, a statement to that effect.**

No dividend has been declared or recommended for the nine months ended 31 December 2013.

**13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

The Group did not obtain a general mandate from shareholders for IPTs.

**ON BEHALF OF THE BOARD**

**Zhao Libin**  
**Executive Chairman and Chief Executive Officer**  
**27 January 2014**



**CHINA ESSENCE GROUP LTD.**

(Incorporated in the Cayman Islands with registration number CT-152302)

**CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5) OF THE SGX LISTING MANUAL**

We, Zhao Libin and Li Jiquan being two Directors of China Essence Group Ltd. (the “Company”), do hereby confirm on behalf of the Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the Third Quarter Financial Results ended 31 December 2013 to be false or misleading in any material aspect.

On behalf of the Board of Directors,

**Zhao Libin**  
Executive Chairman and Chief Executive Officer

**Li Jiquan**  
Executive Director