



CHINA ESSENCE GROUP LTD.

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

FULL YEAR FINANCIAL STATEMENT ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2014

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		
	Year ended 31.3.2014	Year ended 31.3.2013	Increase/ (Decrease)
	RMB'000	RMB'000	%
Revenue	45,143	397,556	(89)
Cost of sales	(74,264)	(572,160)	(87)
Gross Loss	(29,121)	(174,604)	(83)
Other income and gains	274	4,409	(94)
Selling and distribution costs	(2,054)	(51,312)	(96)
Administrative expenses	(289,645)	(132,548)	119
Other operating expenses	(280,435)	(101,717)	176
Loss from operations	(600,981)	(455,772)	32
Change in fair value of derivative financial instrument	249	(87)	N.M.
Finance costs	(60,890)	(52,310)	16
Loss before income tax	(661,622)	(508,169)	30
Income tax expense	-	(47,517)	(100)
Loss for the year	(431,622)	(555,686)	19
Exchange (loss)/gain on translation of financial statements of foreign operations	(944)	4,961	N.M.
Total comprehensive income for the year, net of tax	(662,566)	(550,725)	20

N.M. : Not meaningful

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) :

	Group	
	Year ended 31.3.2014	Year ended 31.3.2013
	RMB'000	RMB'000
Amortisation of land use rights	5,623	5,624
Change in fair value of derivative financial instrument	(249)	87
Depreciation of property, plant and equipment	74,331	84,107
Interest expense on convertible bonds at amortised cost	11,980	10,015
Provision for impairment of trade receivables	262,230	93,746
Provision for impairment of property, plant and equipment	230,000	55,483
Provision for impairment of goodwill	-	16,977
Research and development costs	-	165
Write-down of inventories	-	1,655
Write-back of provision for inventories	(1,655)	(8,284)
Write-back of provision for impairment of trade receivables	-	(4,000)

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 31.3.2014	As at 31.3.2013	As at 31.3.2014	As at 31.3.2013
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	449,272	747,835	-	-
Land use rights	246,050	251,673	-	-
Long term deposits	16,030	16,030	-	-
Deferred tax assets	11,577	11,577	-	-
Interests in subsidiaries	-	-	29,739	36,331
	722,929	1,027,115	29,739	36,331
Current assets				
Inventories	681	30,196	-	-
Trade receivables	44,198	280,159	-	-
Amounts due from subsidiaries	-	-	513,414	512,865
Prepayments and other receivables	69,808	50,530	-	-
Cash at bank and in hand	81,875	1,348	43	38
	196,562	362,233	513,457	512,903
Total assets	919,491	1,389,348	543,196	549,234
EQUITY AND LIABILITIES				
Share capital	207,047	207,047	207,047	207,047
Reserves	(328,948)	333,618	(110,148)	(74,660)
(Capital deficiency)/Total equity	(121,901)	540,665	96,899	132,387
Current liabilities				
Trade payables	143	3,913	-	-
Accrued liabilities and other payables	45,177	21,141	30,218	13,210
Amount due to a subsidiary	-	-	8	8
Convertible bonds	176,059	163,708	176,059	163,708
Interest-bearing bank borrowings and overdrafts	820,013	659,672	240,012	239,672
Derivative financial instrument	-	249	-	249
	1,041,392	848,683	446,297	416,847
(Capital deficiency)/Total equity and liabilities	919,491	1,389,348	543,196	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 31.3.2014		As at 31.3.2013	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
756,059	240,013	583,708	239,672

Amount repayable after one year

As at 31.3.2014		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 and other borrowings amounting to RMB580,000,000. The convertible bonds of the Group are charged over all 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 properties, plant and equipments and land use rights of the respective onshore subsidiaries totalled approximately RMB689,434,000 of net book value as at 31 March 2014.

