



China Essence Group Ltd.
嵩天集团有限公司

For Immediate Release

CHINA ESSENCE ENDS FY2014 ON A CHALLENGING NOTE

- Top-line and bottom-line impacted by reduced production levels
- Severe flood in Northeast China reduced potato yield and starch yield, thereby affecting profit margins

Singapore, 30 May 2014 – China Essence Comp Ltd. (“China Essence”, the “Company” or together with its subsidiaries, the “Group”), one of the leading integrated producers of potato products in the People’s Republic of China (“PRC”), today announced its results for the financial year ended 31 March 2014 (“FY2014”).

China Essence reported a 88.6% reduction in revenue from RMB397.6 million in FY2013 to RMB45.1 million in FY2014. The decrease in revenue was mainly caused by a decline in sales volume of potato starch. The lower sales volume attained in FY2014 was attributable to the Group’s reduced production for FY2014 due to its limited working capital, as it continued to experience spill over effects from the exceptional market condition in 2011.¹ As a result, recovery of the market prices of the Group’s products has been slow, thereby keeping ASPs relatively low. In addition, the Group was affected by severe flood in Northeast China in 2Q FY2014. This has decreased potato yields and starch yields, thereby affecting profit margin. Consequently, the Group reported a gross loss of RMB29.1 million for FY2014.

Due to a reduction in production volumes, low ASPs and the sever flood, the Group saw decreases in revenue contribution of potato starch for FY2014, as compared to FY2013. Revenue from potato starch, which accounted for 80.2% of the Group’s revenue for FY2014, decreased 89.3% from RMB337.4 million in FY2013 to RMB36.2 million in FY2014.

Revenue contribution from protein products and animal feed increased 7.2% and 926.6% respectively. There was no revenue from potato starch-based products and modified starch as the Group has temporarily suspended its production due to high material costs.

¹ Potato harvest occurs once annually from August to November in Northeast China where the Company’s production facilities are based. Due to the high potato prices experienced in 2010, farmers were building up their inventory of potatoes at the start of the harvest season in August and September 2011, which in turn pushed up prices of potatoes during that period. Consequently, the inventory build-up led to a supply glut which caused a sudden and unprecedented sharp fall in the prices of potatoes and potato starch in late September 2011. This is referred to as “exceptional market condition”.

In line with lower revenues, selling and distribution costs decreased 96.0% from RMB51.3 million in FY2013 to RMB2.1 million in FY2014, due to the decrease in logistics and transportation costs as a result of the decrease in number of sales transactions.

Administrative expenses increased 118.6% from RMB132.5 million in FY2013 to RMB289.6 million in FY2014, and are fairly stable as compared to the corresponding period. The Group also had to make provision for the impairment of trade receivables amounting to RMB262.2 million for FY2014.

Other operating expenses amounted to RMB280.4 million. It comprises mainly of impairment loss on property, plant and equipment which amounted to RMB230.0 million, depreciation of production plants being left idle that amounted to RMB28.3 million. 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.

Finance costs, comprising mainly interest expenses on the convertible bonds and bank borrowings, increased 16.4% from RMB52.3million 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. 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.

Due to a combination of factors such as the thinning of product margins, low utilisation rates and difficult market conditions, the Group reported a net loss of RMB431.6 million for FY2014.

Commenting on the Group's latest financial performance, Mr Zhao Libin, Executive Chairman of the Group said, "FY2014 did not turn out the way we had hoped for as our recovery faced numerous hurdles due to a slew of external difficulties. Nonetheless, we will soldier on to recover from these setbacks. We are thankful for the confidence that our shareholders have shown in us and are resolved to emerge victorious from the current situation."

Mr Zhao concluded, "Moving into FY2015, we expect the market and operating environment to remain difficult. Nevertheless, we will be monitoring the physical environment and market situation closely. The management will maintain strict control over our operating expenses."