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

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

	Group	
	Year ended 31.3.2014 RMB'000	Year ended 31.3.2013 RMB'000
Cash flows from operating activities		
Loss before income tax	(661,622)	(508,169)
Adjustments for:		
Interest income	(67)	(242)
Interest expenses	60,890	52,310
Amortisation of land use rights	5,623	5,624
Depreciation	74,331	84,107
Change in fair value of derivative financial instruments	(249)	87
Provision for impairment of trade receivables	262,230	93,746
Impairment loss on property, plant and equipment	230,000	55,483
Impairment loss on goodwill	-	16,977
Write-down of inventories	-	1,655
Write-back of provision for inventories	(1,655)	(8,284)
Write-back of provision for impairment of trade receivables	-	(4,000)
Operating loss before working capital changes	(30,519)	(210,706)
Decrease in inventories	31,170	73,252
(Increase)/Decrease in trade receivables	(26,269)	214,944
Increase in prepayment and other receivables	(19,278)	(5,497)
Decrease in trade payables	(3,770)	(133)
Increase/(Decrease) in accrued liabilities and other payables	975	(32,351)
Cash (used in)/generated from operations	(47,691)	39,509
Interest paid	(34,919)	(40,794)
Income tax refunded	-	17,749
Net cash (used in)/generated from operating activities	(82,610)	16,464
Cash flows from investing activities		
Purchases of property, plant and equipment	(5,768)	(12,758)
Interest received	67	242
Net cash used in investing activities	(5,701)	(12,516)
Cash flows from financing activities		
Increase/(Decrease) in amount due to a director	9,070	(12,921)
Bank borrowings raised	680,000	420,000
Repayment of bank borrowings	(520,000)	(420,000)
Repayment to convertible bonds	-	(23,988)
Net cash generated from/(used in) financing activities	169,070	(36,909)
Net increase/(decrease) in cash and cash equivalents	80,759	(32,961)
Cash and cash equivalents at beginning of year	1,144	35,054
Effect of foreign exchange rate changes	(29)	(949)
Cash and cash equivalents at end of year	81,874	1,144
Analysis of balances of cash and cash equivalents		
Cash and bank balances	81,875	1,348
Bank overdrafts	(1)	(204)
	81,874	1,144

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	Retained profits/							Total
	Share capital	Share premium	Share option reserve	Other reserves	Merger reserve	Exchange reserve	(Accumulated losses)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 year	-	-	-	-	-	-	(555,686)	(555,686)
Other comprehensive income								
- Exchange loss on translation of financial statements of foreign operations	-	-	-	-	-	4,961	-	4,961
Total comprehensive income for the year	-	-	-	-	-	4,961	(555,686)	(550,725)
Transfer to other reserves	-	-	-	516	-	-	(516)	-
Share options expired	-	-	(612)	-	-	-	612	-
Balance at 31 March 2013	207,047	97,081	4,652	65,805	(130,045)	75,765	220,360	540,665
Balance at 1 April 2013	207,047	97,081	4,652	65,805	(130,045)	75,765	220,360	540,665
Loss for the year	-	-	-	-	-	-	(661,622)	(661,622)
Other comprehensive income								
- Exchange loss on translation of financial statements of foreign operations	-	-	-	-	-	(944)	-	(944)
Total comprehensive income for the year	-	-	-	-	-	(944)	(661,622)	(662,566)
Balance at 31 March 2014	207,047	97,081	4,652	65,805	(130,045)	74,821	(441,262)	(121,901)

COMPANY	Retained profits/						Total
	Share capital	Share premium	Share option reserve	Exchange reserve	(Accumulated losses)		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 April 2012	207,047	158,056	5,264	(83,130)	21,874		309,111
Loss for the year	-	-	-	-	(172,436)		(172,436)
Other comprehensive income							
- Currency translation differences	-	-	-	(4,288)	-		(4,288)
Total comprehensive loss for the year	-	-	-	(4,288)	(172,436)		(176,724)
Share option forfeited	-	-	(612)	-	612		-
Balance at 31 March 2013	207,047	158,056	4,652	(87,418)	(149,950)		132,387
Balance at 1 April 2013	207,047	158,056	4,652	(87,418)	(149,950)		132,387
Loss for the year	-	-	-	-	(35,790)		(35,790)
Other comprehensive income							
- Currency translation differences	-	-	-	302	-		302
Total comprehensive income for the year	-	-	-	302	(35,790)		(35,488)
Balance at 31 March 2014	207,047	158,056	4,652	(87,116)	(185,740)		96,899

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 March 2014	392,211,636	HK\$196,105,818

Share capital

There were no movements in the Company's share capital during the year ended 31 March 2014 and 31 March 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 FY2011, FY2009 and FY2013, 1,000,000, 500,000 and 1,000,000 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: 7,400,000) share options, the Company had no other outstanding options as at 31 March 2014.

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 paid the third, fourth and fifth redemption instalment totalling of HK\$100,000,000 (equivalent to approximately RMB79,000,000) which are due and payable on 31 December 2012, 30 June 2013 and 31 December 2013, respectively. The total coupon interest and the related default interest of approximately RMB14,565,000 and RMB3,494,000 respectively also remain overdue as at 31 March 2014. As a result of this, the Trustee has the rights to serve a notice that the remaining revised Bonds of HK\$100,000,000 (equivalent to approximately RMB79,000,000) as at 31 March 2014 are and have become immediately due and payable. Accordingly, the portion of the remaining revised Bonds that are redeemable after 31 March 2014 pursuant to the redemption schedule of HK\$100,000,000 (equivalent to approximately RMB79,000,000) is classified as current liabilities as at 31 March 2014.

Except as disclosed above, the Company had no other outstanding convertibles as at 31 March 2014 and 31 March 2013.

The Company did not hold any of its issued shares as treasury shares as at 31 March 2014 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.

	As at 31 March 2014	As at 31 March 2013
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 year 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.**

	Group	
	Year ended 31.3.2014 RMB	Year ended 31.3.2013 RMB
Basic - note (1)	(1.687)	(1.417)
Diluted - note (2)	(1.687)	(1.417)

Notes:

1. The calculation of basic losses per share is based on the loss of the Company for the year ended 31 March 2014 of approximately RMB661,622,000 (FY2013: RMB555,686,000) divided by the weighted average number of share capital of 392,211,636 ordinary shares (year ended 31 March 2013: 392,211,636 ordinary shares).
2. In calculating the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2014 and for the year ended 31 March 2013, the potential issue of shares arising from the conversion of convertible bonds and exercise of share options would decrease the losses 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 year ended 31 March 2014 is based on the loss attributable to the owners of the Company of approximately RMB661,622,000 (FY2013: RMB555,686,000) and on the weighted average of 392,211,636 ordinary shares outstanding during the year ended 31 March 2014 (FY2013: 392,211,636 ordinary shares), which are the amounts used in calculating the basic losses per share for the year.

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

(a) current financial period reported on; and

(b) immediately preceding financial year.

	Group		Company	
	As at 31.3.2014 RMB	As at 31.3.2013 RMB	As at 31.3.2014 RMB	As at 31.3.2013 RMB
Net (liability)/asset value per ordinary share	(0.311)	1.379	0.247	0.338

Net (liability)/asset value of the Company per ordinary share was calculated based on:

1. the (capital deficiency)/equity of our Group/Company as at 31 March 2014 and 31 March 2013; and
2. the issued ordinary shares at 31 March 2014 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 year ended 31 March 2014 as compared to the year ended 31 March 2013

Revenue

The Group's revenue dipped 88.6% from RMB397.6 million for the year ended 31 March 2013 ("FY2013") to RMB45.1 million for the year ended 31 March 2014 ("FY2014"). Overall, the Group saw a decrease in sales volumes of potato starch for FY2014. Furthermore, the Group did not sell any potato starch-based products in FY2014.

The potato harvest season occurs annually from August to November in Northeast China, where the Group's production facilities are based. Due to the limited working capital available, coupling with the low potato yield and low starch yield caused by the heavy flood during second quarters of FY2014, the Company purchased less potatoes in FY2014 compared to FY2013.

- Revenue from potato starch decreased 89.3% from RMB337.4 million in FY2013 to RMB36.2 million in FY2014. The revenue arising from sale of potato starch accounted for 80.2% of the Group's overall revenue in FY2014.
- Sales volume for potato starch decreased 89.8% while ASP increased 6.5% from RMB4,914 per tonne in FY2013 to RMB5,235 per tonne in FY2014.
- Revenue from protein products increased 7.2% from RMB3.7 million in FY2013 to RMB4.0 million in FY2014, as sales volume also increased 59.5% and ASP fell 32.8%. Protein products accounted for 8.8% of Group's overall revenue in FY2014.
- Revenue from animal feed increased 926.6% from RMB0.5 million in FY2013 to RMB5.0 million in FY2014. Animal feed accounted for 11.0% of Group's overall revenue in FY2014.

Details of the Group's sales and gross profit by product segments are set out in Note 14 in this result announcement.

Percentage increase/(decrease) in sales volume/ ASP

	Year ended 31.3.2014 vs Year ended 31.3.2013	
	Sales volume	ASP
	%	%
Potato starch	(89.8)	6.5
Potato starch-based products (comprising starch strips, vermicelli, five-grain noodles)	(100.0)	N.M.
Modified starch	N.M.	N.M.
Potato protein	59.5	(32.8)
Animal feed	869.7	5.9

N.M. : Not meaningful

Gross Loss and Margin

The Company reported an overall gross loss of RMB29.1 million, or a 64.5% gross loss margin for FY2014 as compared to overall gross loss of RMB174.6, or 43.9% gross loss margin for FY2013. This is mainly due to low potato starch utilisation rates of 17.2% for FY2014 as compared 31.4% for FY2013 has resulted allocation of higher fixed overheads, coupled with the low potato yield and low starch yield caused by the heavy flood in August 2013

Operating Expenses

Selling and distribution expenses decreased 96.0% from RMB51.3 million for FY2013 to RMB2.1 million for 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 provision for impairment of trade receivables, depreciation, insurance and staff related expenses, increased 118.6% from RMB132.5 million in FY2013 to RMB289.6 million in FY2014. The provision for impairment of trade receivables amounted to RMB262.2 million in FY2014, approximately RMB168.5 million more than the RMB93.7 million recorded in FY2013. Apart from this, the other administrative expenses remained fairly stable as compared to the corresponding period.

The increase of other operating expenses is mainly due to the increase of impairment loss on property, plant and equipment from RMB55.5 million in FY2013 to RMB230.0 million in FY2014. The impairment loss on property, plant and equipment amounted to RMB230 million in FY2014 is made in accordance with IAS 36 in order to write down the carrying amount of the property, plant and equipment to its recoverable amount. The recoverable amount was determined based on the business plan and cashflow forecast approved by the directors after they identified there are indications that the carrying amounts of property, plant and equipment may not be recoverable. Apart from this, the other operating expenses remained fairly stable as compared to the corresponding year.

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. For the year ended 31 March 2013, effective interest expense on the convertible bonds was calculated using the effective interest method by applying the effective interest rate of 5.8% per annum to the convertible bonds value. Finance costs increased from RMB52.3 million in FY2013 to RMB60.9 million in FY2014 mainly due to the increase in bank borrowings and interest incurred for default payment of convertible bonds during the year.

Taxation

As at 31 March 2014, the Group has deferred tax asset amounting RMB11.7 million. The Group has derecognised deferred tax asset of RMB47.5 million in FY2013.

Net loss for the year and margin

Given the challenging market condition leading to low utilisation rates and higher unit cost of production; the provision for impairment of trade receivables; the provision for impairment of property, plant and equipments, the Group reported net loss of RMB661.6 million for the year ended 31 March 2014 as compared to net loss of RMB555.7 million for the year ended 31 March 2013.

Review of the Group's Financial Position as at 31 March 2014

(Capital deficiency)/Equity attributable to equity holders of the Company as at 31 March 2014 amounted to (RMB121.9 million), representing a decrease of 122.5% from RMB540.7 million as at 31 March 2013. Based on a total issued share capital of 392.2 million shares, net (liability)/asset value per ordinary share as at 31 March 2013 decreased to (RMB0.311) as compared to RMB1.379 as at 31 March 2013.

Inventories decreased 97.7% to RMB0.7 million as at 31 March 2014, compared with RMB30.2 million as at 31 March 2013. This was mainly due to a lower production level for the financial year. As at 31 March 2014, inventories comprised mainly of consumable tools, i.e. potato starch. The inventory turnover days is 76 days as at 31 March 2014 (FY2013: 41 days)

Trade receivables decreased from RMB280.2 million as at 31 March 2013 to RMB44.2 million as at 31 March 2014. Receivable turnover days increased to approximately 1,476 days in FY2014 from 397 days in FY2013. The Company is closely monitoring the collection of trade receivables and has collected approximately RMB20.7 million during the year ended 31 March 2014. Recovery of receivables took a longer time due to the exceptional market condition during the last three years. In this regard, the Group has identified RMB262.2 million (FY2013: RMB93.7 million) of doubtful receivables and made provision for impairment accordingly.

Cash and bank balances increased from RMB1.3 million at 31 March 2013 to RMB81.9 million at 31 March 2014. This is mainly due to the net cash inflow of approximately RMB80.8 million generated from bank borrowings during the year ended 31 March 2014.

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 ten quarters 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 for FY2014, the Group had to reduce its production levels when the once per annum harvest season began in August 2013, thereby reducing its revenue for FY2014. In addition, the market price of the Group's products has only recovered gradually from the collapse in FY2012. Hence, the Group realised lower revenues for FY2014.

In addition, the severe flood in North East China during second quarters of FY2014 ("2QFY2014") has severely reduced the potato yield and the starch yield. This combination of factors, largely beyond the control of the management, had further exacerbate the Group's negative operating performance.

Moving into FY2015, the Group expects the market and operating environment to remain difficult. Nevertheless, the management will be vigilant in monitoring the market situation. The management is taking immediate and appropriate steps to maintain tight control over operating expenses.

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 year ended 31 March 2014.

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.

PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

14. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

No separate analysis of segment information by business or geographical segments is presented as the Group's major business comprises the manufacture and sale of potato based products which is the only one operating segment for the Group to allocate resources and assess performance. The Group's revenue, results and assets are principally attributable to a single geographical region, which is the PRC. To provide further details on the Group's business, the Group presents the following information on sales and gross profit by individual products segments as set out below:

	Group		Group	
	Year ended		Year ended	
	31.3.2014		31.3.2013	
	RMB'000	%	RMB'000	%
<u>Revenue</u>				
Potato starch	36,195	80.2	337,432	84.9
Potato starch-based products	-	-	54,139	13.6
Potato protein	3,991	8.8	3,723	0.9
Animal feed	4,957	11.0	483	0.1
Damaged raw materials	-	-	1,779	0.5
	45,143	100.0	397,556	100.0
<u>Gross (Loss)/Profit</u>				
Potato starch	(30,018)	103.1	(113,011)	64.7
Potato starch-based products	-	-	(9,426)	5.4
Potato protein	896	(3.0)	(2,358)	1.3
Animal feed	1	(0.1)	(5,357)	3.1
Damaged raw materials	-	-	(44,452)	25.5
	(29,121)	100.0	(174,604)	100.0
<u>Gross (Loss)/Profit Margin</u>				
Potato starch		(82.9)		(33.5)
Potato starch-based products		-		(17.4)
Potato protein		22.5		(63.3)
Animal feed		(0.1)		N.M.
Damaged raw materials		-		N.M.
Overall Gross Loss Margin		(64.5)		(43.9)

N.M. : Not meaningful

15. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Refer to Paragraph 8 for details on revenue contribution by industry.

16. A break down of sales

	Group		
	Year ended 31.3.2014 RMB'000	Year ended 31.3.2013 RMB'000	Increase/ (Decrease) %
Revenue reported for the first half year	10,555	138,648	(92.4)
Loss attributable to the owners of the Company for the first half year	(64,354)	(72,010)	(10.6)
Revenue reported for the second half year	34,588	258,908	(86.6)
Loss attributable to the owners of the Company for the second half year	(597,268)	(483,676)	23.5

17. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

	Latest Full Year RMB'000	Previous Full Year RMB'000
Ordinary	-	-
Preference	-	-

18. Interested person transactions

None

19. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the issuer pursuant to Rule 704 (13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement.

Pursuant to Rule 704(13) of the Listing Manual of the Singapore Exchange Securities Trading Limited, we confirm that none of the persons occupying managerial positions in China Essence Group Limited (the "Company") or any of its principal subsidiaries is a relative of a director or chief executive officer or substantial shareholder of the Company.

ON BEHALF OF THE BOARD

Zhao Libin
Executive Chairman and Chief Executive Officer
30 May 2014